

PREM 19/1198

Part 12 SECRET

MT

CONFIDENTIAL FILING

the 1983 Budget

the 1984 Budget

ECONOMIC
POLICY

Part 1: May 1979

Part 12: March 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
9.3.84							
12.3.84							
13.3.84							
14.3.84							
<p>— PART ENDS —</p> <p>PREM 19/1/98</p>							

PART 12 ends:-

Hansard Extract Col 413 → 14.3.84

PART 13 begins:-

A N Ridley (HMT) to D Hunt 15.3.84

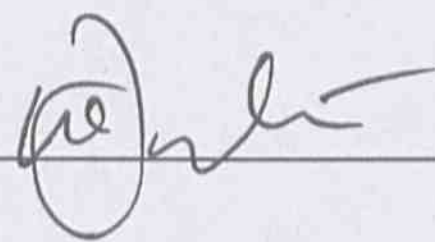
Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 14 March 1984, columns 413 to 487: – Economic Situation

House of Commons HANSARD, 13 March 1984, columns 286 to 331: Budget Statement

Signed



Date

13/09/2013

PREM Records Team

NOTE: THIS TRANSCRIPT WAS TYPED FROM A TELEDIPHONE RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MIS-HEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS ACCURACY.

THE BUDGET

.....

The Rt. Hon. Roy Hattersley, MP

.....

(For the Opposition)

.....

Recorded from transmission 2125 (BBC-1) - 14th March, 1984.
.....

RT. HON. ROY HATTERSLEY, MP: Yesterday, the Chancellor of the Exchequer told you, that the British economy is on the road to recovery. In replying to him tonight, I don't propose to play the usual party game of challenging everything that he said. But of course we all welcome some parts of the Budget. Some things are certainly better than they were in 1981 and '82. But that's not much of an achievement. As a nation, we are still nothing like as prosperous as we were five years ago. Before Mrs. Thatcher and her Government were first elected. Output's improved over the last couple of years, we've climbed a little way out of the pit that Conservative policies dug. But we still produce less than we did in 1979, and in that year Mrs. Thatcher was elected on a promise to cut taxes.

Today, the tax bill is actually 17,000 million pounds more than it was before she became Prime Minister. Yesterday the Chancellor juggled a lot of the figures. But although he didn't tell you, the overall tax bill is going up still higher. Most of all, there's no hope of ending the waste and misery of unemployment. Even with the Government's own figures, there are today, 3½ million men and women out of work. We've the worst unemployment record in the industrialised world, and more jobs are lost every month. But the Chancellor doesn't even attempt to put Britain back to work.

I keep asking him in the House of Commons, how many people he plans to make unemployed next year and the year after. He's got statistics for everything else. But he never answers that question. That's because he knows that unemployment is not going to get any better, and that makes nonsense of any talk about recovery. Definition of recovery which doesn't put Britain back to work, is not a definition which ought to be acceptable in a civilised society.

And although the Government claim that our economy's on the mend, it still cheats the pensioner out of a Pound a week which was cut off last year's increase. Prescription charges are still pushed up by 20p an item. Child Benefit won't be increased enough to protect families from the rising costs of living. And all over the country, essential services like home helps, Meals-on-Wheels and nursery classes, are destroyed because the Government says, we can't afford to pay for them.

No Chancellor - or at least no Chancellor with decent priorities would allow these things to happen if he really believed that Britain was on the road to recovery. Indeed, if the Chancellor had any faith in his own forecasts, he would have produced a quite different Budget. He can't expect us to believe that the difference between economic success and failure is VAT on take-away foods. If we need to tax fish and chips, the British economy really is in a bad way.

Of course the Budget's tinkered about with a lot of taxes, mainly by cutting those which help the better off. Anyone with £70,000 or more of savings in the bank will receive a £25 a week windfall, thanks to yesterday's Budget. Anyone who does business on the Stock Exchange will pay less tax. So will the big profit making companies who simply hoard their profits without providing any benefit to our country. But that sort of tax change isn't going to put the economy back on its feet. Nor are the changes in Income Tax. They give most help to people who don't need it. People like the family earning £50,000 a year, which, thanks to yesterday's Budget, will be over £600 a year better off.

The money that's gone to the people on top salaries will be much better used on a decent increase in Child Benefit and a worthwhile improvement in the Pension. The Budget's a tragedy for the low-paid and a tragedy for the unemployed, but it's also a tragedy for everyone in Britain who want to see our country prosperous again. And it's a tragedy that's made all the more desperate by the simple fact that we could and should be doing better than the Chancellor and his policies make possible.

Yesterday, by doing no more than juggle with tax details, he threw away our chances of recovery. The chance that should have encouraged investment in private industry. By increasing spending power and pushing up demands for the goods and services our stagnant economy ought to provide. He should have boosted a recovery by public investment in roads, in railways and hospitals, and all the essential projects which directly create jobs in the public services and generate many more in private industry.

There are a million families in Great Britain who need a decent house but don't have one. And there are 400,000 construction workers signing on for Unemployment Pay. It's just common sense to give those building workers the chance to build the houses we need, and if we did that, the whole nation would benefit. But common sense is above all what yesterday's Budget lacked. It was full of complicated financial theories. And there was a great deal in it to appeal to the City of London and the people who read the financial pages at the back of our newspapers. But for ordinary families it offered very little. Industry won't recover, unemployment won't come down, poverty will remain. In fact this Budget is just a re-run of the old formula, the formula you've heard every year since 1979 and the formula that has failed every year since 1979.

After each Budget you are told that recovery is just around the corner. But unemployment gets worse, our public services are cut nearer and nearer to the bone, our taxes and rates go up again and hundreds of thousands of families living in poverty, suffer even more.

We were told in 1979 that Britain was entering a new era of prosperity. And there is no doubt that that year should have been a turning point for our country. For suddenly we began to enjoy a massive bonus of North Sea oil, nine thousand million Pounds paid into the Treasury every year. Money that no other British Government had ever received. That money should have been used to rebuild British industry. It was a major opportunity for Britain to forge ahead. But the Government threw all that chance away.

Of course, we can put the years of poverty and unemployment, the years of failure, behind us. We can build a more prosperous and a fairer Britain, mistakes made in yesterday's Budget can be put right and one day they will be.

NOTE: THIS TRANSCRIPT WAS TYPED FROM A TELEDIPHONE RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MIS-HEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS ACCURACY.

THE BUDGET

Recorded from transmission 2125 (BBC-1) - 13th March, 1984.
.....

RT. HON. NIGEL LAWSON MP: You already by now have heard what is in the Budget. And you'll be reading a lot more in the papers tomorrow. But in a couple of days it'll stop being news, and then there'll be different reports about inflation and exports and unemployment and interest rates. They will all merge into a jumble with very little pattern to it. But there is a pattern all the same. In the old days, Britain used to lurch from one economic crisis to another and Governments used to stagger from one gimmick to the next. What we've done is to get away from all that. And that means taking a longer view. So I'd like to take a moment to look at the pattern that underlies all the day to day events and show how today's Budget fits into it. How it is designed to move us closer to the objective which we've been working for ever since 1979.

Running through every one of our Budgets since 1979 has been the same, consistent strategy. The aim is simple. To create steadily rising prosperity, instead of the repeated 'stop-go' that did us so much damage in the past. The change can be seen most clearly with inflation, for that's the biggest menace of all. The rate of price increases went up under every government for a generation. 3% from 1951 to 1964, that was under the Conservatives. 4½% from 1964 to 1970 under Labour. 9½% from 1970 to 1974 and that was under us again. And 15½% from 1974 to 1979 under the Wilson and Callaghan Governments.

That was the first and the biggest task we had to tackle, because inflation is the great destroyer of savings in jobs. When we took over, it was still on a rising path. 16½% up to the end of our first, full year, but we brought it down to 12% in 1981, to 8½% in 1982 and to 4½% last year. Today's Budget is designed to get it still lower and to keep it there and lower price rises have brought with them, lower interest rates. And that's part of our policy too. To make it cheaper for people to buy their homes, and for businesses to finance their expansion.

Lower inflation has given us a firm foundation for recovery. Everyone now agrees that the recovery is well under way. There's evidence everywhere. And look at Britain's output over the past 5 years, shows the pattern quite clearly. A rise to the end of 1979, a fall during the world recession until the middle of 1981 and then a steady rise ever since. Overtaking the 1979 peak and still going up. At the same time, Britain is getting more efficient. Our productivity rose sharply last year, that means that people are producing more in a shorter time. And that's what we need if we are to sell our goods abroad and new orders bring new jobs.

But of all the figures I get, and I can tell you I get plenty of them, one that gives me special pleasure is our position in the Common Market League Table for Economic Growth. Our 10 year average from 1973 to 1982 put us firmly in the relegation zone, right at the bottom in fact. Last year, we were right at the top and the international forecasters of the OECD in Paris, think we shall be top again this year.

We in the Government haven't done this. Governments can't. It's business and industry that have done it. All Governments can do, is to create the conditions that make it possible and that's where this Budget fits in.

Today, I announced important changes in the way companies are taxed. The idea is to bring down sharply the rate of tax they pay on their profits and to get them to put their money into projects that will be successful. Not just because that is good for British business, though it is, but because it is good for profits and profits are good for jobs. But there is just one great danger. A danger that could slow down the recovery and make us worse off than we need be. That danger is too much government spending. What government spends, has to come either from taxes or from borrowing, no responsible government wants to run up huge debts which our children will have to pay off. So if we were to let Government spending rush ahead, that would have to be paid for by higher taxes. Let me show you what I mean with a diagram.

Over the years, national output has risen, but government spending has risen even faster, so we have all had to bear an ever increasing burden of tax and that's left people and businesses with less spending power and it's slowed down the economy. Now, we have a real prospect of steady growth in the years ahead. But if Government spending went on rising in the old way, as it did before this government brought it under control, we'd never be able to cut tax rates. But if we can now continue to hold it at its present level, and I mean hold it, not cut it, then as output rises we shall all have a bigger and bigger share to spend as we choose and companies will have more and more to invest in new jobs.

Today's Budget contained another important step to help businesses and to help them to create new jobs. The end, at long last, of the National Insurance surcharge. The tax on jobs introduced by Labour. So we've removed yet another weight from around the necks of British business.

There was good news on Income Tax too. Most people agree that those on low incomes are paying too much tax. Today I did something about that, making it more worthwhile to work by giving both single people and married couples a 12 $\frac{1}{2}$ % increase on their tax allowances. The married allowance will now be higher in real terms than at any time in the 40 years of our post-War history. In order to bring down taxes on wages, I've had to put up some taxes on spending, on cigarettes for example. But I believe that people prefer to have more money in their pockets to spend and to save as they wish.

So well over $\frac{3}{4}$ of a million people who would have been paying Income Tax next year if I'd not put up the allowances, now won't have to pay any at all. And that includes 100,000 widows. And the tax paid by most married couples, will go down by at least £2 a week.

And there was more good news for the young couple, thinking of buying their first home and worried about the Stamp Duty they have to pay. Following the Budget, nine out of ten of them won't now have to pay any Stamp Duty at all.

This Budget looks ahead and it sets the pattern for the next four years. It's designed to make the economy work better and help bring new jobs. And it points the way to lower taxes too, our policies are paying off, and we are sticking to them.

Today, inflation is down and the economy is growing. Our prospects are very much better than for a long time past. This Budget builds on that success.

File

14

**RESOLUTIONS TO BE MOVED BY
THE CHANCELLOR OF THE
EXCHEQUER**

13th MARCH 1984

Mr. Chancellor of the Exchequer

PROVISIONAL COLLECTION OF TAXES: That pursuant to section 5 of the Provisional Collection of Taxes Act 1968 provisional statutory effect shall be given to the following Motions:—

- (a) Spirits (Motion No. 2)
- (b) Beer (Motion No. 3)
- (c) Wine and made-wine (Motion No. 4)
- (d) Cider (Motion No. 6)
- (e) Tobacco products (Motion No. 7)
- (f) Hydrocarbon oil (Motion No. 8)
- (g) Vehicles excise duty (Motion No. 9)

ARRANGEMENT OF WAYS AND MEANS RESOLUTIONS

1. Amendment of the law.
2. Spirits.
3. Beer.
4. Wine and made-wine.
5. Meaning of "sparkling" in relation to wine and made-wine.
6. Cider.
7. Tobacco products.
8. Hydrocarbon oil.
9. Vehicles excise duty.
10. Gaming licence duty.
11. Gaming machine licence duty.
12. Free zones.
13. Restriction of zero-rating (food).
14. Restriction of zero-rating (construction of buildings, etc.).
15. Zero-rating (supplies outside the United Kingdom).
16. Value added tax (discretionary registration).
17. Customs and excise duty and value added tax (reliefs).
18. Car tax and value added tax (distress and poinding).
19. Income tax (charge and rates for 1984-85).
20. Income tax (personal reliefs).
21. Relief for interest (limit for 1984-85).
22. Corporation tax (charge and rate for financial year 1983).
23. Corporation tax (reducing fraction for chargeable gains).
24. Advance corporation tax (rate for financial year 1984).
25. Corporation tax (small companies).
26. Relief for interest: bridging loans.
27. Life assurance premium relief.
28. Insurance policies.
29. Registered friendly societies.
30. Expenditure of Members of the House of Commons.
31. Reduction and abolition of certain reliefs in relation to foreign earnings and emoluments.
32. Benefits in kind: scholarships.
33. Share options.
34. Business expansion scheme.
35. Schedule B.
36. Groups and consortia.
37. Stock relief.
38. Deep discount securities.
39. Grants under Industrial Development (Northern Ireland) Order 1982.
40. Amendments to territorial extension of tax.
41. Initial and first-year allowances.
42. Transfers under Oil and Gas (Enterprise) Act 1982.
43. Capital gains.

44. Oil exploration and exploitation activities.
45. Controlled foreign companies.
46. Offshore funds.
47. Capital transfer tax.
48. Reduction of stamp duty on conveyances or transfers.
49. Stamp duty: sub-sales.
50. Stamp duty: agreements for leases.
51. Stamp duty: sale of houses at discount by certain bodies.
52. Oil taxation (reliefs for expenditure and losses).
53. Oil taxation (payments for minimum delivery and capacity payments).
54. Relief from tax (incidental and consequential charges).

1. Amendment of the law

That it is expedient to amend the law with respect to the National Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

- (a) for zero-rating or exempting any supply;
- (b) for refunding any amount of tax, otherwise than by a provision relating to supplies to, and importation by, a government department within the meaning of section 27 of the Value Added Tax Act 1983;
- (c) for varying the rate of that tax otherwise than in relation to all supplies and importations; or
- (d) for any relief other than relief applying to goods of whatever description or services of whatever description.

2. Spirits

That, as from 14th March 1984, the rate of duty specified in section 5 of the Alcoholic Liquor Duties Act 1979 shall be increased from £15.19 per litre of alcohol in the spirits to £15.48 per litre of alcohol in the spirits.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

3. Beer

That, as from 14th March 1984, the rates of duty specified in section 36 of the Alcoholic Liquor Duties Act 1979 shall be increased—

- (a) from £21.60 for each hectolitre to £24.00 for each hectolitre; and
- (b) from £0.72 for each additional degree of original gravity exceeding 1030 degrees to £0.80 for each such additional degree.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

4. Wine and made-wine

That, as from 14th March 1984, the rates of duty under sections 54 and 55 of the Alcoholic Liquor Duties Act 1979 shall be as follows—

Description of wine or made-wine	Rates of duty per hectolitre
	£
(1) Wine or made-wine of a strength of less than 15 per cent and not being sparkling	90.50
(2) Sparkling wine or sparkling made-wine of a strength of less than 15 per cent	149.40
(3) Wine or made-wine of a strength of not less than 15 per cent but not exceeding 18 per cent	157.50
(4) Wine or made-wine of a strength exceeding 18 per cent but not exceeding 22 per cent	183.30
(5) Wine or made-wine of a strength exceeding 22 per cent	183.30 plus £15.48 for every 1 per cent or part of 1 per cent in excess of 22 per cent.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

5. Meaning of "sparkling" in relation to wine and made-wine

That, for the purposes of the Alcoholic Liquor Duties Act 1979, provision may be made with respect to the meaning of "sparkling" and "rendered sparkling" in relation to wine and made-wine.

6. Cider

That, as from 14th March 1984,—

- (a) the rate of duty specified in section 62(1) of the Alcoholic Liquor Duties Act 1979 shall be increased from £9·69 per hectolitre to £14·28 per hectolitre; and
- (b) in the definition of "cider" in section 1(6) of that Act for the words "strength less than 8·7 per cent." there shall be substituted "strength less than 8·5 per cent."

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

7. Tobacco products

That, as from 16th March 1984, for the Table in Schedule 1 to the Tobacco Products Duty Act 1979 there shall be substituted—

"TABLE

1. Cigarettes	...	...	...	...	An amount equal to 21 per cent. of the retail price plus £24·97 per thousand cigarettes.
2. Cigars	...	...	...	...	£47·05 per kilogram.
3. Hand-rolling tobacco	...	...	...	...	£40·60 per kilogram.
4. Other smoking tobacco and chewing tobacco	...	...	...	...	£24·95 per kilogram."

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

8. Hydrocarbon oil

That, as from 6 o'clock in the evening of 13th March 1984,—

(1) the rates of duty specified in section 6(1) of the Hydrocarbon Oil Duties Act 1979 shall be increased—

- (a) in the case of light oil, from £0·1630 a litre to £0·1716 a litre; and
- (b) in the case of heavy oil, from £0·1382 a litre to £0·1448 a litre; and

(2) in section 11(1)(a) of that Act (rebate on kerosene, other than aviation turbine fuel) for the words "of £0·0022 a litre less than" there shall be substituted the words "equal to".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

9. Vehicles excise duty.

That the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972 shall have effect, in relation to licences taken out after 13th March 1984, with the amendments set out below.

But this Resolution shall not authorise the making of amendments which would result in different provisions being in force in different parts of Great Britain.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

(1) In the said Acts of 1971 and 1972, for the provisions of Part II of Schedules 1 to 5 (annual rates of duty) there shall be substituted the provisions set out below:

PROVISIONS SUBSTITUTED FOR PART II OF SCHEDULE 1 TO ACT OF 1971 AND ACT OF 1972

Description of vehicle	Rate of duty
	£
1. Bicycles and tricycles of which the cylinder capacity of the engine does not exceed 150 cubic centimetres	9.00
2. Bicycles of which the cylinder capacity of the engine exceeds 150 cubic centimetres but does not exceed 250 cubic centimetres; tricycles (other than those in the foregoing paragraph) and vehicles (other than mowing machines) with more than three wheels, being tricycles and vehicles neither constructed nor adapted for use nor used for the carriage of a driver or passenger	18.00
3. Bicycles and tricycles not in the foregoing paragraphs	36.00

PROVISIONS SUBSTITUTED FOR PART II OF SCHEDULE 2 TO THE ACT OF 1971 AND ACT OF 1972

Description of vehicle	Rate of duty
Hackney carriages	£ 45.00 with an additional 90p for each person above 20 (excluding the driver) for which the vehicle has seating capacity.

PROVISIONS SUBSTITUTED FOR PART II OF SCHEDULE 3 TO ACT OF 1971 AND ACT OF 1972

1. Description of vehicle	Weight unladen of vehicle		Rate of duty	
	2. Exceeding	3. Not exceeding	4. Initial	5. Additional for each ton or part of a ton in excess of the weight in column 2
1. Agricultural machines; digging machines; mobile cranes; works trucks; mowing machines; fishermen's tractors	—	—	£ 15.00	£ —
2. Haulage vehicles, being showmen's vehicles	— 7½ tons 8 tons 10 tons	7½ tons 8 tons 10 tons —	144.00 172.00 203.00 203.00	— — — 31.00
3. Haulage vehicles, not being showmen's vehicles	— 2 tons 4 tons 6 tons 7½ tons 8 tons 9 tons 10 tons 11 tons	2 tons 4 tons 6 tons 7½ tons 8 tons 9 tons 10 tons 11 tons —	171.00 308.00 445.00 581.00 710.00 831.00 951.00 1,088.00 1,088.00	— — — — — — — — 136.00

PROVISIONS SUBSTITUTED FOR PART II OF SCHEDULE 4 TO ACT OF 1971 AND ACT OF 1972

TABLE A

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

GENERAL RATES

Plated gross weight of vehicle		Rate of duty		
1. Exceeding	2. Not exceeding	3. Two axle vehicle	4. Three axle vehicle	5. Four or more axle vehicle
tonnes	tonnes	£	£	£
12	13	410	320	320
13	14	530	340	340
14	15	640	340	340
15	17	850	340	340
17	19	—	460	340
19	21	—	610	340
21	23	—	780	490
23	25	—	1,250	690
25	27	—	—	930
27	29	—	—	1,200
29	30.49	—	—	2,100

TABLE A(1)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

RATES FOR FARMERS' GOODS VEHICLES

Plated gross weight of vehicle		Rate of duty		
1. Exceeding	2. Not exceeding	3. Two axle vehicle	4. Three axle vehicle	5. Four or more axle vehicle
tonnes	tonnes	£	£	£
12	13	140	125	125
13	14	150	125	125
14	15	155	125	125
15	17	195	135	125
17	19	—	145	125
19	21	—	160	135
21	23	—	170	145
23	25	—	230	160
25	27	—	—	190
27	29	—	—	225
29	30.49	—	—	360

TABLE A(2)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT
 RATES FOR SHOWMEN'S GOODS VEHICLES

Plated gross weight of vehicle		Rate of duty		
1. Exceeding	2. Not Exceeding	3. Two axle vehicle	4. Three axle vehicle	5. Four or more axle vehicle
tonnes	tonnes	£	£	£
12	13	140	125	125
13	14	150	125	125
14	15	155	125	125
15	17	195	135	125
17	19	—	145	130
19	21	—	170	145
21	23	—	185	170
23	25	—	270	190
25	27	—	—	230
27	29	—	—	280
29	30.49	—	—	455

TABLE B

SUPPLEMENTARY RATES OF DUTY ON RIGID GOODS VEHICLES OVER 12 TONNES USED FOR
 DRAWING TRAILERS EXCEEDING 4 TONNES PLATED GROSS WEIGHT

GENERAL RATES

Gross weight of trailer		Duty supplement
Exceeding	Not exceeding	
tonnes	tonnes	£
4	8	75
8	10	95
10	12	120
12	14	170
14	—	330

TABLE B(1)

SUPPLEMENTARY RATES OF DUTY ON RIGID GOODS VEHICLES OVER 12 TONNES USED FOR
DRAWING TRAILERS EXCEEDING 4 TONNES PLATED GROSS WEIGHT
RATES FOR FARMERS' GOODS VEHICLES

Gross weight of trailer		Duty supplement
Exceeding	Not exceeding	
tonnes	tonnes	£
4	8	75
8	10	95
10	12	120
12	14	170
14	—	330

TABLE B(2)

SUPPLEMENTARY RATES OF DUTY ON RIGID GOODS VEHICLES OVER 12 TONNES USED FOR
DRAWING TRAILERS EXCEEDING 4 TONNES PLATED GROSS WEIGHT
RATES FOR SHOWMEN'S GOODS VEHICLES

Gross weight of trailer		Duty supplement
Exceeding	Not exceeding	
—	—	£
		75

TABLE C

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING ONLY 2 AXLES

GENERAL RATES

Plated train weight of tractor unit		Rate of duty		
1. Exceeding	2. Not exceeding	3. For a tractor unit to be used with semi-trailers with any number of axles	4. For a tractor unit to be used only with semi-trailers with not less than two axles	5. For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	470	420	420
14	16	590	440	440
16	18	690	440	440
18	20	810	440	440
20	22	940	550	440
22	23	1,000	620	440
23	25	1,150	780	440
25	26	1,150	870	530
26	28	1,150	1,090	720
28	29	1,210	1,210	820
29	31	1,680	1,680	1,050
31	33	2,450	2,450	1,680
33	34	2,450	2,450	2,250
34	36	2,750	2,750	2,750
36	38	3,100	3,100	3,100

TABLE C(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING ONLY 2 AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1.	2.	3.	4.	5.
Exceeding	Not exceeding	For a tractor unit to be used with semi-trailers with any number of axles	For a tractor unit to be used only with semi-trailers with not less than two axles	For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	145	140	140
14	16	160	140	140
16	18	170	140	140
18	20	175	140	140
20	22	185	145	140
22	23	190	155	140
23	25	210	165	145
25	26	210	170	155
26	28	210	190	175
28	29	210	205	185
29	31	280	280	220
31	33	395	395	320
33	34	750	750	750
34	36	905	905	905
36	38	1,020	1,020	1,020

TABLE C(2)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING ONLY 2 AXLES

RATES FOR SHOWMEN'S GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1.	2.	3.	4.	5.
Exceeding	Not exceeding	For a tractor unit to be used with semi-trailers with any number of axles	For a tractor unit to be used only with semi-trailers with not less than two axles	For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	145	140	140
14	16	160	140	140
16	18	170	140	140
18	20	180	155	155
20	22	205	165	165
22	23	220	170	170
23	25	250	190	175
25	26	250	205	185
26	28	250	240	215
28	29	260	260	230
29	31	355	355	275
31	33	495	495	405
33	34	925	925	925
34	36	1,125	1,125	1,125
36	38	1,265	1,265	1,265

TABLE D

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING 3 OR MORE AXLES

GENERAL RATES

Plated train weight of tractor unit		Rate of duty		
1. Exceeding	2. Not exceeding	3. For a tractor unit to be used with semi-trailers with any number of axles	4. For a tractor unit to be used only with semi-trailers with not less than two axles	5. For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	420	420	420
14	20	440	440	440
20	22	550	440	440
22	23	620	440	440
23	25	780	440	440
25	26	870	440	440
26	28	1,090	440	440
28	29	1,210	520	440
29	31	1,680	640	440
31	33	2,450	970	440
33	34	2,450	1,420	550
34	36	2,450	2,030	830
36	38	2,730	2,730	1,240

TABLE D(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING 3 OR MORE AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1.	2.	3.	4.	5.
Exceeding	Not exceeding	For a tractor unit to be used with semi-trailers with any number of axles	For a tractor unit to be used only with semi-trailers with not less than two axles	For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	20	140	140	140
20	22	145	140	140
22	23	150	140	140
23	25	165	140	140
25	26	170	145	140
26	28	190	170	155
28	29	205	180	165
29	31	280	215	195
31	33	395	315	230
33	34	470	470	285
34	36	670	670	430
36	38	900	900	650

TABLE D(2)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING 3 OR MORE AXLES

RATES FOR SHOWMEN'S GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1.	2.	3.	4.	5.
Exceeding	Not exceeding	For a tractor unit to be used with semi-trailers with any number of axles	For a tractor unit to be used only with semi-trailers with not less than two axles	For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	18	140	140	140
18	20	145	145	140
20	22	165	160	140
22	23	170	165	140
23	25	190	170	155
25	26	205	180	165
26	28	240	210	180
28	29	260	225	200
29	31	355	270	240
31	33	495	395	290
33	34	580	580	355
34	36	830	830	540
36	38	1,115	1,115	805

PROVISIONS SUBSTITUTED FOR PART II OF SCHEDULE 5 TO ACT OF 1971 AND ACT OF 1972

Description of vehicle	Rate of duty
	£
1. Any vehicle first registered under the Roads Act 1920 before 1st January 1947, or which, if its first registration for taxation purposes had been effected in Northern Ireland, would have been so first registered under the Act as in force in Northern Ireland	60.00
2. Other vehicles	90.00

(2) In subsection (5) of section 16 of the Act of 1971 (rates of duty for trade licences), including that subsection as set out in paragraph 12 of Part I of Schedule 7 to that Act, for "£42" and "£8.50" there shall be substituted, respectively, "£44" and "£9".

(3) In subsection (6) of section 16 of the Act of 1972 (rates of duty for trade licences), including that subsection as set out in paragraph 12 of Part I of Schedule 9 to that Act, for "£42" and "£8.50" there shall be substituted, respectively, "£44" and "£9".

(4) In Part I of Schedule 4 to the Acts of 1971 and 1972 (annual rates of duty on goods vehicles: general provisions)—

- (a) in paragraph 1(1), for "£150" there shall be substituted "£130";
- (b) in paragraph 2, for "£320" there shall be substituted "£290";
- (c) in paragraph 6(1), for "£63" there shall be substituted "£67"; and
- (d) in paragraph 7, for "£85" there shall be substituted "£90".

10. Gaming licence duty

That, for the purposes of gaming licence duty charged on gaming licences for any period beginning after 31st March 1984, the following Table shall be substituted for the Table set out in section 14(1) of the Betting and Gaming Duties Act 1981—

TABLE

<i>Part of gross gaming yield</i>	<i>Rate</i>
The first £375,000	2½ per cent.
The next £1,875,000	12½ per cent.
The next £2,250,000	25 per cent.
The remainder	33½ per cent.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

11. Gaming machine licence duty

That provision may be made modifying the periods for which whole-year gaming machine licences are to be granted.

12. Free zones

That provision may be made in connection with goods which are or have been within any area (to be known as a free zone) designated as a special area for customs purposes.

13. Restriction of zero-rating (food)

That, with respect to supplies made on or after 1st May 1984, in Schedule 5 to the Value Added Tax Act 1983, Note (3) in Group 1 (Food) shall be amended by inserting "(a)" after the word "includes" and by adding at the end "and

(b) any supply of hot food for consumption off those premises;

and for the purpose of paragraph (b) above 'hot food' means food which, or any part of which,—

(i) has been heated for the purpose of enabling it to be consumed at a temperature above the ambient air temperature; and

(ii) is at the time of the supply above that temperature".

This Resolution shall not authorise the making of amendments that would make value added tax chargeable at a rate other than either nil or the rate specified in section 9 of the Value Added Tax Act 1983.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

14. Restriction of zero-rating (construction of buildings, etc.)

That, with respect to supplies made on or after 1st June 1984, in Schedule 5 to the Value Added Tax Act 1983, Group 8 (construction of buildings, etc.) shall be amended as follows:—

(1) In item 2 (supply of services in the course of certain operations relating to buildings and civil engineering works), for paragraphs (a) and (b) there shall be substituted the words "in the course of the construction or demolition of".

(2) After Note (1) there shall be inserted the following Note:—

"(1A) Any reference in item 2 or the following Notes to the construction of any building or the construction of any civil engineering work does not include a reference to the conversion, reconstruction, alteration or enlargement of any existing building or civil engineering work, and the reference in item 1 to a person constructing a building shall be construed accordingly."

(3) In Note (2) (matters excluded from item 2), for paragraph (a) (which excluded repair or maintenance and is rendered unnecessary by the removal from item 2 of the reference to alteration) there shall be substituted the following paragraph:—

"(a) the supply of any services in the course of the construction of any building ("the secondary building") within the grounds or garden of another building ("the main building") which is used or to be used wholly or mainly as a private residence except—

(i) where the secondary building is itself to be so used; or

(ii) where the secondary building is a garage which is to be used and occupied together with another building which is being constructed at the same time as the secondary building and which is either the main building or another secondary building which is to be used wholly or mainly as a private residence."

(4) In Note (2)—

(a) in paragraph (b), the words "or alteration", and

(b) paragraph (c) (supply of services otherwise than in the course or furtherance of a business),

shall be omitted.

(5) After Note (2) there shall be inserted the following Note:—

“(2A) In item 3, the goods referred to in paragraph (a) do not include—

- (a) finished or prefabricated furniture, other than furniture designed to be fitted in kitchens; or
- (b) materials for the construction of fitted furniture, other than kitchen furniture; or
- (c) domestic electrical or gas appliances, other than those designed to provide space heating or water heating or both.”

This Resolution shall not authorise the making of amendments that would make value added tax chargeable at a rate other than either nil or the rate specified in section 9 of the Value Added Tax Act 1983.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

15. Zero-rating (supplies outside the United Kingdom)

That provision may be made for removing from section 16(5) of the Value Added Tax Act 1983 references to the supply of goods or services outside the United Kingdom.

16. Value added tax (discretionary registration)

That provision may be made as to discretionary registration under the Value Added Tax Act 1983.

17. Customs and excise duty and value added tax (reliefs)

That—

(1) For section 7 of the Customs and Excise Duties (General Reliefs) Act 1979 (relief from customs or excise duty on imported legacies) there shall be substituted, as from 1st July 1984—

“Power to provide for reliefs from duty and value added tax in respect of imported legacies.

7.—(1) The Commissioners may by order make provision for conferring reliefs from duty and value added tax in respect of goods imported into the United Kingdom by or for any person who has become entitled to them as legatee.

(2) Any such relief may take the form either of an exemption from payment of duty and tax or of a provision whereby the sum payable by way of duty or tax is less than it would otherwise be.

(3) The Commissioners may by order make provision supplementing any Community relief, in such manner as they think necessary or expedient.

(4) An order under this section—

(a) may make any relief for which it provides, or any Community relief, subject to conditions, including conditions which are to be complied with after the importation of the goods to which the relief applies;

(b) may, in relation to any relief conferred by order made under this section, contain such incidental and supplementary provisions as the Commissioners think necessary or expedient; and

(c) may make different provision for different cases.

(5) In this section—

“Community relief” means any relief which is conferred by a Community instrument and is of a kind, or of a kind similar to that, which could otherwise be conferred by order made under this section;

“duty” means customs or excise duty chargeable on goods imported into the United Kingdom and, in the case of excise duty, includes any addition to the duty by virtue of section 1 of the Excise Duties (Surcharges or Rebates) Act 1979;

“legatee” means any person taking under a testamentary disposition or donatio mortis causa or on an intestacy; and

“value added tax” means value added tax chargeable on the importation of goods.”

(2) As from 31st March 1984, section 13 of the Customs and Excise Duties (General Reliefs) Act 1979 (orders providing for personal reliefs from duties etc.) shall be amended as follows—

(a) after subsection (1) there shall be inserted the following subsection—

“(1A) The Commissioners may by order make provision supplementing any Community relief, in such manner as they think necessary or expedient.”;

(b) in subsection (3)(a), after the word “provides” there shall be inserted the words “, or any Community relief,”;

(c) in subsection (3)(b), after the word “may” there shall be inserted the words “, in relation to any relief conferred by order made under this section,”; and

(d) in subsection (4) there shall be inserted at the appropriate place—

“‘Community relief’ means any relief which is conferred by a Community instrument and is of a kind, or of a kind similar to that, which could otherwise be conferred by order made under this section;”.

(3) In section 17 of the Customs and Excise Duties (General Reliefs) Act 1979 (parliamentary control of orders and regulations)—

(a) in subsection (3), after the figure “4” there shall be inserted, as from 1st July 1984, “, 7”;

and

(b) in subsection (4), after the figure “13” there shall be inserted, as from 31st March 1984, “(1)”.

(4) As from 31st March 1984, in the Isle of Man Act 1979—

(a) in section 8 (removal of goods from Isle of Man to United Kingdom), in subsection (3), the words “or under any Community instrument” shall be inserted after the words “imported goods)” and the words “or under the Community instrument in question” shall be added at the end; and

(b) in section 9 (removal of goods from United Kingdom to Isle of Man), in subsection (5), the words “or under any Community instrument” shall be added at the end.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

18. Car tax and value added tax (distress and poinding)

That provision may be made empowering the imposition and recovery of costs, charges, expenses and fees in connection with anything done under regulations relating to the levying of distress or poinding of corporeal moveables in connection with unpaid car tax and value added tax and amounts recoverable as if they were value added tax.

19. Income tax (charge and rates for 1984–85).

That—

(1) Income tax for the year 1984–85 shall be charged at the basic rate of 30 per cent., and—

(a) in respect of so much of an individual’s total income as exceeds £15,400 (the basic rate limit as determined under subsection (4) of section 24 of the Finance Act 1980—indexation) at such higher rates as are specified in the Table below (in which the higher rate bands are those as so determined); and

(b) in respect of any sum which, by virtue of any provision of Part III of the Finance Act 1973 or Chapter I of Part III of the Finance Act 1974, is chargeable at the additional rate, as defined for the purposes of that provision, at the additional rate of 15 per cent.

TABLE

<i>Part of excess over £15,400</i>									<i>Higher rate</i>
The first £2,800	...	...	...	...	...	...	...	...	40 per cent.
The next £4,900	...	...	...	...	...	...	...	...	45 per cent.
The next £7,500	...	...	...	...	...	...	...	...	50 per cent.
The next £7,500	...	...	...	...	...	...	...	...	55 per cent.
The remainder	...	...	...	...	...	...	...	...	60 per cent.

(2) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 11th May 1984.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

20. Income tax (personal reliefs)

That—

(1) Section 24(5) of the Finance Act 1980 (increase of personal reliefs) shall not apply for the year 1984–85.

(2) In section 8 of the Income and Corporation Taxes Act 1970 (personal reliefs)—

(a) in subsection (1)(a) (married) for “£2,795” there shall be substituted “£3,155”;

(b) in subsection (1)(b) (single) and (2) (wife’s earned income relief) for “£1,785” there shall be substituted “£2,005”;

(c) in subsection (1A) (age allowance) for “£3,755” and “£2,360” there shall be substituted “£3,955” and “£2,490” respectively;

(d) in subsection (1B) (income limit for age allowance) for “£7,600” there shall be substituted “£8,100”.

(3) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 11th May 1984.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

21. Relief for interest (limit for 1984–85)

That, for the year 1984–85,—

(1) the limit imposed by paragraph 5 of Schedule 1 to the Finance Act 1974 shall, subject to any reduction to be made under that paragraph, be the same as for the year 1983–84, that is to say, £30,000 and, accordingly, for any reference in sub-paragraph (1) of that paragraph to £25,000 there shall continue to be substituted a reference to £30,000; and

(2) for any reference in paragraph 24(3) of that Schedule to £25,000 there shall, as for the year 1983–84, be substituted a reference to £30,000.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

22. Corporation tax (charge and rate for financial year 1983)

That corporation tax shall be charged for the financial year 1983 at the rate of 50 per cent.

23. Corporation tax (reducing fraction for chargeable gains).

That, as from 1st April 1983, the fraction by which, under section 93(2) of the Finance Act 1972, chargeable gains are to be reduced before they are for the purposes of corporation tax included in the profits of a company shall be two-fifths.

24. Advance corporation tax (rate for financial year 1984)

That the rate of advance corporation tax for the financial year 1984 shall be three-sevenths.

25. Corporation tax (small companies)

That—

- (1) the small companies rate for the financial year 1983 shall be 30 per cent.; and
- (2) the fraction by reference to which corporation tax charged on income is reduced under section 95(2) of the Finance Act 1972 shall for that financial year be one-twentieth.

26. Relief for interest: bridging loans

That, for the year 1984–85 and subsequent years of assessment, in paragraph 6 of Schedule 1 to the Finance Act 1974 (continuing relief for an existing home loan where the borrower raises a new loan to purchase another home in which he takes up residence) after sub-paragraph (1) there shall be inserted the following sub-paragraph:—

“(1A) Where Part I of Schedule 9 to the Finance Act 1972 continues to apply to a loan by virtue of sub-paragraph (1)(a) above, paragraph 5 above shall also continue to have effect in relation to the loan as if that Part applied to it by virtue of paragraph 4(1)(a) above.”

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

27. Life assurance premium relief.

That provision may be made withdrawing relief under section 19 of the Income and Corporation Taxes Act 1970 with respect to policies issued in respect of insurances made after 13th March 1984 and for the recovery of any relief given in respect of premiums under policies so issued.

28. Insurance policies

That provision may be made—

- (a) extending, with effect from 22nd August 1983, the provisions of section 30 of the Finance Act 1980 disqualifying certain policies of life insurance from being qualifying policies;
- (b) restricting the cases in which a policy of life insurance may be a qualifying policy where the policy—
 - (i) is issued in respect of an insurance made after 17th November 1983, and
 - (ii) is so issued by a company resident outside the United Kingdom;
- (c) amending paragraph 9(3)(a) of Schedule 1 to the Income and Corporation Taxes Act 1970 (substituted and varied policies), with respect to policies issued after 22nd February 1984;

- (d) varying the application of Chapter III of Part XIV of that Act (chargeable events) in relation to a policy issued by a company resident outside the United Kingdom where the policy is either—
- (i) a policy of life insurance issued in respect of an insurance made after 17th November 1983, or
 - (ii) a capital redemption policy issued in respect of an insurance made after 22nd February 1984; and
- (e) restricting the cases where the maturity of a policy of life insurance is not a chargeable event for the purposes of Chapter III of the said Part XIV.

29. Registered friendly societies

That provision may be made amending section 332 of the Income and Corporation Taxes Act 1970.

30. Expenditure of Members of the House of Commons

That, for the year 1984–85 and subsequent years of assessment, provision may be made denying—

- (a) relief under section 189 of the Income and Corporation Taxes Act 1970, and
 - (b) allowances under Chapter I of Part III of the Finance Act 1971,
- in respect of certain expenditure incurred by Members of the Commons House of Parliament.

31. Reduction and abolition of certain reliefs in relation to foreign earnings and emoluments

That provision may be made—

- (a) reducing the relief from income tax provided by section 23(3) of the Finance Act 1974, paragraphs 2 and 3 of Schedule 7 to the Finance Act 1977 and section 27 of the Finance Act 1978;
- (b) abolishing the relief from income tax provided by section 188(2)(a) of the Income and Corporation Taxes Act 1970; and
- (c) abolishing (in relation to certain cases) the relief from income tax provided by paragraph 3 of Schedule 2 to the Finance Act 1974.

32. Benefits in kind: scholarships

That charges to income tax may be imposed by provisions amending section 62A of the Finance Act 1976 (scholarships).

33. Share options

That provision may be made in relation to share options.

34. Business expansion scheme

That provision may be made excluding farming from the trades which are treated as qualifying trades for the purposes of Schedule 5 to the Finance Act 1983.

35. Schedule B.

That provision may be made amending section 92 of the Income and Corporation Taxes Act 1970 so far as it relates to the circumstances in which a person is deemed to be the occupier of woodlands for the purposes of Schedule B.

36. Groups and consortia

That provision may be made—

- (a) varying the circumstances in which a company is owned by a consortium and in which a company is a member of a consortium; and
- (b) varying the basis of apportionment applied under section 262(2) of the Taxes Act where, otherwise than at the end of an accounting period, a company becomes or ceases to be a member of a group or begins or ceases to fulfil the conditions for relief for a consortium.

37. Stock relief

That provision may be made ending the relief provided by Schedule 9 to the Finance Act 1981 as from 13th March 1984.

38. Deep discount securities

That charges to income tax, capital gains tax and corporation tax may be imposed by provisions relating to certain redeemable securities issued at a price less than the amount payable on their redemption.

39. Grants under Industrial Development (Northern Ireland) Order 1982

That provision may be made amending section 42 of the Finance Act 1980 (grants under Industry Act 1972 etc.) with respect to payments made by way of grant under the Industrial Development (Northern Ireland) Order 1982.

40. Amendments to territorial extension of tax.

That provision may be made—

- (a) bringing within section 38 of the Finance Act 1973 gains accruing on the disposal of certain assets used in connection with exploration or exploitation activities; and
- (b) with respect to payments in respect of tax assessed by virtue of that section.

41. Initial and first-year allowances

That, with respect to expenditure incurred before 1st April 1985,

- (a) the rate of an initial allowance under section 1 of the Capital Allowances Act 1968 or Schedule 12 to the Finance Act 1982 shall be one-half; and
- (b) the rate of a first-year allowance under section 41 of the Finance Act 1971 shall be three-quarters.

42. Transfers under Oil and Gas (Enterprise) Act 1982

That charges may be imposed under the Capital Allowances Act 1968 and Chapter I of Part III of the Finance Act 1971 in respect of assets transferred pursuant to directions under section 11 of the Oil and Gas (Enterprise) Act 1982.

43. Capital gains

That charges to capital gains tax and corporation tax may be imposed by provisions—

- (a) repealing sections 6, 8, 9 and 148 of the Capital Gains Tax Act 1979;
- (b) amending section 80 of the Finance Act 1981 with respect to certain payments received on or after 6th April 1984;
- (c) relating to the meaning of “settlement”, “settlor” and “settled property” for the purposes of sections 80 to 84 of the Finance Act 1981; and
- (d) making amendments to Schedule 6 of the Finance Act 1983 which have effect as if they had been included in that Schedule when originally enacted.

44. Oil exploration and exploitation activities

That charges to income tax, corporation tax and capital gains tax may be imposed by provisions—

- (a) terminating repayment of advance corporation tax under section 17(3) of the Oil Taxation Act 1975 with respect to accounting periods ending on or after 1st April 1984;
- (b) limiting the allowances which may be claimed under Chapter I of Part III of the Finance Act 1971 on a transfer within Schedule 17 to the Finance Act 1980, of the whole or part of the interest in an oil field;
- (c) restricting the losses and other amounts which may be set against certain chargeable gains arising on disposals of interests in oil and in other assets used in connection with any of the activities mentioned in section 13(1) of the Oil Taxation Act 1975; and
- (d) restricting relief under Part VI of the Capital Gains Tax Act 1979 in certain cases where the assets replaced have been used in connection with any of those activities.

45. Controlled foreign companies

That provision may be made imposing charges to corporation tax on companies resident in the United Kingdom which have interests in certain companies not so resident.

46. Offshore funds

That charges to income tax and corporation tax may be imposed by reference to gains accruing on the disposal on or after 1st January 1984 of certain interests in—

- (a) companies which are resident outside the United Kingdom;
- (b) unit trust schemes, the trustees of which are resident outside the United Kingdom; and
- (c) certain other arrangements which take effect by virtue of the law of a territory outside the United Kingdom.

47. Capital transfer tax

That it is expedient to authorise amendments of the law relating to capital transfer tax which are designed to facilitate, or are otherwise desirable in connection with, the consolidation of that law.

48. Reduction of stamp duty on conveyances or transfers

That the following provisions shall have effect for the period beginning 20th March 1984 and ending 31 days after the earliest of the dates mentioned in section 50(2) of the Finance Act 1973—

(1) In subsection (1) of section 55 of the Finance Act 1963 and subsection (1) of section 4 of the Finance Act (Northern Ireland) 1963 for paragraphs (a) to (e) there shall be substituted the following paragraphs:—

“(a) where the amount or value of the consideration is £30,000 or under and the instrument is certified, as described in section 34(4) of the Finance Act 1958, at £30,000, nil;

(b) where paragraph (a) above does not apply and the amount or value of the consideration does not exceed £500, the rate of 50p for every £50 or part of £50 of the consideration; and

(c) where paragraph (a) above does not apply and the amount or value of the consideration exceeds £500, the rate of £1 for every £100 or part of £100 of the consideration”;

and in subsection (2) of each of those sections for the words from “as if” onwards there shall be substituted the words “as if paragraph (a) and, in paragraphs (b) and (c), the words ‘paragraph (a) above does not apply and’ were omitted.”

(2) Part III of Schedule 11 to the Finance Act 1974 (saving for certain transfers of stock or marketable securities) shall cease to have effect.

(3) Subject to paragraph (4) below, the foregoing provisions shall apply—

(a) to instruments executed on or after 20th March 1984; and

(b) to instruments executed on or after 13th March 1984 which are stamped on or after 20th March 1984;

and, for the purposes of section 14(4) of the Stamp Act 1891 (instruments not to be given in evidence etc. unless stamped in accordance with the law in force at the time of first execution), the law in force at the time of execution of an instrument falling within sub-paragraph (b) above shall be deemed to be that as varied in accordance with the foregoing provisions.

(4) In the case of an instrument giving effect to a stock exchange transaction, as defined in section 4 of the Stock Transfer Act 1963, the foregoing provisions do not apply unless the transaction takes place on or after 12th March 1984 and is one in respect of which settlement is due on or after 13th March 1984.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of section 50 of the Finance Act 1973.

49. Stamp duty: sub-sales

That the following provisions shall have effect for the period beginning 20th March 1984 and ending 31 days after the earliest of the dates mentioned in section 50(2) of the Finance Act 1973—

(1) In subsection (4) of section 58 of the Stamp Act 1891 (in case of a sub-sale to a single purchaser, duty chargeable only on consideration moving from the sub-purchaser) after the words “conveyed immediately to the sub-purchaser” there shall be inserted the words “then, except where—

(a) the chargeable consideration moving from the sub-purchaser is less than the value of the property immediately before the contract of sale to him, and

(b) the conveyance is not one to which section 107 of the Finance Act 1981 (sales of houses at discount by local authorities etc.) applies”.

(2) In subsection (5) of section 58 of the Stamp Act 1891 (in case of a sub-sale in parts or parcels to different sub-purchasers, each conveyance chargeable with duty only on consideration moving from the sub-purchaser) after the words “to different persons in parts or parcels” there shall be inserted the words “then, except where the aggregate of the chargeable consideration for the sale of all such parts or parcels is less than the value of the whole of the property immediately before the contract for their sale or, as the case may be, the first contract for the sale of any of them”.

(3) At the end of the said section 58 there shall be inserted the following subsection:—

“(7) Any reference in subsection (4) or subsection (5) of this section to chargeable consideration is a reference to consideration which falls to be brought into account in determining the duty (if any) chargeable on the conveyance to the sub-purchaser or, as the case may be, on the conveyance of each of the parts or parcels in question; and in any case where it is necessary for the purposes of either of those subsections to determine the value of any property, that value shall be determined as for the purposes of section 74 of the Finance (1909–10) Act 1910 (gifts inter vivos).”

(4) The foregoing provisions apply where the contract for the sub-sale or, as the case may be, the first contract for sub-sale of a part or parcel is entered into on or after 20th March 1984.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of section 50 of the Finance Act 1973.

50. Stamp duty: agreements for leases

That the following provisions shall have effect for the period beginning 20th March 1984 and ending 31 days after the earliest of the dates mentioned in section 50(2) of the Finance Act 1973—

(1) In section 75 of the Stamp Act 1891 (agreements for leases for terms not exceeding 35 years to be stamped as if they were leases) in subsection (1) the words “not exceeding thirty-five years” shall be omitted and for subsection (2) (5 pence stamp on lease in conformity with duly stamped agreement) there shall be substituted the following subsection:—

“(2) Where duty has been duly paid on an agreement for a lease or tack and, subsequent to that agreement, a lease or tack is granted which either—

(a) is in conformity with the agreement, or

(b) relates to substantially the same property and term as the agreement,

then the duty which would otherwise be charged on the lease or tack shall be reduced (or, as the case may be, extinguished) by the deduction therefrom of the duty paid on the agreement.”

(2) In any case where—

(a) an interest in land is conveyed or transferred subject to an agreement for a lease or tack for a term exceeding 35 years, or

(b) a lease or tack is granted subject to an agreement for a lease or tack for a term exceeding 35 years,

then, whether or not the conveyance, transfer, lease or tack is expressed to be so subject, it shall not be taken to be duly stamped unless there is denoted upon the conveyance, transfer, lease or tack the duty paid on the agreement; and section 11 of the Stamp Act 1891 shall have effect for this purpose as if the duty chargeable on the conveyance, transfer, lease or tack depended on the duty paid on the agreement.

(3) For the purposes of paragraph (2) above, an interest conveyed or transferred or, as the case may be, a lease or tack granted is not to be regarded as subject to an agreement for a lease or tack if that agreement is directly enforceable against another interest in the land in relation to which the interest conveyed or transferred or, as the case may be, the lease or tack granted is a superior interest.

(4) In section 15 of the Stamp Act 1891 (stamping of instruments after execution) in the Table following paragraph (d) of subsection (2) (instruments as to which certain special provisions apply), after the entry beginning “lease or tack”, there shall be inserted:—

“Agreement for lease or tack
chargeable under section 75

The person contracting for the lease or tack
to be granted to him or another.”

(5) The foregoing provisions apply to any agreement for a lease or tack entered into on or after 20th March 1984.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of section 50 of the Finance Act 1973.

51. Stamp duty: sale of houses at discount by certain bodies

That, for the period beginning 20th March 1984 and ending 31 days after the earliest of the dates mentioned in section 50(2) of the Finance Act 1973, section 107 of the Finance Act 1981 shall have effect—

(a) with the addition to subsection (3) of the following paragraph—

“(n) the United Kingdom Atomic Energy Authority”; and

(b) with the insertion, after subsection (3), of the following subsection:—

“(3A) This section also applies to any conveyance or transfer on sale of a dwelling-house where the conveyance or transfer is made pursuant to a sub-sale made at a discount by a body falling within subsection (3)(f) above.”

The foregoing provisions shall apply—

(a) to instruments executed on or after 20th March 1984; and

(b) to instruments executed on or after 13th March 1984 and stamped on or after 20th March 1984;

and, for the purposes of section 14(4) of the Stamp Act 1891 (instruments not to be given in evidence etc. unless stamped in accordance with the law in force at the time of first execution), the law in force at the time of execution of an instrument falling within sub-paragraph (b) above shall be deemed to be that as varied in accordance with the foregoing provisions.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of section 50 of the Finance Act 1973.

52. Oil taxation (reliefs for expenditure and losses)

That provision may be made for restricting the amounts allowable under section 5, 5A or 6 of the Oil Taxation Act 1975 on claims made after 13th September 1983.

53. Oil taxation (payments for minimum delivery and capacity payments)

That provision may be made with respect to the treatment, for the purposes of Part I of the Oil Taxation Act 1975, of certain sums forming part of the consideration payable under contracts for the sale of oil won from an oil field.

54. Relief from tax (incidental and consequential charges)

That it is expedient to authorise any incidental or consequential charges to any duty or tax (including charges having retrospective effect) which may arise from provisions designed in general to afford relief from tax.

PROCEDURE RESOLUTIONS

PROCEDURE (LOANS BY PUBLIC WORKS LOAN COMMISSIONERS): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain provision with respect to the power of the Public Works Loan Commissioners to make loans in pursuance of section 3 of the National Loans Act 1968 and the limit on such loans.

PROCEDURE (FUTURE TAXATION): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain the following provisions taking effect in a future year—

- (a) provisions charging corporation tax for the financial years 1984, 1985 and 1986 at the rate of 45 per cent., 40 per cent. and 35 per cent. respectively and provisions having effect for all or any of those years with respect to—
 - (i) the small companies rate; and
 - (ii) the fractions referred to in sections 93(2) and 95(2) of the Finance Act 1972; and
 - (iii) the special rate for the purposes of section 96 of that Act;
- (b) provision that section 310(1), (2) and (4) of the Income and Corporation Taxes Act 1970 shall not have effect with respect to the financial year 1986 or any subsequent financial year;
- (c) provisions with respect to initial allowances under section 1 of the Capital Allowances Act 1968 and Schedule 12 to the Finance Act 1982;
- (d) provisions with respect to first-year allowances under section 41 of the Finance Act 1971;
- (e) provisions abolishing the relief from income tax provided by section 23(3) of the Finance Act 1974, paragraphs 2 and 3 of Schedule 7 to the Finance Act 1977 and section 27 of the Finance Act 1978, and reducing and abolishing the relief provided by paragraph 3 of Schedule 2 to the Finance Act 1974;
- (f) provisions requiring certain banks and other deposit-takers making certain payments of interest to account for and pay amounts representing income tax on the grossed up amounts of those payments;
- (g) provisions abolishing the surcharge payable under the National Insurance Surcharge Act 1976 with respect to secondary Class I contributions payable by any of the bodies mentioned in section 143(4) of the Finance Act 1982.

E.R.

NOTE FOR FILE

Cabinet Office have reminded us that S/S Northern Ireland, the Foreign Secretary and the Minister for MAFF will be unable to attend tomorrow's Budget Cabinet.

12 March 1984

~~BUDGET SECRET~~

Ref No. B(84) 647.



3

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

12 March 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

BUDGET SPEECH

- .. I attach the final version of the Chancellor's Speech tomorrow. You will see that it has got still better!

Yours ever,

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR

INTRODUCTION

THIS BUDGET WILL SET THE GOVERNMENT'S COURSE FOR THIS PARLIAMENT.

THERE WILL BE NO LETTING UP IN OUR DETERMINATION TO DEFEAT INFLATION. WE SHALL CONTINUE THE POLICIES THAT WE HAVE FOLLOWED CONSISTENTLY SINCE 1979. THESE POLICIES PROVIDE THE ONLY WAY TO ACHIEVE OUR ULTIMATE OBJECTIVE OF STABLE PRICES. TO ABANDON THEM WOULD BE TO RISK RENEWED INFLATION, AND MUCH HIGHER UNEMPLOYMENT. AS A RESULT OF OUR DETERMINED EFFORTS, INFLATION IS AT ITS LOWEST LEVEL SINCE THE 'SIXTIES. ECONOMIC RECOVERY IS WELL UNDER WAY. EMPLOYMENT IS GROWING.

THESE ACHIEVEMENTS ARE A TRIBUTE TO THE COURAGE AND FORESIGHT OF THE FIVE BUDGETS PRESENTED BY MY DISTINGUISHED PREDECESSOR, WHOSE DUTIES UNFORTUNATELY KEEP HIM IN BRUSSELS TODAY.

/I SHALL DO

I SHALL DO NOTHING TODAY TO COMPROMISE THOSE SUCCESSES. BUT THERE IS MUCH THAT I CAN DO TO BUILD UPON THEM.

MY BUDGET TODAY HAS TWO THEMES.

FIRST, THE FURTHER REDUCTION OF INFLATION. AND SECOND, A SERIES OF TAX REFORMS DESIGNED TO ENABLE THE ECONOMY TO WORK BETTER. REFORMS TO STIMULATE ENTERPRISE AND SET BRITISH BUSINESS ON THE ROAD TO PROFITABLE EXPANSION. REFORMS THAT WILL HELP TO BRING NEW JOBS.

I SHALL BEGIN BY REVIEWING THE ECONOMIC BACKGROUND TO THE BUDGET. I SHALL THEN DEAL WITH THE MEDIUM TERM FINANCIAL STRATEGY; WITH MONETARY POLICY AND THE MONETARY TARGETS FOR NEXT YEAR; AND WITH PUBLIC BORROWING AND THE APPROPRIATE PSBR FOR THE COMING YEAR. I SHALL THEN TURN TO PUBLIC EXPENDITURE, INCLUDING THE PROSPECTS FOR THE LONGER

TERM.

TERM. FINALLY I SHALL DEAL WITH TAXATION, AND THE CHANGES IN THE STRUCTURE OF TAXATION WHICH WILL PAVE THE WAY FOR CUTS IN TAXES IN SUBSEQUENT YEARS. FOR THIS WILL BE A TAX REFORM BUDGET.

AS USUAL, A NUMBER OF PRESS RELEASES, FILLING OUT THE DETAILS OF MY TAX PROPOSALS, WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

/I START WITH

THE ECONOMIC BACKGROUND

I START WITH THE ECONOMIC BACKGROUND.

SINCE 1980, INFLATION HAS FALLEN STEADILY FROM A PEAK OF OVER 20 PER CENT. FOR LAST YEAR AS A WHOLE IT WAS DOWN TO ABOUT $4\frac{1}{2}$ PER CENT, THE LOWEST FIGURE SINCE THE SIXTIES. AND WITH LOWER INFLATION HAVE COME LOWER INTEREST RATES.

THIS IN TURN HAS LED TO AN ECONOMIC RECOVERY WHOSE UNDERLYING STRENGTH IS NOW BEYOND DISPUTE. WHEREAS IN SOME PREVIOUS CYCLES RECOVERY HAS COME FROM A SELF-DEFEATING STIMULUS TO MONETARY DEMAND, THIS TIME IT HAS SPRUNG FROM SOUND FINANCE AND HONEST MONEY. LOWER INFLATION AND LOWER INTEREST RATES BENEFIT INDUSTRY, BUSINESS, AND CONSUMER CONFIDENCE ALIKE.

/ACROSS THE ECONOMY,

ACROSS THE ECONOMY, TOTAL MONEY INCOMES GREW IN 1983 BY ABOUT 8 PER CENT, OF WHICH 3 PER CENT REPRESENTED REAL GROWTH IN OUTPUT. ALTHOUGH THERE IS STILL ROOM FOR IMPROVEMENT, THIS IS A VERY MUCH HEALTHIER DIVISION BETWEEN INFLATION AND REAL GROWTH THAN THE NATION EXPERIENCED IN THE 1970s. OUTPUT IN THE SECOND HALF OF 1983 IS NOW RECKONED TO HAVE EXCEEDED THE PREVIOUS PEAK, BEFORE THE WORLD RECESSION SET IN, AND IS STILL RISING STRONGLY.

PRODUCTIVITY TOO HAS CONTINUED TO IMPROVE RAPIDLY. JUST AS OVER THE PAST YEAR MANY HAVE WRONGLY PREDICTED AN END TO THE RECOVERY, SO SOME HAVE TRIED TO DISMISS THE SHARP RISE IN PRODUCTIVITY AS A FLASH IN THE PAN. YET IN 1983 MANUFACTURING PRODUCTIVITY GREW BY 6 PER CENT FOR THE SECOND YEAR IN SUCCESSION. UNIT LABOUR COSTS ACROSS THE WHOLE ECONOMY ARE LIKELY TO SHOW THE SMALLEST ANNUAL INCREASE SINCE THE 1960s. THIS HAS ALLOWED A WELCOME AND NECESSARY RECOVERY IN REAL LEVELS OF PROFITABILITY.

/HIGHER PROFITS

HIGHER PROFITS LEAD TO MORE JOBS. THE NUMBER OF PEOPLE IN WORK INCREASED BY ABOUT 80,000 BETWEEN MARCH AND SEPTEMBER LAST YEAR. THE LOSS OF JOBS IN MANUFACTURING HAS SLOWED DOWN SHARPLY, WHILE JOBS IN SERVICES INCREASED BY GETTING ON FOR 200,000 IN THE FIRST NINE MONTHS OF LAST YEAR.

BUT FURTHER PROGRESS IS NEEDED: ALTHOUGH OUR UNIT WAGE COSTS IN MANUFACTURING ROSE BY UNDER 3 PER CENT LAST YEAR, OUR THREE BIGGEST COMPETITORS, THE US, JAPAN AND GERMANY, DID BETTER. THE EMPLOYMENT PROSPECT WOULD BE SIGNIFICANTLY IMPROVED IF A BIGGER CONTRIBUTION TO IMPROVED COST PERFORMANCE WERE TO COME FROM LOWER PAY RISES.

DEMAND, OUTPUT, PROFITS AND EMPLOYMENT ALL ROSE LAST YEAR. HOME DEMAND HAS PLAYED THE MAJOR PART IN THE RECOVERY SO FAR. LOWER INFLATION REDUCED PEOPLE'S NEED TO SAVE, AND REAL INCOMES ROSE. PERSONAL CONSUMPTION INCREASED BY OVER 3½ PER

/CENT COMPARED

CENT COMPARED WITH 1982. FIXED INVESTMENT ROSE RATHER FASTER THAN CONSUMPTION, WITH INVESTMENT IN HOUSING AND SERVICES PARTICULARLY STRONG.

OUR RATE OF ECONOMIC GROWTH LAST YEAR WAS THE HIGHEST IN THE EUROPEAN COMMUNITY. FOR MUCH OF 1983 OUR EXPORT PERFORMANCE WAS AFFECTED BY WEAK DEMAND IN MANY OF OUR OVERSEAS MARKETS, WHILE IMPORTS ROSE SLIGHTLY FASTER THAN HOME DEMAND. BUT BY THE END OF LAST YEAR WORLD TRADE WAS CLEARLY MOVING AHEAD AGAIN, AND IN THE THREE MONTHS TO JANUARY MANUFACTURING EXPORTS INCREASED VERY SUBSTANTIALLY. THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT LAST YEAR IS ESTIMATED TO HAVE BEEN IN SURPLUS BY ABOUT £2 BILLION.

OUR CRITICS HAVE BEEN CONFOUNDED BY THIS COMBINATION OF ECONOMIC RECOVERY AND LOW INFLATION. EVEN THE PESSIMISTS HAVE BEEN FORCED TO ACKNOWLEDGE THE DURABILITY OF THE RECOVERY. IT IS SET TO

/CONTINUE THROUGHOUT

CONTINUE THROUGHOUT THIS YEAR AT AN ANNUAL RATE OF 3 PER CENT. INFLATION IS EXPECTED TO REMAIN LOW, EDGING BACK DOWN TO $4\frac{1}{2}$ PER CENT BY THE END OF THIS YEAR. WITH RISING INCOMES AND LOW INFLATION, CONSUMPTION WILL CONTINUE TO GROW. AND, ENCOURAGED BY IMPROVED PROFITABILITY AND BETTER LONG-TERM GROWTH PROSPECTS, INVESTMENT IS EXPECTED TO RISE BY A GOOD 6 PER CENT THIS YEAR.

LOOKING ABROAD, TOO, ECONOMIC PROSPECTS ARE MORE FAVOURABLE THAN FOR SOME TIME. OUTPUT IN THE UNITED STATES SHOULD CONTINUE TO GROW STRONGLY THIS YEAR. AND RECOVERY IS SPREADING TO THE REST OF THE WORLD.

OF COURSE, THERE ARE INEVITABLE RISKS AND UNCERTAINTIES. THE SIZE AND CONTINUED GROWTH OF THE UNITED STATES BUDGET DEFICIT IS A CAUSE OF WIDESPREAD CONCERN AND KEEPS INTEREST RATES HIGH, EXACERBATING THE PROBLEMS OF THE DEBTOR COUNTRIES.

/AND THE NEED

AND THE NEED TO FINANCE THE US DEFICIT BY INFLOWS OF FOREIGN CAPITAL HAS KEPT THE DOLLAR ARTIFICIALLY HIGH AND LED TO A MASSIVE AND GROWING TRADE DEFICIT, GREATLY INCREASING THE PRESSURES FOR PROTECTIONISM WITHIN THE UNITED STATES.

A SECOND POTENTIAL RISK IS DISRUPTION IN THE OIL MARKET. THE UNITED KINGDOM, AND INDEED THE WORLD ECONOMY, INEVITABLY REMAIN VULNERABLE TO ANY MAJOR DISTURBANCES IN THIS MARKET.

BUT DESPITE THESE RISKS THERE IS A GROWING SENSE THROUGHOUT THE INDUSTRIALISED WORLD THAT THE RECOVERY THIS TIME IS ONE WHICH CAN BE SUSTAINED. THE ESSENTIAL REQUIREMENT IS THE CONTINUED PURSUIT OF PRUDENT MONETARY AND FISCAL POLICIES.

/FOR THE UNITED KINGDOM

THE MEDIUM TERM FINANCIAL STRATEGY

FOR THE UNITED KINGDOM, THE MEDIUM TERM FINANCIAL STRATEGY HAS BEEN THE CORNERSTONE OF SUCH POLICIES. IT WILL CONTINUE TO PLAY THAT ROLE; TO PROVIDE A FRAMEWORK AND DISCIPLINE FOR GOVERNMENT AND TO SET OUT CLEARLY, TO INDUSTRY AND THE FINANCIAL MARKETS, THE GUIDELINES OF POLICY. TOO OFTEN IN THE PAST GOVERNMENTS ABANDONED FINANCIAL DISCIPLINE WHENEVER THE GOING GOT ROUGH, AND STAGGERED FROM ONE SHORT-TERM POLICY EXPEDIENT TO ANOTHER. THE TEMPTATION TO ACCOMMODATE INFLATIONARY PRESSURES PROVED IRRESISTIBLE, AND THE NATION'S LONGER-TERM ECONOMIC PERFORMANCE WAS PROGRESSIVELY UNDERMINED.

THE MTFS WAS DESIGNED TO REMEDY THIS, BY IMPOSING A DISCIPLINED FINANCIAL FRAMEWORK WHICH WOULD ALSO ENSURE CONSISTENCY BETWEEN MONETARY AND

/FISCAL POLICIES

FISCAL POLICIES, AND A PROPER BALANCE IN THE ECONOMY. IT IS SO DESIGNED TO ENSURE THAT THE MORE INFLATION AND INFLATIONARY EXPECTATIONS COME DOWN, THE MORE ROOM IS AVAILABLE FOR OUTPUT AND EMPLOYMENT TO GROW.

PEOPLE NOW KNOW THAT THE GOVERNMENT INTENDS TO STICK TO ITS MEDIUM TERM OBJECTIVES. THEY UNDERSTAND THAT THE FASTER INFLATION COMES DOWN, THE FASTER OUTPUT AND EMPLOYMENT ARE LIKELY TO RECOVER. THE INCREASING DEGREE OF REALISM AND FLEXIBILITY IN THE ECONOMY OWES MUCH TO THE PURSUIT OF FIRM AND CONSISTENT POLICIES WITHIN THE MTFS FRAMEWORK.

ORIGINALLY THE MTFS COVERED FOUR YEARS. IN THIS FIRST BUDGET OF A NEW PARLIAMENT IT IS APPROPRIATE TO CARRY IT FORWARD FOR FIVE YEARS. SO THE MTFS PUBLISHED TODAY IN THE FINANCIAL STATEMENT AND BUDGET REPORT -THE RED BOOK - SHOWS A CONTINUING

/DOWNWARD PATH

DOWNWARD PATH FOR THE MONETARY TARGET RANGES OVER THE NEXT FIVE YEARS, AND A PATH FOR PUBLIC BORROWING CONSISTENT WITH THAT REDUCTION. IT TAKES FULL ACCOUNT OF IMPORTANT INFLUENCES SUCH AS THE PATTERN OF NORTH SEA OIL REVENUES, AND THE LEVEL OF ASSET SALES ARISING FROM THE PRIVATISATION PROGRAMME.

FOR THE TWO FINAL YEARS OF THE NEW MTFS, WHICH LIE BEYOND THE PERIOD COVERED IN LAST YEAR'S PUBLIC EXPENDITURE SURVEY AND LAST MONTH'S WHITE PAPER, THE GOVERNMENT HAS NOT YET MADE FIRM PLANS FOR PUBLIC SPENDING. BUT THE MTFS ASSUMPTION - AND AT PRESENT IT IS NO MORE THAN AN ASSUMPTION - IS THAT THE LEVEL OF PUBLIC SPENDING IN 1987-88 AND 1988-89 WILL BE THE SAME IN REAL TERMS AS THAT CURRENTLY PLANNED FOR 1986-87.

THE PRECISE FIGURES SET OUT IN THE MTFS ARE NOT OF COURSE A RIGID FRAMEWORK, LACKING ALL FLEXIBILITY. AS IN THE PAST, THERE MAY NEED TO BE

/ADJUSTMENTS TO

ADJUSTMENTS TO TAKE ACCOUNT OF CHANGING
CIRCUMSTANCES. BUT NO CHANGES WILL BE MADE THAT
MIGHT JEOPARDISE THE CONSISTENT PURSUIT OF THE
GOVERNMENT'S OBJECTIVES.

/MONETARY POLICY

MONETARY POLICY

MONETARY POLICY WILL CONTINUE TO PLAY A CENTRAL ROLE. FURTHER REDUCTIONS IN MONETARY GROWTH ARE NEEDED TO ACHIEVE STILL LOWER INFLATION.

OVER THE TWELVE MONTHS TO MID-FEBRUARY THE GROWTH OF £M3 HAS BEEN WELL WITHIN THE 7-11 PER CENT TARGET RANGE, WITH M1 AT THE TOP OF THE RANGE AND PSL2 A LITTLE ABOVE IT. WHILE IN THE EARLY MONTHS OF THE TARGET PERIOD MOST MEASURES OF MONEY SHOWED SIGNS OF ACCELERATING, SINCE THE SUMMER GROWTH IN ALL THE TARGET AGGREGATES HAS BEEN COMFORTABLY WITHIN THE RANGE. AND NOMINAL INTEREST RATES HAVE CONTINUED TO DECLINE IN LINE WITH FALLING INFLATION.

OTHER EVIDENCE CONFIRMS THAT MONETARY CONDITIONS ARE SATISFACTORY. THE EFFECTIVE EXCHANGE RATE HAS REMAINED FAIRLY STABLE, DESPITE

/THE INTERNATIONAL

THE INTERNATIONAL UNCERTAINTIES WHICH I HAVE DESCRIBED.

IF MONETARY POLICY IS TO STAY ON TRACK ITS PRACTICAL IMPLEMENTATION MUST ADAPT TO CHANGES IN THE FINANCIAL SYSTEM AND IN THE SIGNIFICANCE OF DIFFERENT MEASURES OF MONEY. THERE IS NOTHING NEW IN THIS. OVER THE YEARS WE HAVE MORE THAN ONCE ALTERED THE TARGET RANGES AND AGGREGATES TO TAKE ACCOUNT OF SUCH CHANGES. BUT THE THRUST OF THE STRATEGY HAS BEEN MAINTAINED.

ONE IMPORTANT DEVELOPMENT HAS BEEN THE DECISION TO GIVE A MORE EXPLICIT ROLE TO THE NARROW MEASURES OF MONEY. £M3 AND THE OTHER BROAD AGGREGATES GIVE A GOOD INDICATION OF THE GROWTH OF LIQUIDITY. BUT A LARGE PROPORTION OF THIS MONEY IS IN REALITY A FORM OF SAVINGS, INVESTED FOR THE INTEREST IT CAN EARN. IN DEFINING POLICY IT IS HELPFUL ALSO TO MAKE SPECIFIC REFERENCE TO MEASURES

/OF MONEY WHICH

OF MONEY WHICH RELATE MORE NARROWLY TO BALANCES HELD FOR CURRENT SPENDING.

IT WAS FOR THIS REASON THAT M1 WAS INTRODUCED AS A TARGET AGGREGATE, BUT IT HAS NOT PROVED ENTIRELY SATISFACTORY FOR THAT PURPOSE. WITH THE RAPID GROWTH OF INTEREST-BEARING SIGHT DEPOSITS, M1 HAS BECOME AN INCREASINGLY POOR MEASURE OF MONEY HELD TO FINANCE CURRENT SPENDING. THE SIGNS ARE THAT THIS WILL CONTINUE.

OTHER MEASURES OF NARROW MONEY HAVE NOT BEEN DISTORTED TO THE SAME EXTENT. IN PARTICULAR, M0, WHICH CONSISTS MAINLY OF CURRENCY, IS LIKELY TO BE A BETTER INDICATOR OF FINANCIAL CONDITIONS THAN M1. THERE IS ALSO THE NEW AGGREGATE M2, WHICH WAS SPECIFICALLY DEVISED TO PROVIDE A COMPREHENSIVE MEASURE OF TRANSACTIONS BALANCES. THIS MAY ALSO BE A USEFUL GUIDE BUT, BEING NEW, STILL NEEDS TO BE INTERPRETED WITH PARTICULAR CARE.

/IN THE PAST

IN THE PAST TWO YEARS, IT HAS BEEN POSSIBLE TO SET A SINGLE TARGET RANGE FOR BOTH BROAD AND NARROW MEASURES OF MONEY. BUT THIS WILL NOT NORMALLY BE THE CASE; FOR NARROW MONETARY AGGREGATES TEND IN THE LONG RUN TO GROW MORE SLOWLY THAN BROADER MEASURES. THUS THIS YEAR'S RED BOOK SETS OUT TWO SEPARATE (THOUGH OVERLAPPING) RANGES.

THE TARGET RANGE FOR BROAD MONEY WILL CONTINUE TO APPLY TO £M3, AND FOR THE COMING YEAR WILL BE SET AT 6-10 PER CENT, AS INDICATED IN LAST YEAR'S MTFS. THE TARGET RANGE FOR NARROW MONEY WILL APPLY TO M0 AND FOR NEXT YEAR WILL BE SET AT 4-8 PER CENT. TO AVOID ANY POSSIBLE MISUNDERSTANDING, LET ME STRESS THAT THE USE OF M0 AS A TARGET AGGREGATE WILL NOT INVOLVE ANY CHANGE IN METHODS OF MONETARY CONTROL.

THE TWO TARGET AGGREGATES WILL HAVE EQUAL IMPORTANCE IN THE CONDUCT OF POLICY. AND THE AUTHORITIES WILL CONTINUE TO TAKE INTO ACCOUNT OTHER

/MEASURES OF MONEY,

MEASURES OF MONEY, ESPECIALLY M2 AND PSL2, WHICH INCLUDE BUILDING SOCIETY LIABILITIES, AS WELL AS WIDER EVIDENCE OF FINANCIAL CONDITIONS, INCLUDING THE EXCHANGE RATE. AS IN THE PAST, MONETARY CONDITIONS WILL BE KEPT UNDER CONTROL BY AN APPROPRIATE COMBINATION OF FUNDING AND OPERATIONS IN THE MONEY MARKET.

SO FAR AS FUNDING IS CONCERNED, THE PUBLIC SECTOR'S BORROWING REQUIREMENT, AS I SHALL SHORTLY EXPLAIN, WILL BE SIGNIFICANTLY LOWER IN THE COMING YEAR. IN FINANCING IT, THE ROLE OF NATIONAL SAVINGS WILL REMAIN IMPORTANT. THIS YEAR'S NATIONAL SAVINGS' TARGET OF £3 BILLION IS LIKELY TO BE ACHIEVED: THE TARGET FOR THE COMING YEAR WILL AGAIN BE £3 BILLION.

PRECISE MONETARY TARGETS FOR THE LATER YEARS WILL BE DECIDED NEARER THE TIME. BUT TO GIVE A BROAD INDICATION OF THE OBJECTIVES OF MONETARY

/POLICY, THE NEW

POLICY, THE NEW MTFS, LIKE PREVIOUS VERSIONS, SHOWS MONETARY RANGES FOR A NUMBER OF YEARS AHEAD. THESE RANGES ARE CONSISTENT WITH A CONTINUING DOWNWARD TREND IN INFLATION: THEY DEMONSTRATE THE GOVERNMENT'S INTENTION TO MAKE FURTHER PROGRESS TOWARDS STABLE PRICES.

/I TURN NOW

PUBLIC SECTOR BORROWING

I TURN NOW TO PUBLIC BORROWING. JUST AS THE CLASSICAL FORMULA FOR FINANCIAL DISCIPLINE -THE GOLD STANDARD AND THE BALANCED BUDGET - HAD BOTH A MONETARY AND A FISCAL COMPONENT, SO DOES THE MEDIUM TERM FINANCIAL STRATEGY.

THE MTFS HAS ALWAYS ENVISAGED THAT THE PUBLIC SECTOR BORROWING REQUIREMENT WOULD FALL AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT OVER THE MEDIUM TERM. BY 1981-82 WE HAD BROUGHT IT DOWN TO $3\frac{1}{2}$ PER CENT OF GDP.

SINCE THEN THERE HAS BEEN LITTLE FURTHER FALL. THE LATEST ESTIMATE OF THE PSBR FOR THE CURRENT YEAR, 1983-84, REMAINS WHAT IT WAS IN NOVEMBER: AROUND £10 BILLION, EQUIVALENT TO $3\frac{1}{4}$ PER CENT OF GDP. THIS IS SIGNIFICANTLY ABOVE WHAT WAS INTENDED

/AT THE TIME OF

AT THE TIME OF LAST YEAR'S BUDGET, AND WOULD OF COURSE HAVE BEEN HIGHER STILL HAD IT NOT BEEN FOR THE JULY MEASURES.

WE NOW NEED A FURTHER SUBSTANTIAL REDUCTION IN BORROWING, IN ORDER TO HELP BRING INTEREST RATES DOWN FURTHER AS MONETARY GROWTH SLOWS DOWN. STERLING INTEREST RATES ARE, OF COURSE, ALSO INFLUENCED BY DOLLAR INTEREST RATES; BUT THAT MAKES IT ALL THE MORE IMPORTANT TO CURB DOMESTIC PRESSURES. IN CONTRAST TO VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD, UK THREE-MONTH AND LONG-TERM RATES ARE NOW LOWER THAN AMERICAN RATES. AS LONG AS AMERICAN RATES REMAIN NEAR THEIR CURRENT LEVEL, IT IS HIGHLY DESIRABLE THAT THIS ADVANTAGE BE MAINTAINED.

THE HIGHER LEVEL OF ASSET SALES WE ARE PLANNING AS THE PRIVATISATION PROGRAMME GATHERS PACE IS A FURTHER REASON FOR REDUCING THE PSBR SIGNIFICANTLY

/IN THE COMING

IN THE COMING YEAR. ASSET SALES REDUCE THE GOVERNMENT'S NEED TO BORROW. BUT THEIR EFFECT ON INTEREST RATES MAY BE LESS THAN THE EFFECT OF MOST OTHER REDUCTIONS IN GOVERNMENT SPENDING PROGRAMMES.

LAST YEAR'S MTFS SHOWED AN ILLUSTRATIVE PSBR FOR 1984-85 OF $2\frac{1}{2}$ PER CENT OF GDP, EQUIVALENT TO AROUND £8 BILLION. BUT I BELIEVE THAT IT IS POSSIBLE, AND INDEED PRUDENT, TO AIM FOR A SOMEWHAT LOWER FIGURE. I AM THEREFORE PROVIDING FOR A PSBR NEXT YEAR OF $2\frac{1}{4}$ PER CENT OF GDP, OR £7 $\frac{1}{4}$ BILLION.

THE HOUSE WILL RECALL THAT IN NOVEMBER I WARNED THAT ON CONVENTIONAL ASSUMPTIONS, INCLUDING THE 1983 RED BOOK'S PSBR FIGURE OF £8 BILLION FOR NEXT YEAR, I MIGHT HAVE TO INCREASE TAXES SLIGHTLY IN THE BUDGET. I AM GLAD TO REPORT THAT THE LATEST, AND MORE BUOYANT, FORECASTS OF TAX REVENUE IN THE COMING YEAR HAVE IMPROVED THE PICTURE. A PSBR OF £7 $\frac{1}{4}$ BILLION WILL REQUIRE NO OVERALL NET INCREASE IN TAXATION.

/MOREOVER,

MOREOVER, WHILE THE MEASURES I SHALL SHORTLY ANNOUNCE WILL, AFTER INDEXATION, BE BROADLY NEUTRAL IN THEIR EFFECTS ON REVENUE IN 1984-85, THEY WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1½ BILLION. AND THE MTFS PUBLISHED TODAY SHOWS THAT THERE SHOULD BE ROOM FOR FURTHER TAX CUTS NOT ONLY IN 1985-86, BUT THROUGHOUT THE REMAINDER OF THIS PARLIAMENT, PROVIDED THAT WE STICK FIRMLY TO OUR PUBLISHED PLANS FOR PUBLIC EXPENDITURE TO 1986-87, AND MAINTAIN AN EQUALLY FIRM CONTROL OF PUBLIC SPENDING THEREAFTER.

/THE PUBLIC EXPENDITURE

PUBLIC EXPENDITURE

THE PUBLIC EXPENDITURE WHITE PAPER SETTING OUT OUR SPENDING PLANS FOR THE NEXT THREE YEARS WAS APPROVED BY THE HOUSE LAST WEEK. TODAY I WANT TO CONSIDER THE IMPORTANT ISSUE OF GOVERNMENT SPENDING IN A RATHER WIDER PERSPECTIVE.

FOR FAR TOO LONG, PUBLIC SPENDING HAS GROWN FASTER THAN THE ECONOMY AS A WHOLE. AS A RESULT, THE TAX BURDEN HAS STEADILY INCREASED AND INCOME TAX HAS EXTENDED STEADILY LOWER DOWN THE INCOME SCALE.

WE HAVE SEEN A MASSIVE ENLARGEMENT IN THE ROLE OF THE STATE, AT THE EXPENSE OF THE INDIVIDUAL, AND A CORRESPONDING INCREASE IN THE DEAD WEIGHT OF TAXATION HOLDING BACK OUR ECONOMIC PROGRESS AS A NATION.

/THIS PROCESS

THIS PROCESS HAS TO STOP. BUT IT HAS ARISEN BECAUSE MUCH PUBLIC SPENDING IS DIRECTED TO EMINENTLY DESIRABLE ENDS. THIS RAISES DIFFICULT ISSUES WHICH DESERVE THE WIDEST POSSIBLE CONSIDERATION AND DEBATE.

THE GOVERNMENT IS THEREFORE PUBLISHING TODAY, IN ADDITION TO THE CUSTOMARY BUDGET DOCUMENTS, A GREEN PAPER ON THE PROSPECTS FOR PUBLIC SPENDING AND TAXATION OVER THE NEXT TEN YEARS. IT EXAMINES PAST TRENDS; DISCUSSES THE PRESSURES FOR STILL HIGHER SPENDING; AND EXAMINES THE REWARDS FOR THE INDIVIDUAL AND THE BENEFITS FOR THE ECONOMY IF THESE PRESSURES CAN BE CONTAINED.

THE GREEN PAPER CONCLUDES THAT, WITHOUT FIRM CONTROL OVER PUBLIC SPENDING, THERE CAN BE NO PROSPECT OF BRINGING THE BURDEN OF TAX BACK TO MORE REASONABLE LEVELS. ON THE ASSUMPTIONS MADE IN THE GREEN PAPER, THE BURDEN OF TAXATION WILL BE REDUCED

/TO THE LEVELS

TO THE LEVELS OF THE EARLY 1970s ONLY IF PUBLIC SPENDING IS KEPT BROADLY STABLE IN REAL TERMS OVER THE NEXT TEN YEARS.

THE GOVERNMENT BELIEVES THAT THE ISSUES DISCUSSED IN THE GREEN PAPER MERIT THE ATTENTION OF THE HOUSE AND THE COUNTRY.

IN CONTRAST TO PREVIOUS YEARS, I HAVE NO PACKAGE OF PUBLIC EXPENDITURE MEASURES TO ANNOUNCE IN THIS BUDGET. THE WHITE PAPER PLANS STAND.

I CAN HOWEVER MAKE ONE ANNOUNCEMENT, WHICH I THINK THE HOUSE WILL WELCOME. WITHIN THE PUBLISHED PLANS THE GOVERNMENT HAS BEEN ABLE TO PROVIDE THE NATIONAL HERITAGE MEMORIAL FUND WITH ADDITIONAL RESOURCES WHICH WILL ENABLE THEM AMONG OTHER THINGS TO SECURE THE FUTURE OF CALKE ABBEY. MY RT HON FRIEND THE SECRETARY OF STATE FOR THE ENVIRONMENT WILL BE ANNOUNCING THE DETAILS LATER TODAY.

/THE HOUSE WILL

THE HOUSE WILL RECALL THAT PROPOSALS FOR THE NEW RATES OF SOCIAL SECURITY BENEFIT TO COME INTO FORCE IN NOVEMBER ARE NOT NOW MADE AT THE TIME OF THE BUDGET. FOLLOWING LAST YEAR'S LEGISLATION TO RETURN TO THE HISTORIC METHOD OF UPRATING, PRICE PROTECTION IS MEASURED BY REFERENCE TO THE RETAIL PRICE INDEX FOR MAY. MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES WILL BE ANNOUNCING THE NEW RATES OF SOCIAL SECURITY BENEFITS, INCLUDING CHILD BENEFIT, WHEN THE MAY RPI IS KNOWN.

BEFORE LEAVING GOVERNMENT SPENDING, I SHOULD ADD A WORD ON PUBLIC SECTOR MANPOWER. AT THE BEGINNING OF THE LAST PARLIAMENT, THE GOVERNMENT SET ITSELF THE TARGET OF REDUCING THE SIZE OF THE CIVIL SERVICE FROM 732,000 IN APRIL 1979 TO 630,000 BY APRIL OF THIS YEAR. THAT TARGET WILL BE ACHIEVED. WE HAVE NOW SET OURSELVES THE FURTHER TARGET OF 593,000 BY APRIL 1988. I AM CONFIDENT THAT A

/SMALLER CIVIL

SMALLER CIVIL SERVICE WILL CONTINUE TO IMPROVE ITS EFFICIENCY. THE TAX CHANGES I SHALL BE ANNOUNCING TODAY WILL REDUCE MANPOWER REQUIREMENTS BY AT LEAST 1,000 IN MY OWN DEPARTMENTS, WHICH WILL HELP TOWARDS MEETING THE 1988 TARGET.

/I INDICATED AT THE

TAX REFORM

I INDICATED AT THE OUTSET THAT THIS WILL BE A RADICAL, TAX-REFORMING, BUDGET. IT WILL ALSO SIGNIFICANTLY REDUCE THE OVERALL BURDEN OF TAX OVER THE NEXT TWO YEARS TAKEN TOGETHER. AND I HOPE TO HAVE SCOPE FOR FURTHER REDUCTIONS IN FUTURE BUDGETS.

MY PROPOSALS FOR REFORM ARE GUIDED BY TWO BASIC PRINCIPLES. FIRST, THE NEED TO MAKE CHANGES THAT WILL IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM. SECOND, THE DESIRE TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER.

BUT I AM WELL AWARE THAT THE TAX REFORMER'S PATH IS A STONY ONE. ANY CHANGE IN THE SYSTEM IS BOUND, AT LEAST IN THE SHORT TERM, TO BRING BENEFITS TO SOME AND DISADVANTAGES TO OTHERS. AND THE DISAPPROVAL OF THE LATTER GROUP TENDS TO BE RATHER

/MORE AUDIBLE

MORE AUDIBLE THAN THE MURMURINGS OF SATISFACTION FROM THE FORMER.

SOME COMMENTATORS HAVE SUGGESTED THAT OUR ENTIRE INCOME-BASED TAX SYSTEM SHOULD BE REPLACED WITH AN EXPENDITURE-BASED SYSTEM. EVEN IF A ROOT-AND-BRANCH CHANGE OF THIS KIND WERE DESIRABLE, IT WOULD, I BELIEVE, BE WHOLLY IMPRACTICAL AND UNREALISTIC.

BUT I DO NOT BELIEVE WE CAN AFFORD TO OPT FOR THE QUIET LIFE AND DO NOTHING. SO I HAVE CHOSEN THE MIDDLE WAY: TO INTRODUCE REFORMS, SOME OF THEM FAR-REACHING, WITHIN THE FRAMEWORK OF OUR EXISTING INCOME-BASED SYSTEM. I SHALL ALSO BE PROPOSING TRANSITIONAL ARRANGEMENTS WHERE I BELIEVE IT FAIR AND APPROPRIATE TO DO SO.

THE CHANGES I SHALL BE PROPOSING TODAY FALL INTO THREE BROAD CATEGORIES. THESE ARE THE TAXATION

/OF SAVINGS AND

OF SAVINGS AND INVESTMENT, BUSINESS TAXATION, AND
THE TAXATION OF PERSONAL INCOME AND SPENDING.

/FIRST, THE TAXATION

SAVINGS AND INVESTMENT

FIRST, THE TAXATION OF SAVINGS AND INVESTMENT. THE PROPOSALS I AM ABOUT TO MAKE SHOULD IMPROVE THE DIRECTION AND QUALITY OF BOTH. AND THEY WILL CONTRIBUTE FURTHER TO THE CREATION OF A PROPERTY-OWNING AND SHARE-OWNING DEMOCRACY, IN WHICH MORE DECISIONS ARE MADE BY INDIVIDUALS RATHER THAN BY INSTITUTIONS.

I START WITH STAMP DUTY. THIS WAS DOUBLED FROM ITS LONG-STANDING 1 PER CENT BY THE POST-WAR LABOUR GOVERNMENT IN 1947, REDUCED BY THE CONSERVATIVE GOVERNMENT IN 1963, AND ONCE AGAIN DOUBLED TO 2 PER CENT BY LABOUR IN THE FIRST BUDGET PRESENTED BY THE RT HON MEMBER FOR LEEDS EAST IN 1974. AT ITS PRESENT LEVEL IT IS AN IMPEDIMENT TO MOBILITY AND INCOMPATIBLE WITH THE FORCES OF COMPETITION NOW AT WORK IN THE CITY, FOLLOWING THE WITHDRAWAL OF THE

/STOCK EXCHANGE

STOCK EXCHANGE CASE FROM THE RESTRICTIVE PRACTICES COURT.

I THEREFORE PROPOSE TO HALVE THE RATE OF STAMP DUTY TO 1 PER CENT. THE NEW RATE WILL APPLY STRAIGHT AWAY TO STOCK EXCHANGE DEALS. IT WILL ALSO APPLY FROM TODAY TO OTHER TRANSACTIONS WHERE DOCUMENTS ARE STAMPED ON OR AFTER 20 MARCH.

FOR THE HOME BUYER, THE NEW FLAT RATE 1 PER CENT STAMP DUTY WILL START AT £30,000. BELOW THIS LEVEL NO DUTY WILL BE PAYABLE. AS A RESULT OF THIS £5,000 INCREASE IN THE THRESHOLD, 90 PER CENT OF FIRST TIME HOME BUYERS WILL NOT HAVE TO PAY STAMP DUTY AT ALL.

REDUCING THE RATE OF DUTY ON SHARE TRANSFERS WILL REMOVE AN IMPORTANT DISINCENTIVE TO INVESTMENT IN EQUITIES AND INCREASE THE INTERNATIONAL COMPETITIVENESS OF OUR STOCK MARKET. IT SHOULD ALSO HELP BRITISH COMPANIES TO RAISE EQUITY FINANCE.

/IN ADDITION, I

IN ADDITION, I HAVE FOUR PROPOSALS TO ENCOURAGE THE ISSUE OF CORPORATE BONDS. I SHALL GO AHEAD WITH THE NEW ARRANGEMENTS FOR DEEP DISCOUNT STOCK AND THE RELIEFS FOR COMPANIES ISSUING EUROBONDS, AND FOR CONVERTIBLE LOAN STOCK, WHICH WERE ANNOUNCED BUT NOT ENACTED LAST YEAR. AND I PROPOSE TO EXEMPT FROM CAPITAL GAINS TAX MOST CORPORATE FIXED INTEREST SECURITIES PROVIDED THEY ARE HELD FOR MORE THAN A YEAR. SINCE SUCH SECURITIES ARE ALREADY EXEMPT FROM STAMP DUTY THIS MEANS THAT THE TAX CONCESSIONS FOR PRIVATE SECTOR BORROWING IN THE CORPORATE BOND MARKET WILL NOW BE VIRTUALLY THE SAME AS FOR GOVERNMENT BORROWING IN THE GILT-EDGED MARKET.

THE REDUCTIONS IN STAMP DUTY WILL COST £450 MILLION IN 1984-85, OF WHICH £160 MILLION IS THE COST OF THE RELIEF ON SHARE TRANSFERS, AND £290 MILLION THE COST OF THE RELIEF ON TRANSFERS OF HOUSES AND OTHER BUILDINGS AND LAND.

/NEXT, LIFE ASSURANCE.

NEXT, LIFE ASSURANCE. THE MAIN EFFECT OF LIFE ASSURANCE PREMIUM RELIEF TODAY IS UNDULY TO FAVOUR INSTITUTIONAL RATHER THAN DIRECT INVESTMENT. IT HAS ALSO SPAWNED A MULTIPLICITY OF WELL-ADVERTISED TAX MANAGEMENT SCHEMES, AND NO LESS THAN 50 PAGES OF LEGISLATION ATTEMPTING TO DEAL WITH ITS ABUSE. I THEREFORE PROPOSE TO WITHDRAW THE RELIEF ON ALL NEW CONTRACTS MADE AFTER TODAY. I STRESS THAT THIS CHANGE WILL APPLY ONLY TO NEW (OR NEWLY ENHANCED) POLICIES, TAKEN OUT AFTER TODAY. EXISTING POLICIES WILL NOT BE AFFECTED AT ALL. THE CHANGE IS ESTIMATED TO YIELD ABOUT £90 MILLION IN 1984-85.

I AM ALSO PROPOSING TO CURTAIL THE SPECIAL -BUT UNFORTUNATELY WIDELY ABUSED - PRIVILEGES FOR WHAT ARE KNOWN AS 'TAX EXEMPT' FRIENDLY SOCIETIES, AND BRING THEM INTO LINE WITH THE NORMAL RULES FOR FRIENDLY SOCIETIES DOING 'MIXED' BUSINESS. HOWEVER THE LIMITS WITHIN WHICH IN FUTURE ALL FRIENDLY SOCIETIES WILL BE ABLE TO WRITE ASSURANCE ON A TAX EXEMPT BASIS WILL BE INCREASED FROM £500 TO £750.

/I HAVE ALSO

I HAVE ALSO REVIEWED THE TAX TREATMENT OF DIRECT PERSONAL INVESTMENT. THE INVESTMENT INCOME SURCHARGE IS AN UNFAIR AND ANOMALOUS TAX ON SAVINGS AND ON THE REWARDS OF SUCCESSFUL ENTERPRISE. IT HITS THE SMALL BUSINESSMAN WHO REACHES RETIREMENT WITHOUT THE CUSHION OF A COMPANY PENSION SCHEME, AND IMPEDES THE CREATION OF FARM TENANCIES. IN THE VAST MAJORITY OF CASES IT IS A TAX ON SAVINGS MADE OUT OF HARD-EARNED AND FULLY-TAXED INCOME. MORE THAN HALF OF THOSE WHO PAY THE INVESTMENT INCOME SURCHARGE ARE OVER 65, AND OF THESE HALF WOULD OTHERWISE BE LIABLE TO TAX AT ONLY THE BASIC RATE.

I HAVE THEREFORE DECIDED THAT THE INVESTMENT INCOME SURCHARGE SHOULD BE ABOLISHED. THE COST IN 1984-85 WILL BE SOME £25 MILLION, BUILDING UP TO AROUND £350 MILLION IN A FULL YEAR.

FINALLY, I PROPOSE TO DRAW MORE CLOSELY TOGETHER THE TAX TREATMENT OF DEPOSITORS IN BANKS

/AND BUILDING

AND BUILDING SOCIETIES. THESE INSTITUTIONS COMPETE IN THE SAME MARKET FOR PERSONAL DEPOSITS. I BELIEVE THAT THEY SHOULD BE ABLE TO DO SO ON MORE EQUAL TERMS AS FAR AS TAX IS CONCERNED. ONE SOURCE OF UNEQUAL TREATMENT HAS ALREADY BEEN REMOVED, WITH THE RECENT CHANGE MADE ON LEGAL ADVICE IN THE TAX TREATMENT OF BUILDING SOCIETIES' PROFITS FROM GILT-EDGED SECURITIES. THEY ARE NOW TREATED IN THE SAME WAY AS THOSE OF THE BANKS HAVE ALWAYS BEEN.

BUT THE MAJOR SOURCE OF UNEQUAL TREATMENT, AGAINST WHICH THE BANKS IN PARTICULAR HAVE FREQUENTLY COMPLAINED, IS THE SPECIAL ARRANGEMENT FOR INTEREST PAID BY BUILDING SOCIETIES. THE SOCIETIES PAY TAX AT A SPECIAL RATE - THE "COMPOSITE RATE" - ON THE INTEREST PAID TO THE DEPOSITOR, WHO RECEIVES CREDIT FOR INCOME TAX AT THE FULL BASIC RATE.

/THIS SYSTEM,

THIS SYSTEM, WHICH HAS WORKED WELL FOR THE PAST 90 YEARS, HAS BOTH AN ADVANTAGE AND A DISADVANTAGE. THE DISADVANTAGE IS THAT A MINORITY OF DEPOSITORS, WHO ARE BELOW THE INCOME TAX THRESHOLD, STILL PAY TAX AT THE COMPOSITE RATE. IT HAS NOT HOWEVER STOPPED MANY OF THEM USING BUILDING SOCIETIES BECAUSE OF THE COMPETITIVE RATES THEY HAVE OFFERED. THE ADVANTAGE OF THE SCHEME IS ITS EXTREME SIMPLICITY, PARTICULARLY FOR THE TAXPAYER; MOST TAXPAYERS ARE SPARED THE BOTHER OF PAYING TAX ON INTEREST THROUGH PAYE OR INDIVIDUAL ASSESSMENT, WHILE THE REVENUE ARE SPARED THE NEED TO RECRUIT UP TO 2000 EXTRA STAFF TO COLLECT THE TAX DUE ON INTEREST PAID WITHOUT DEDUCTION.

IN COMMON WITH MY PREDECESSORS OF ALL PARTIES OVER THE PAST 90 YEARS, I AM SATISFIED THAT THE ADVANTAGE OF THE COMPOSITE RATE ARRANGEMENT OUTWEIGHS THE DISADVANTAGE. IT FOLLOWS THAT EQUAL TREATMENT OF BUILDING SOCIETIES AND BANKS SHOULD BE

/ACHIEVED, NOT BY

ACHIEVED, NOT BY REMOVING THE COMPOSITE RATE FROM THE SOCIETIES, BUT BY EXTENDING IT TO THE BANKS AND OTHER LICENSED DEPOSIT TAKERS.

NON-TAXPAYERS WILL CONTINUE TO BE ABLE TO RECEIVE INTEREST GROSS, SHOULD THEY WISH TO DO SO, BY PUTTING THEIR MONEY INTO APPROPRIATE NATIONAL SAVINGS FACILITIES. BUT THE PURPOSE OF THE MOVE IS NOT, OF COURSE, TO ATTRACT SAVINGS INTO GOVERNMENT HANDS: AS I HAVE ALREADY ANNOUNCED, NEXT YEAR'S TARGET FOR NATIONAL SAVINGS WILL BE THE SAME AS THIS YEAR'S AND LAST YEAR'S; AND THE TOTAL GOVERNMENT APPETITE FOR SAVINGS, WHICH IS MEASURED BY THE SIZE OF THE PUBLIC SECTOR BORROWING REQUIREMENT, IS BEING SIGNIFICANTLY REDUCED.

THE TRUE PURPOSE OF THE MOVE IS SIMPLE: FAIRER COMPETITION AND SIMPLICITY ITSELF. THE GREAT MAJORITY OF INDIVIDUAL BANK CUSTOMERS WILL, WHEN IT COMES TO TAX, BE ABLE TO FORGET ABOUT BANK INTEREST

/ALTOGETHER, FOR

ALTOGETHER, FOR ALL THE TAX DUE ON IT WILL ALREADY HAVE BEEN PAID. AND IT WILL BE EASIER FOR PEOPLE TO COMPARE THE TERMS OFFERED FOR THEIR SAVINGS BY BANKS AND BUILDING SOCIETIES.

THE PURPOSE OF THE CHANGE IS NOT TO RAISE ADDITIONAL REVENUE. THE COMPOSITE RATE ARRANGEMENT IS DESIGNED TO COLLECT NO MORE TAX THAN WOULD BE DUE AT THE BASIC RATE FROM ALL DEPOSITORS UNDER EXISTING ARRANGEMENTS.

HOWEVER, THE INLAND REVENUE WILL BE ABLE TO MAKE STAFF SAVINGS OF UP TO 1000 CIVIL SERVANTS. MOREOVER, THIS FIGURE TAKES NO ACCOUNT OF THE SUBSTANTIAL NUMBERS OF ADDITIONAL INLAND REVENUE STAFF WHO WOULD HAVE BEEN REQUIRED TO OPERATE THE PRESENT SYSTEM AS THE TREND TOWARDS THE PAYMENT OF INTEREST ON CURRENT ACCOUNTS DEVELOPS.

/ACCORDINGLY, I

ACCORDINGLY, I PROPOSE TO EXTEND THE COMPOSITE RATE ARRANGEMENTS TO INTEREST RECEIVED BY UK RESIDENT INDIVIDUALS FROM BANKS AND OTHER LICENSED DEPOSIT TAKERS WITH EFFECT FROM 1985-86. THE COMPOSITE RATE WILL NOT APPLY EITHER TO NON-RESIDENTS OR TO THE CORPORATE SECTOR. ARRANGEMENTS WILL ALSO BE MADE TO EXCLUDE FROM THE SCHEME CERTIFICATES OF DEPOSIT AND TIME DEPOSITS OF £50,000 OR MORE.

TAKEN TOGETHER, THE MAJOR PROPOSALS I HAVE JUST ANNOUNCED ON STAMP DUTY, LIFE ASSURANCE PREMIUM RELIEF, THE INVESTMENT INCOME SURCHARGE, AND THE COMPOSITE RATE, COUPLED WITH OTHER MINOR PROPOSALS, WILL PROVIDE A SIMPLER AND MORE STRAIGHTFORWARD TAX SYSTEM FOR SAVINGS AND INVESTMENT. THEY WILL REMOVE BIASES WHICH HAVE DISCOURAGED THE INDIVIDUAL SAVER FROM INVESTING DIRECTLY IN INDUSTRY. THEY WILL REINFORCE THE GOVERNMENT'S POLICY OF ENCOURAGING COMPETITION IN THE FINANCIAL SECTOR, AS IN THE

/ECONOMY AS A

ECONOMY AS A WHOLE. AND THEY ARE PART OF A PACKAGE OF MEASURES DESIGNED TO ENABLE INTEREST RATES TO FALL, AND REDUCE THE COST OF BORROWING.

/I NOW TURN TO

BUSINESS TAXATION

I NOW TURN TO BUSINESS TAXATION. HERE, GOVERNMENT HAS TWO RESPONSIBILITIES TOWARDS BRITISH BUSINESS AND INDUSTRY. THE FIRST IS TO ENSURE THAT THEY DO NOT HAVE TO BEAR AN EXCESSIVE BURDEN OF TAXATION. THE SECOND IS TO ENSURE THAT, GIVEN A PARTICULAR BURDEN, IT IS STRUCTURED IN THE WAY THAT DOES LEAST DAMAGE TO THE NATION'S ECONOMIC PERFORMANCE.

THE MEASURES I AM ANNOUNCING TODAY WILL, TAKING THE NEXT TWO YEARS TOGETHER, RESULT IN A SUBSTANTIAL REDUCTION IN THE BURDEN OF TAXATION ON BRITISH BUSINESS. AND IN ADDITION I SHALL BE PROPOSING A FAR-REACHING REFORM OF COMPANY TAXATION.

RESPONSES TO THE CORPORATION TAX GREEN PAPER IN 1982 SHOWED A STRONG GENERAL DESIRE TO RETAIN THE

/IMPUTATION SYSTEM.

IMPUTATION SYSTEM. I ACCEPT THAT, BUT OTHER CHANGES ARE NEEDED.

THE CURRENT RATES OF CORPORATION TAX ARE FAR TOO HIGH, PENALISING PROFIT AND SUCCESS, AND BLUNTING THE CUTTING EDGE OF ENTERPRISE. THEY ARE THE PRODUCT OF TOO MANY SPECIAL RELIEFS, INDISCRIMINATELY APPLIED AND OF DIMINISHING RELEVANCE TO THE CONDITIONS OF TODAY. SOME OF THESE RELIEFS REFLECT ECONOMIC PRIORITIES OR CIRCUMSTANCES WHICH HAVE LONG VANISHED, AND NOW SERVE ONLY TO DISTORT INVESTMENT DECISIONS AND CHOICES ABOUT FINANCE. OTHERS WERE INTRODUCED TO MEET SHORT-TERM PRESSURES, NOTABLY THE UPWARD SURGE OF INFLATION.

WITH INFLATION DOWN TO TODAY'S LOW LEVELS, THIS IS CLEARLY THE TIME TO TAKE A FRESH LOOK. AND WITH UNEMPLOYMENT AS HIGH AS IT IS TODAY, IT IS PARTICULARLY DIFFICULT TO JUSTIFY A TAX SYSTEM WHICH

/ENCOURAGES

ENCOURAGES LOW-YIELDING OR EVEN LOSS-MAKING INVESTMENT AT THE EXPENSE OF JOBS.

MY PURPOSE THEREFORE IS TO PHASE OUT SOME UNNECESSARY RELIEFS, IN ORDER TO BRING ABOUT, OVER TIME, A MARKEDLY LOWER RATE OF TAX ON COMPANY PROFITS.

FIRST, CAPITAL ALLOWANCES. OVER VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD THERE HAVE BEEN INCENTIVES FOR INVESTMENT IN BOTH PLANT AND MACHINERY AND INDUSTRIAL (THOUGH NOT COMMERCIAL) BUILDINGS. BUT THERE IS LITTLE EVIDENCE THAT THESE INCENTIVES HAVE STRENGTHENED THE ECONOMY OR IMPROVED THE QUALITY OF INVESTMENT. QUITE THE CONTRARY: THE EVIDENCE SUGGESTS THAT BUSINESSES HAVE INVESTED SUBSTANTIALLY IN ASSETS YIELDING A LOWER RATE OF RETURN THAN THE INVESTMENTS MADE BY OUR PRINCIPAL COMPETITORS. TOO MUCH OF BRITISH INVESTMENT HAS BEEN MADE BECAUSE THE TAX ALLOWANCES

/MAKE IT LOOK

MAKE IT LOOK PROFITABLE, RATHER THAN BECAUSE IT WOULD BE TRULY PRODUCTIVE. WE NEED INVESTMENT DECISIONS BASED ON FUTURE MARKET ASSESSMENTS, NOT FUTURE TAX ASSESSMENTS.

I PROPOSE TO RESTRUCTURE THE CAPITAL ALLOWANCES IN THREE ANNUAL STAGES. IN THE CASE OF PLANT AND MACHINERY, AND ASSETS WHOSE ALLOWANCES ARE LINKED WITH THEM, THE FIRST YEAR ALLOWANCE WILL BE REDUCED FROM 100 PER CENT TO 75 PER CENT FOR ALL SUCH EXPENDITURE INCURRED AFTER TODAY, AND TO 50 PER CENT FOR EXPENDITURE INCURRED AFTER 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THERE WILL BE NO FIRST YEAR ALLOWANCES, AND ALL EXPENDITURE ON PLANT AND MACHINERY WILL QUALIFY FOR ANNUAL ALLOWANCES ON A 25 PER CENT REDUCING BALANCE BASIS.

IN ADDITION, FROM NEXT YEAR ANNUAL ALLOWANCES WILL BE GIVEN AS SOON AS THE EXPENDITURE IS INCURRED, AND NOT, AS THEY ARE TODAY, WHEN THE ASSET

/COMES INTO USE.

COMES INTO USE. THIS WILL BRING FORWARD THE ENTITLEMENT TO ANNUAL ALLOWANCES FOR THOSE ASSETS, SUCH AS SHIPS AND OIL RIGS, FOR WHICH SOME PAYMENT IS NORMALLY MADE WELL BEFORE THEY ARE BROUGHT INTO USE.

FOR INDUSTRIAL BUILDINGS, I PROPOSE THAT THE INITIAL ALLOWANCE SHOULD FALL FROM 75 PER CENT TO 50 PER CENT FROM TONIGHT, AND BE FURTHER REDUCED TO 25 PER CENT FROM 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THE INITIAL ALLOWANCE WILL BE ABOLISHED, AND EXPENDITURE WILL BE WRITTEN OFF ON AN ANNUAL 4 PER CENT STRAIGHT LINE BASIS.

WHEN THESE CHANGES HAVE ALL TAKEN PLACE, TAX ALLOWANCES FOR BOTH PLANT AND MACHINERY AND INDUSTRIAL BUILDINGS WILL STILL ON AVERAGE BE RATHER MORE GENEROUS THAN WOULD BE PROVIDED BY A STRICT SYSTEM OF COMMERCIAL DEPRECIATION.

/THE CHANGES

THE CHANGES IN THE RATES OF ALLOWANCES WILL NOT APPLY TO PAYMENTS UNDER BINDING CONTRACTS ENTERED INTO BEFORE MIDNIGHT TONIGHT, PROVIDED THAT THE EXPENDITURE IS INCURRED WITHIN THE NEXT THREE YEARS.

THERE WILL BE TRANSITIONAL TAX ARRANGEMENTS FOR CERTAIN INVESTMENT PROJECTS IN THE DEVELOPMENT AREAS AND SPECIAL DEVELOPMENT AREAS. WHEN A PROJECT IN THOSE AREAS HAS HAD AN OFFER OF INDUSTRY ACT SELECTIVE FINANCIAL ASSISTANCE AND ALSO ATTRACTS REGIONAL DEVELOPMENT GRANTS, THE EXISTING CAPITAL ALLOWANCES WILL CONTINUE TO APPLY TO THE EXPENDITURE TO WHICH THE SELECTIVE ASSISTANCE IS RELATED. THESE ARRANGEMENTS WILL COVER PROJECTS FOR WHICH OFFERS HAVE ALREADY BEEN MADE BETWEEN 1 APRIL 1980 AND TODAY. SIMILAR ARRANGEMENTS FOR REGIONAL DEVELOPMENT GRANTS WERE ANNOUNCED BY MY RT. HON. FRIEND THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IN HIS WHITE PAPER LAST DECEMBER.

/OVER THE SAME

OVER THE SAME PERIOD TO 31 MARCH 1986 MOST OTHER CAPITAL ALLOWANCES WILL BE BROUGHT INTO LINE WITH THE MAIN CHANGES I HAVE ANNOUNCED. THE INLAND REVENUE WILL BE ISSUING A PRESS NOTICE TONIGHT GIVING FULL DETAILS OF THESE PROPOSALS.

NEXT, STOCK RELIEF. AS THE HOUSE WILL RECALL, THIS WAS INTRODUCED BY THE LAST LABOUR GOVERNMENT AS A FORM OF EMERGENCY HELP TO BUSINESSES FACING THE RAVAGES OF HIGH INFLATION. THOSE DAYS ARE PAST; AND THE RELIEF IS NO LONGER NECESSARY. COMPANY LIQUIDITY HAS IMPROVED AND, ABOVE ALL, INFLATION HAS FALLEN SHARPLY. ACCORDINGLY, I PROPOSE NOT TO ALLOW STOCK RELIEF FOR INCREASES IN PRICES AFTER THIS MONTH.

THE CHANGES I HAVE JUST ANNOUNCED, IN CAPITAL ALLOWANCES AND STOCK RELIEF, ENABLE ME TO EMBARK ON A MAJOR PROGRAMME OF PROGRESSIVE REDUCTIONS IN THE MAIN RATE OF CORPORATION TAX. FOR PROFITS EARNED

/IN THE YEAR

IN THE YEAR JUST ENDING, ON WHICH TAX IS GENERALLY PAYABLE IN 1984-85, THE RATE WILL BE CUT FROM 52 PER CENT TO 50 PER CENT. FOR PROFITS EARNED IN 1984-85 THE RATE WILL BE FURTHER CUT TO 45 PER CENT. LOOKING FURTHER AHEAD, TO PROFITS EARNED IN 1985-86, THE RATE WILL GO DOWN TO 40 PER CENT; AND FOR PROFITS EARNED IN 1986-87 THE MAIN RATE OF CORPORATION TAX WILL BE 35 PER CENT - NO LESS THAN 17 PERCENTAGE POINTS BELOW THE CURRENT RATE.

ALL THESE RATES FOR THE YEARS AHEAD WILL BE INCLUDED IN THIS YEAR'S FINANCE BILL. AND WHEN THESE CHANGES ARE COMPLETE, OUR RATES OF CAPITAL ALLOWANCES FOR THE GENERALITY OF PLANT AND MACHINERY WILL BE COMPARABLE WITH THOSE IN MOST OTHER COUNTRIES, WHILE THE RATE OF TAX ON PROFITS WILL BE SIGNIFICANTLY LOWER.

THE SUBSTANTIAL REDUCTION IN THE RATE OF CORPORATION TAX WILL BRING A FURTHER BENEFIT. OUR

/IMPUTATION SYSTEM

IMPUTATION SYSTEM ALLOWS A COMPANY TO OFFSET IN FULL ALL INTEREST PAID. BUT ONLY A PARTIAL OFFSET FOR DIVIDENDS IS ALLOWED. COMPANIES THUS HAVE A CLEAR INCENTIVE TO FINANCE THEMSELVES THROUGH BORROWING, IN PARTICULAR BANK BORROWING, RATHER THAN BY RAISING EQUITY CAPITAL. THE CLOSER THE CORPORATION TAX RATE COMES TO THE BASIC RATE OF INCOME TAX, THE SMALLER THIS UNDESIRABLE DISTORTION BECOMES.

OF COURSE, THE MAJORITY OF COMPANIES ARE NOT LIABLE TO PAY THE MAIN RATE OF CORPORATION TAX AT ALL. FOR THEM IT IS THE SMALL COMPANIES' RATE, AT PRESENT 38 PER CENT, WHICH APPLIES. I PROPOSE TO REDUCE THIS RATE FORTHWITH TO 30 PER CENT, FOR PROFITS EARNED IN 1983-84 AND THEREAFTER. A TAX REGIME FOR SMALL COMPANIES WHICH IS ALREADY GENEROUS BY INTERNATIONAL STANDARDS WILL THUS BECOME MARKEDLY MORE GENEROUS.

/THE CORPORATION TAX

THE CORPORATION TAX MEASURES I HAVE JUST ANNOUNCED WILL COST £280 MILLION IN 1984-85. IN 1985-86 THE COST WILL BE £450 MILLION - MADE UP OF £1,100 MILLION BY WAY OF REDUCTIONS IN THE RATES, ONLY PARTIALLY OFFSET BY A £650 MILLION REDUCTION IN THE VALUE OF THE RELIEFS. DURING THE TRANSITIONAL PERIOD AS A WHOLE, THESE MEASURES SHOULD HAVE A BROADLY NEUTRAL EFFECT ON THE FINANCIAL POSITION OF COMPANIES. BUT WHEN THE CHANGES HAVE FULLY WORKED THROUGH, COMPANIES WILL ENJOY VERY SUBSTANTIAL REDUCTIONS IN THE TAX THEY PAY.

BUSINESS AND INDUSTRY CAN GO AHEAD CONFIDENTLY ON THE BASIS OF THE CORPORATION TAX RATES I HAVE ANNOUNCED TODAY, WHICH SET THE FRAMEWORK OF COMPANY TAXATION FOR THE REST OF THIS PARLIAMENT.

OVER THE NEXT TWO YEARS, THESE CHANGES WILL CAUSE SOME INVESTMENT TO BE BROUGHT FORWARD, TO TAKE ADVANTAGE OF HIGH FIRST YEAR CAPITAL ALLOWANCES - A

/PROSPECT MADE

PROSPECT MADE ALL THE MORE ALLURING FOR BUSINESS SINCE THE PROFITS EARNED WILL BE TAXED AT THE NEW, LOWER, RATES. BUT THE MORE IMPORTANT AND LASTING EFFECT WILL BE TO ENCOURAGE THE SEARCH FOR INVESTMENT PROJECTS WITH A GENUINELY WORTHWHILE RETURN, AND TO DISCOURAGE UNECONOMIC INVESTMENT.

IT IS DOUBTFUL WHETHER IT WAS EVER REALLY SENSIBLE TO SUBSIDISE CAPITAL INVESTMENT IRRESPECTIVE OF THE TRUE RATE OF RETURN. CERTAINLY, WITH OVER THREE MILLION UNEMPLOYED IT CANNOT MAKE SENSE TO SUBSIDISE CAPITAL SO HEAVILY AT THE EXPENSE OF LABOUR.

THESE CHANGES HOLD OUT AN EXCITING OPPORTUNITY FOR BRITISH INDUSTRY AS A WHOLE: AN OPPORTUNITY FURTHER TO IMPROVE ITS PROFITABILITY, AND TO EXPAND, BUILDING ON THE RECOVERY THAT IS ALREADY WELL UNDER WAY. HIGHER PROFITS AFTER TAX WILL ENCOURAGE AND REWARD ENTERPRISE, STIMULATE INNOVATION IN ALL ITS FORMS, AND CREATE MORE JOBS.

/I NOW TURN

I NOW TURN TO SOME MORE DETAILED MEASURES AFFECTING BUSINESS.

THE BUSINESS EXPANSION SCHEME, INTRODUCED LAST YEAR AS A SUCCESSOR TO THE BUSINESS START UP SCHEME, HAS BEEN WIDELY WELCOMED AS A HIGHLY IMAGINATIVE SCHEME FOR ENCOURAGING INDIVIDUALS TO INVEST IN SMALL COMPANIES. IT IS ALREADY PROVING A CONSIDERABLE SUCCESS. IT NOW NEEDS TIME TO SETTLE DOWN, AND I HAVE ONLY ONE CHANGE TO PROPOSE THIS YEAR.

THE SCHEME WAS DESIGNED TO OFFER GENEROUS INCENTIVES FOR INVESTMENT BY NEW OR EXPANDING COMPANIES IN HIGH RISK AREAS. THE OWNERSHIP OF FARMLAND CANNOT BE SAID TO FALL WITHIN THIS CATEGORY, AND I THEREFORE PROPOSE THAT FROM TOMORROW FARMING SHOULD CEASE TO BE TREATED AS A QUALIFYING TRADE UNDER THE SCHEME.

/NEXT, IN KEEPING

NEXT, IN KEEPING WITH WHAT I HAVE SAID ABOUT REMOVING COMPLEXITY AND DISTORTIONS, I PROPOSE TO ABOLISH TWO RELIEFS IN THE PERSONAL TAX FIELD WHICH WERE INTRODUCED AT A TIME WHEN THIS COUNTRY SUFFERED FROM EXCESSIVELY HIGH RATES OF INCOME TAX. AS WE HAVE REDUCED THOSE RATES, THE RELIEFS ARE NO LONGER JUSTIFIED.

THE FIRST IS THE 50 PER CENT TAX RELIEF (FALLING AFTER 9 YEARS TO 25 PER CENT) APPLIED TO THE EMOLUMENTS OF FOREIGN-DOMICILED EMPLOYEES WORKING HERE FOR FOREIGN EMPLOYERS. THESE EMPLOYEES ARE OFTEN PAYING MUCH LESS TAX HERE THAN THEY WOULD EITHER IN THEIR OWN COUNTRY OR IN MOST OTHER EUROPEAN COUNTRIES. AT PRESENT INCOME TAX RATES, THE NEED FOR THIS RELIEF HAS CLEARLY DISAPPEARED. MOREOVER, IT IS OPEN TO WIDESPREAD ABUSE. IT IS, FOR EXAMPLE, POSSIBLE FOR SOMEONE WHOSE PARENTS CAME HERE FROM ABROAD, AND WHO HAS HIMSELF LIVED HERE ALL HIS LIFE, TO ENJOY THIS RELIEF, IF HE WORKS FOR A FOREIGN COMPANY. THAT CANNOT BE RIGHT.

/I THEREFORE

I THEREFORE PROPOSE TO WITHDRAW THE RELIEF FOR ALL NEW CASES FROM TODAY. FOR EXISTING BENEFICIARIES, THE 25 PER CENT RELIEF WILL CEASE ON 6 APRIL, AND THE 50 PER CENT RELIEF WILL BE PHASED OUT OVER THE NEXT FIVE YEARS.

I ALSO PROPOSE TO WITHDRAW THE FOREIGN EARNINGS RELIEF FOR UNITED KINGDOM RESIDENTS WHO WORK AT LEAST 30 DAYS ABROAD IN A TAX YEAR. THIS RELIEF TOO HARKS BACK TO THE DAYS OF PENALLY HIGH INCOME TAX RATES. IT TOO HAS BEEN EXPLOITED, IN PARTICULAR BY THOSE WHO PROLONG THEIR OVERSEAS VISITS PURELY IN ORDER TO GAIN A TAX ADVANTAGE. I PROPOSE TO WITHDRAW THE MATCHING RELIEF FOR THE SELF-EMPLOYED WHO SPEND 30 DAYS ABROAD, AND FOR THOSE RESIDENT IN THE UK WHO HAVE SEPARATE EMPLOYMENTS OR SEPARATE TRADES CARRIED ON WHOLLY ABROAD. THE RELIEF WILL BE HALVED TO 12½ PER CENT IN 1984- 85 AND REMOVED ENTIRELY FROM 6 APRIL 1985.

/HOWEVER, I AM

HOWEVER, I AM NOT MAKING ANY CHANGE TO THE 100 PER CENT DEDUCTION GIVEN FOR ABSENCES ABROAD OF 365 DAYS OR MORE. IN ADDITION, I HAVE AUTHORISED CONSULTATIONS BY THE INLAND REVENUE ABOUT A POSSIBLE RELAXATION IN THE RULES GOVERNING THE TAXATION OF EXPENSES REIMBURSED TO EMPLOYEES FOR TRAVEL OVERSEAS.

THE ABOLITION OF THESE RELIEFS WILL EVENTUALLY YIELD REVENUE SAVINGS OF OVER £150 MILLION; AND REPRESENTS ANOTHER USEFUL STEP IN THE REMOVAL OF COMPLEXITY AND DISTORTIONS IN THE TAX SYSTEM.

I NEED TO SET THE CAR BENEFIT SCALES FOR 1985-86 FOR THOSE PROVIDED WITH THE USE OF A CAR BY THEIR EMPLOYER. DESPITE THE INCREASES OVER RECENT YEARS, THE LEVELS STILL FALL SHORT OF ANY REALISTIC MEASURE OF THE TRUE BENEFIT. I AM PROPOSING AN INCREASE OF 10 PER CENT IN BOTH THE CAR AND CAR FUEL SCALES WITH EFFECT FROM APRIL 1985.

/UNNECESSARILY

UNNECESSARILY HIGH RATES OF TAX DISCOURAGE ENTERPRISE AND RISK TAKING. THIS IS TRUE OF THE CAPITAL TAXES, JUST AS IT IS OF THE CORPORATION AND INCOME TAXES. IT IS A MATTER OF PARTICULAR CONCERN TO THOSE INVOLVED IN RUNNING UNQUOTED FAMILY BUSINESSES. THE HIGHEST RATES OF CAPITAL TRANSFER TAX ARE FAR TOO HIGH AND BADLY OUT OF LINE WITH COMPARABLE RATES ABROAD. I PROPOSE THEREFORE, IN ADDITION TO STATUTORY INDEXATION, TO REDUCE THE HIGHEST RATE OF CAPITAL TRANSFER TAX FROM 75 PER CENT TO 60 PER CENT. FOR LIFETIME GIFTS I PROPOSE TO SIMPLIFY THE SCALE SO THAT THE RATE IS ALWAYS ONE-HALF OF THAT ON DEATH.

FOR CAPITAL GAINS TAX I WILL, AS PROMISED, BRING FORWARD IN THE FINANCE BILL PROPOSALS TO DOUBLE THE LIMIT FOR RETIREMENT RELIEF TO A FIGURE OF £100,000, BACKDATED TO APRIL 1983. A CONSULTATIVE DOCUMENT ON OTHER POSSIBLE CHANGES IN THIS RELIEF IS BEING ISSUED NEXT WEEK. I AM

/PROPOSING NO

PROPOSING NO OTHER CHANGES THIS YEAR IN CAPITAL GAINS TAX BEYOND THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT FROM £5,300 TO £5,600. HOWEVER, THE TAX CONTINUES TO ATTRACT CRITICISM -NOT LEAST FOR ITS COMPLEXITY - AND THAT IS A MATTER TO WHICH I HOPE TO RETURN NEXT YEAR.

WE HAVE DONE MUCH TO IMPROVE THE DEVELOPMENT LAND TAX. EARLY IN THE LAST PARLIAMENT, MY PREDECESSOR INCREASED THE THRESHOLD FROM £10,000 TO £50,000. I NOW PROPOSE A FURTHER INCREASE TO £75,000, WHICH WILL REDUCE THE NUMBER OF CASES LIABLE TO THE TAX BY MORE THAN ONE-THIRD.

NEXT SHARE OPTIONS. THE MEASURES INTRODUCED IN THE LAST PARLIAMENT TO IMPROVE EMPLOYEE INVOLVEMENT THROUGH PROFIT-SHARING AND SAVINGS-RELATED SHARE OPTIONS SCHEMES HAVE BEEN A NOTABLE SUCCESS. THE NUMBER OF THESE SCHEMES OPEN TO ALL EMPLOYEES HAS INCREASED FROM ABOUT 30 IN 1979 TO OVER 670 NOW,

/BENEFITING SOME

BENEFITING SOME HALF A MILLION EMPLOYEES. TO MAINTAIN AND BUILD ON THIS PROGRESS I PROPOSE TO INCREASE THE MONTHLY LIMIT ON CONTRIBUTIONS TO SAVINGS-RELATED SHARE OPTION SCHEMES FROM £50 TO £100. I HAVE ALSO AUTHORISED THE INLAND REVENUE TO DOUBLE THE TAX-FREE LIMITS UNDER THE CONCESSION ON LONG SERVICE AWARDS, AND TO INCLUDE WITHIN THESE LIMITS THE GIFT OF SHARES IN THE EMPLOYEE'S COMPANY.

BUT BEYOND THIS, I AM CONVINCED THAT WE NEED TO DO MORE TO ATTRACT TOP CALIBRE COMPANY MANAGEMENT AND TO INCREASE THE INCENTIVES AND MOTIVATION OF EXISTING EXECUTIVES AND KEY PERSONNEL BY LINKING THEIR REWARDS TO PERFORMANCE. I PROPOSE THEREFORE THAT, SUBJECT TO CERTAIN NECESSARY LIMITS AND CONDITIONS, SHARE OPTIONS GENERALLY BE TAKEN OUT OF INCOME TAX ALTOGETHER, LEAVING ANY GAIN TO BE CHARGED TO CAPITAL GAINS TAX ON ULTIMATE DISPOSAL OF THE SHARES. THE NEW RULES WILL APPLY TO OPTIONS MEETING THE NECESSARY CONDITIONS WHICH ARE GRANTED FROM 6 APRIL.

/I AM SURE

I AM SURE THAT ALL THESE CHANGES WILL BE WELCOMED AS MEASURES TO ENCOURAGE THE COMMITMENT OF EMPLOYEES TO THE SUCCESS OF THEIR COMPANIES AND TO IMPROVE THE PERFORMANCE, COMPETITIVENESS AND PROFITABILITY OF BRITISH INDUSTRY.

AS THE HOUSE KNOWS, THE GOVERNMENT IS DEEPLY CONCERNED AT THE THREAT WHICH THE SPREAD OF UNITARY TAXATION IN CERTAIN US STATES HAS POSED TO THE US SUBSIDIARIES OF BRITISH FIRMS. WITH OUR EUROPEAN PARTNERS WE ARE MONITORING THE SITUATION CLOSELY, AND AWAIT WITH KEEN INTEREST THE IMMINENT REPORT OF US TREASURY SECRETARY REGAN'S WORKING GROUP. IT IS ESSENTIAL THAT A SATISFACTORY SOLUTION IS FOUND AND SPEEDILY IMPLEMENTED.

US FIRMS OPERATING IN THIS COUNTRY ARE NOT OF COURSE TAXED ON A UNITARY BASIS.

/I NOW TURN

I NOW TURN TO OIL TAXATION. LAST YEAR'S NORTH SEA TAX CHANGES WERE WELL RECEIVED, AND THERE HAS BEEN A SUBSTANTIAL INCREASE IN THE NUMBER OF DEVELOPMENT PROJECTS COMING FORWARD, AND A NEW SURGE IN EXPLORATION. WORK ON NO FEWER THAN 128 OFFSHORE EXPLORATION AND APPRAISAL WELLS STARTED LAST YEAR - AN ALL-TIME RECORD.

THE GOVERNMENT IS ALREADY COMMITTED TO A STUDY OF THE ECONOMICS OF INVESTMENT IN INCREMENTAL DEVELOPMENT IN EXISTING FIELDS. THIS IS OF INCREASING IMPORTANCE, AND IN CONSULTATION WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR ENERGY I THEREFORE PROPOSE TO REVIEW THIS AREA WITH THE INDUSTRY, AND TO LEGISLATE AS APPROPRIATE NEXT YEAR TO IMPROVE THE POSITION. TO PREVENT PROJECTS BEING DEFERRED PENDING THIS REVIEW, ANY CHANGES WILL APPLY TO ALL PROJECTS WHICH RECEIVE DEVELOPMENT CONSENT AFTER TODAY.

/MEANWHILE, I

MEANWHILE, I AM TAKING TWO MEASURES TO PREVENT AN UNJUSTIFIED LOSS OF TAX IN THE NORTH SEA. FIRST, IN ADDITION TO THE PRT MEASURES ON FARMOUTS WHICH I ANNOUNCED LAST SEPTEMBER, I AM LIMITING THE POTENTIAL CORPORATION TAX COST OF SUCH DEALS. SECOND, I PROPOSE TO REPEAL THE PROVISION WHICH ALLOWS ADVANCE CORPORATION TAX TO BE REPAID WHERE CORPORATION TAX IS REDUCED BY PRT. I HAVE ALSO REVIEWED THE CASE FOR EXTENDING LAST YEAR'S FUTURE FIELD CONCESSIONS TO THE SOUTHERN BASIN, BUT HAVE CONCLUDED THAT ADDITIONAL INCENTIVES HERE ARE NOT NEEDED.

I HAVE JUST TWO FURTHER CHANGES AFFECTING BUSINESS TO PROPOSE, BOTH OF WHICH WILL COME INTO FORCE ON 1 OCTOBER.

EVER SINCE VAT WAS INTRODUCED IN THIS COUNTRY, WE HAVE TREATED IMPORTS DIFFERENTLY FROM THE WAY OUR MAIN EUROPEAN COMMUNITY COMPETITORS TREAT THEM.

/WHILE THEY

WHILE THEY REQUIRE VAT ON IMPORTED GOODS TO BE PAID IN THE SAME WAY AS CUSTOMS DUTIES, WE DO NOT. UNDER OUR SYSTEM AN IMPORTER DOES NOT HAVE TO ACCOUNT FOR VAT ON HIS IMPORTS UNTIL HE MAKES HIS NORMAL VAT RETURN, ON AVERAGE SOME 11 WEEKS LATER. DURING THIS TIME THE IMPORTER ENJOYS FREE CREDIT AT THE TAXPAYER'S EXPENSE. BUT WHEN ONE BRITISH BUSINESSMAN BUYS FROM ANOTHER, HE GETS NO SUCH HELP FROM THE TAXPAYER: HE PAYS HIS VAT WHEN HE PAYS HIS SUPPLIER.

THE EUROPEAN COMMISSION HAS FOR SOME YEARS NOW BEEN SEEKING, WITH OUR FULL SUPPORT, TO GET A SYSTEM LIKE OURS ADOPTED THROUGHOUT THE COMMUNITY. BUT THE PLAIN FACT IS THAT IN ALL THAT TIME THE COMMISSION HAS MADE NO PROGRESS WHATEVER.

I MUST TELL THE HOUSE THAT I AM NOT PREPARED TO PUT BRITISH INDUSTRY AT A COMPETITIVE DISADVANTAGE IN THE HOME MARKET ANY LONGER. SHOULD OUR EUROPEAN

/PARTNERS AT ANY

PARTNERS AT ANY TIME UNDERGO A DAMASCENE CONVERSION, AND AGREE THAT THE COMMISSION'S PROPOSAL SHOULD BE ACCEPTED AFTER ALL, THEN OF COURSE WE WOULD REVERT TO THE PRESENT SYSTEM. BUT IN THE MEANTIME I PROPOSE TO MOVE TO THE SYSTEM USED BY OUR EUROPEAN COMPETITORS. WE SHALL PROVIDE THE SAME FACILITIES FOR PAYMENT OF VAT ON IMPORTS AS APPLY TO CUSTOMS DUTIES. THAT MEANS THAT MOST IMPORTERS WILL BE ABLE TO DEFER PAYMENT OF VAT BY ON AVERAGE ONE MONTH FROM THE DATE OF IMPORTATION. BUT THAT IS ALL.

AS I HAVE SAID, THIS CHANGE WILL APPLY FROM 1 OCTOBER. BY BRINGING FORWARD VAT RECEIPTS, IT WILL BRING IN AN EXTRA £1.2 BILLION IN 1984-85, SOME OF WHICH WILL BE BORNE BY FOREIGN PRODUCERS AND MANUFACTURERS. THERE WILL OF COURSE BE NO INCREASED REVENUE IN SUBSEQUENT YEARS.

THE SECOND CHANGE I PROPOSE TO MAKE ON 1 OCTOBER CONCERNS THE NATIONAL INSURANCE

/SURCHARGE.

SURCHARGE. THIS TAX ON JOBS WAS INTRODUCED BY THE LABOUR GOVERNMENT IN 1977 AT THE RATE OF 2 PER CENT, AND FURTHER INCREASED BY THE RT. HON. MEMBER FOR LEEDS EAST IN 1978 TO 3½ PER CENT. DURING THE LAST PARLIAMENT, THIS GOVERNMENT REDUCED IT TO 1 PER CENT, AND WE ARE PLEDGED TO ABOLISH IT DURING THE LIFETIME OF THIS PARLIAMENT.

GIVEN THE IMPACT THAT THIS TAX HAS, NOT ONLY ON INDUSTRIAL COSTS BUT ALSO - AT A TIME OF HIGH UNEMPLOYMENT - ON JOBS, I HAVE DECIDED TO TAKE THE OPPORTUNITY OF THIS MY FIRST BUDGET TO FULFIL THAT PLEDGE. ABOLITION OF THE NATIONAL INSURANCE SURCHARGE FROM OCTOBER WILL REDUCE PRIVATE SECTOR EMPLOYERS' COSTS BY ALMOST £350 MILLION IN 1984-85, AND OVER £850 MILLION IN A FULL YEAR. IT WILL THUS BE OF CONTINUING HELP TO BRITISH INDUSTRY. AS BEFORE, THE BENEFIT WILL BE CONFINED TO THE PRIVATE SECTOR.

/THE HOUSE WILL

THE HOUSE WILL I AM SURE AGREE THAT A BUDGET WHICH SUBSTANTIALLY REDUCES THE GOVERNMENT'S DEMANDS ON THE FINANCIAL SYSTEM, WHICH ABOLISHES THE NATIONAL INSURANCE SURCHARGE, AND WHICH CUTS THE RATES AND SIMPLIFIES THE STRUCTURE OF CORPORATION TAX, IS A BUDGET FOR JOBS AND FOR ENTERPRISE. IT OFFERS BRITISH INDUSTRY AN OPPORTUNITY WHICH I AM CONFIDENT IT WILL SEIZE.

/HAVING ANNOUNCED

PERSONAL TAXATION: TAXES ON SPENDING

HAVING ANNOUNCED MAJOR REFORMS OF BOTH THE TAXATION OF SAVINGS AND INVESTMENT AND THE TAXATION OF BUSINESS, I TURN NOW TO THE THIRD AND FINAL AREA IN WHICH I PROPOSE TO MAKE PROGRESS ON TAX REFORM. THIS IS THE TAXATION OF PERSONAL INCOME AND SPENDING.

THE BROAD PRINCIPLE WAS CLEARLY SET OUT IN THE MANIFESTO ON WHICH WE WERE FIRST ELECTED IN 1979. THIS EMPHASISED THE NEED FOR A SWITCH FROM TAXES ON EARNINGS TO TAXES ON SPENDING. MY PREDECESSOR MADE AN IMPORTANT MOVE IN THIS DIRECTION IN HIS FIRST BUDGET, AND THE TIME HAS COME TO MAKE A FURTHER MOVE TODAY. TO REDUCE DIRECT TAXATION BY THIS MEANS IS IMPORTANT IN TWO WAYS. IT IMPROVES INCENTIVES AND MAKES IT MORE WORTHWHILE TO WORK, AND IT INCREASES THE FREEDOM OF CHOICE OF THE INDIVIDUAL.

/HAVING REGARD

HAVING REGARD TO THE REPRESENTATIONS I HAVE RECEIVED ON HEALTH GROUNDS, I THEREFORE PROPOSE AN INCREASE IN THE TOBACCO DUTY WHICH, INCLUDING VAT, WILL PUT 10P ON THE PRICE OF A PACKET OF CIGARETTES, WITH CORRESPONDING INCREASES FOR HAND-ROLLING TOBACCO AND CIGARS. THIS WILL DO NO MORE THAN RESTORE THE TAX ON TOBACCO TO ITS 1965 LEVEL IN REAL TERMS. THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT ON THURSDAY. I DO NOT, HOWEVER, PROPOSE ANY INCREASE IN THE DUTY ON PIPE TOBACCO.

I PROPOSE TO RAISE MOST OF THE OTHER EXCISE DUTIES BROADLY IN LINE WITH INFLATION, SO AS TO MAINTAIN THEIR REAL VALUE: NOT TO DO SO WOULD RUN COUNTER TO THE PHILOSOPHY I OUTLINED A MOMENT AGO. BUT WITH INFLATION AS LOW AS IT NOW IS, THE NECESSARY INCREASES ARE ON THE WHOLE MERCIFULLY MODEST.

/I PROPOSE TO

I PROPOSE TO INCREASE THE DUTIES ON PETROL AND DERY BY AMOUNTS WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY 4½P AND 3½P A GALLON RESPECTIVELY. THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. THE CHANGES WILL TAKE EFFECT FOR OIL DELIVERED FROM REFINERIES AND WAREHOUSES FROM SIX O'CLOCK THIS EVENING. I DO NOT PROPOSE TO INCREASE THE DUTY ON HEAVY FUEL OIL, WHICH IS OF PARTICULAR IMPORTANCE TO INDUSTRIAL COSTS.

THERE IS ONE EXCISE DUTY WHICH I PROPOSE TO DO AWAY WITH ALTOGETHER. MANY OF THOSE WHO FIND IT HARDEST TO MAKE ENDS MEET, INCLUDING IN PARTICULAR MANY PENSIONERS, USE PARAFFIN STOVES TO HEAT THEIR HOMES. IT IS WITH THEM IN MIND THAT I PROPOSE TO ABOLISH THE DUTY ON KEROSENE FROM SIX O'CLOCK TONIGHT. I AM SURE THAT THIS WILL BE WELCOMED ON ALL SIDES OF THE HOUSE.

/THE VARIOUS

THE VARIOUS RATES OF VEHICLE EXCISE DUTY WILL, ONCE AGAIN, GO UP ROUGHLY IN LINE WITH PRICES. THUS THE DUTY FOR CARS AND LIGHT VANS WILL BE INCREASED BY £5, FROM £85 TO £90 A YEAR. HOWEVER, IN THE LIGHT OF THE REASSESSMENT BY MY RT HON FRIEND THE SECRETARY OF STATE FOR TRANSPORT OF THE WEAR AND TEAR THAT VARIOUS TYPES OF VEHICLE CAUSE TO THE ROADS, THERE WILL BE REDUCTIONS IN DUTY FOR THE LIGHTEST LORRIES, OFFSET BY HIGHER INCREASES FOR SOME HEAVIER LORRIES. ALL THESE CHANGES IN VEHICLE EXCISE DUTY WILL TAKE EFFECT FROM TOMORROW.

HOWEVER, I PROPOSE TO EXEMPT FROM VEHICLE EXCISE DUTY ALL RECIPIENTS OF THE WAR PENSIONERS' MOBILITY SUPPLEMENT. IN ADDITION, THE EXISTING VAT RELIEF FOR MOTOR VEHICLES DESIGNED OR ADAPTED FOR USE BY THE HANDICAPPED WILL BE EXTENDED, AND MATCHED BY A NEW CAR TAX RELIEF. THE EFFECT WILL BE THAT NEITHER VAT NOR CAR TAX WILL APPLY TO FAMILY CARS DESIGNED FOR DISABLED PEOPLE OR SUBSTANTIALLY ADAPTED FOR THEIR USE.

/I NOW COME TO

I NOW COME TO THE MOST DIFFICULT DECISION I HAVE TO TAKE IN THE EXCISE DUTY FIELD. AS THE HOUSE WILL BE AWARE, THE RULES OF THE EUROPEAN COMMUNITY, SO FAR AS ALCOHOLIC DRINKS ARE CONCERNED, ARE DESIGNED TO PREVENT A MEMBER STATE FROM PROTECTING ITS OWN DOMESTIC PRODUCT BY IMPOSING A SIGNIFICANTLY HIGHER DUTY ON COMPETING IMPORTS. IN PURSUIT OF THIS, THE COMMISSION HAS TAKEN A NUMBER OF COUNTRIES TO THE EUROPEAN COURT OF JUSTICE.

IN OUR CASE, THE COMMISSION CONTENDED THAT WE WERE PROTECTING BEER BY UNDER-TAXING IT IN RELATION TO WINE. WE FOUGHT THE CASE, BUT LOST; AND I AM NOW IMPLEMENTING THE JUDGEMENT HANDED DOWN BY THE COURT LAST YEAR. ACCORDINGLY, I PROPOSE TO INCREASE THE DUTY ON BEER BY THE MINIMUM AMOUNT NEEDED TO COMPLY WITH THE JUDGEMENT AND MAINTAIN REVENUE: 2P ON A TYPICAL PINT OF BEER, INCLUDING VAT. AT THE SAME TIME, THE DUTY ON TABLE WINE WILL BE REDUCED BY THE EQUIVALENT OF ABOUT 18P A BOTTLE, AGAIN INCLUDING VAT.

/WE HAVE THUS

WE HAVE THUS COMPLIED WITH THE COURT'S JUDGEMENT. AND I AM HAPPY TO BE ABLE TO TELL THE HOUSE THAT THE ITALIAN GOVERNMENT HAVE, AFTER DISCUSSIONS, GIVEN US AN UNDERTAKING THAT THEY WILL COMPLY WITH EARLIER COURT RULINGS ON DISCRIMINATION AGAINST SCOTCH WHISKY.

AS FOR THE REST OF THE ALCOHOLIC DRINKS, CIDER, WHICH INCREASINGLY COMPETES WITH BEER BUT ATTRACTS A LOWER DUTY, WILL GO UP BY 3P A PINT. THE DUTIES ON MADE-WINE WILL BE ALIGNED WITH THOSE ON OTHER WINE. AND I PROPOSE TO INCREASE THE DUTY ON SPARKLING WINE, FORTIFIED WINE AND SPIRITS BY ABOUT 10P A BOTTLE, INCLUDING VAT. ALL THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT TONIGHT.

THESE CHANGES IN EXCISE DUTIES WILL, ALL TOLD, BRING IN SOME £840 MILLION IN 1984-85, SOME £200M MORE THAN IS REQUIRED TO KEEP PACE WITH INFLATION. THE ADDITION IS OF COURSE DUE TO THE INCREASE IN TOBACCO DUTY.

/THE REMAINDER

THE REMAINDER OF THE EXTRA REVENUE I NEED TO ENABLE ME TO MAKE A SUBSTANTIAL SWITCH THIS YEAR FROM TAXES ON EARNINGS TO TAXES ON SPENDING MUST COME FROM VAT. I PROPOSE NO CHANGE IN THE RATE OF VAT. INSTEAD, I INTEND TO BROADEN THE BASE OF THE TAX BY EXTENDING THE 15 PER CENT RATE TO TWO AREAS OF EXPENDITURE THAT HAVE HITHERTO BEEN ZERO-RATED.

FIRST, ALTERATIONS TO BUILDINGS. AT PRESENT REPAIRS AND MAINTENANCE ARE TAXED, BUT ALTERATIONS ARE NOT. THE BORDERLINE BETWEEN THESE TWO CATEGORIES IS THE MOST CONFUSED IN THE WHOLE FIELD OF VAT. I PROPOSE TO END THIS CONFUSION AND ILLOGICALITY BY BRINGING ALL ALTERATIONS INTO TAX.

I RECOGNISE THAT THIS WILL BE UNWELCOME NEWS FOR THE CONSTRUCTION INDUSTRY, BUT CONSTRUCTION WILL OF COURSE BENEFIT GREATLY FROM THE REDUCTION IN THE RATE OF STAMP DUTY WHICH I HAVE ALREADY ANNOUNCED. £290 MILLION OF THE COST OF THAT

/REDUCTION IN

REDUCTION IN 1984-85 RELATES TO TRANSFERS OF LAND AND BUILDINGS, AND OF THAT £290 MILLION SOME 90 PER CENT RELATES TO BUILDINGS AND BUILDING LAND. NEVERTHELESS, TO ALLOW A REASONABLE TIME FOR EXISTING COMMITMENTS TO BE COMPLETED OR ADJUSTED, THE VAT CHANGE WILL BE DEFERRED UNTIL 1 JUNE.

SECONDLY, FOOD. MOST FOOD IS ZERO-RATED. BUT FOOD SERVED IN RESTAURANTS IS TAXED, TOGETHER WITH A MISCELLANEOUS RANGE OF ITEMS INCLUDING ICE-CREAM, CONFECTIONERY, SOFT DRINKS AND CRISPS, WHICH WERE BROUGHT INTO TAX BY THE RT HON MEMBER FOR LEEDS EAST. TAKE-AWAY FOOD CLEARLY COMPETES WITH OTHER FORMS OF CATERING, AND I THEREFORE INTEND TO BRING INTO TAX HOT TAKE-AWAY FOOD AND DRINKS, WITH EFFECT FROM 1 MAY.

THE TOTAL EFFECT OF THE EXTENSIONS OF THE VAT COVERAGE WHICH I HAVE PROPOSED WILL BE TO INCREASE THE YIELD OF THE TAX BY £375 MILLION IN 1984-85 AND BY £650 MILLION IN A FULL YEAR.

/THE TOTAL IMPACT

THE TOTAL IMPACT EFFECT ON THE RETAIL PRICE INDEX OF THE VAT CHANGES AND EXCISE DUTY CHANGES TAKEN TOGETHER WILL BE LESS THAN THREE-QUARTERS OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST WHICH I HAVE GIVEN TO THE HOUSE OF A DECLINE IN INFLATION TO $4\frac{1}{2}$ PER CENT BY THE END OF THE YEAR.

THE EXTRA REVENUE RAISED IN THIS WAY WILL ENABLE ME, WITHIN THE OVERALL FRAMEWORK OF A NEUTRAL BUDGET, TO LIGHTEN THE BURDEN OF INCOME TAX.

/SINCE WE TOOK OFFICE

PERSONAL TAXATION: INCOME TAX

SINCE WE TOOK OFFICE IN 1979, WE HAVE CUT THE BASIC RATE OF INCOME TAX FROM 33 PER CENT TO 30 PER CENT AND SHARPLY REDUCED THE CONFISCATORY HIGHER RATES INHERITED FROM THE LAST LABOUR GOVERNMENT. WE HAVE INCREASED THE MAIN TAX ALLOWANCES NOT SIMPLY IN LINE WITH PRICES BUT BY AROUND 8 PER CENT IN REAL TERMS. IT IS A GOOD RECORD. BUT IT IS NOT ENOUGH. THE BURDEN OF INCOME TAX IS STILL TOO HEAVY.

DURING THE LIFETIME OF THIS PARLIAMENT, I INTEND TO CARRY FORWARD THE PROGRESS WE HAVE ALREADY MADE. FOR THE MOST PART, THIS WILL HAVE TO WAIT FOR FUTURE BUDGETS, PARTICULARLY SINCE I HAVE THOUGHT IT RIGHT THIS YEAR TO CONCENTRATE ON SETTING A NEW REGIME OF BUSINESS TAXATION FOR THE LIFETIME OF A PARLIAMENT - AND BEYOND. BUT AS A RESULT OF THE CHANGES TO TAXES ON SPENDING WHICH I HAVE JUST ANNOUNCED, I CAN TAKE A FURTHER STEP IN THIS BUDGET.

/I PROPOSE TO

I PROPOSE TO MAKE NO CHANGE THIS YEAR IN THE RATES OF INCOME TAX. SO FAR AS THE ALLOWANCES AND THRESHOLDS ARE CONCERNED, I MUST CLEARLY INCREASE THESE BY THE AMOUNTS SET OUT IN THE STATUTORY INDEXATION FORMULA, BASED ON THE 5.3 PER CENT INCREASE IN THE RETAIL PRICE INDEX TO DECEMBER. THE QUESTION IS HOW MUCH MORE I CAN DO, AND HOW TO DIRECT IT.

I HAVE DECIDED THAT, THIS YEAR, THE RIGHT COURSE IS TO USE EVERY PENNY I HAVE IN HAND, WITHIN THE FRAMEWORK OF A REVENUE NEUTRAL BUDGET, TO LIFT THE LEVEL OF THE BASIC TAX THRESHOLDS, FOR THE MARRIED AND SINGLE ALIKE. IT MAKES VERY LITTLE SENSE TO BE COLLECTING INCOME TAX FROM PEOPLE WHO ARE AT THE SAME TIME RECEIVING MEANS-TESTED BENEFITS. MOREOVER LOW TAX THRESHOLDS WORSEN THE POVERTY AND UNEMPLOYMENT TRAPS, SO THAT THERE IS LITTLE IF ANY FINANCIAL INCENTIVE TO FIND A BETTER JOB OR EVEN ANY JOB AT ALL. THERE IS, ALAS, NO

/QUICK OR CHEAP

QUICK OR CHEAP SOLUTION TO THESE PROBLEMS. BUT THAT IS ALL THE MORE REASON TO MAKE A FURTHER MOVE TOWARDS SOLVING THEM NOW.

I PROPOSE TO INCREASE THE OTHER THRESHOLDS IN LINE WITH THE STATUTORY INDEXATION REQUIREMENT, BUT BY NO MORE. THE FIRST HIGHER RATE OF 40 PER CENT WILL APPLY WHEN TAXABLE INCOME REACHES £15,400 A YEAR AND THE TOP RATE OF 60 PER CENT TO TAXABLE INCOME OVER £38,100. THE SINGLE AGE ALLOWANCE WILL RISE FROM £2,360 TO £2,490 AND THE MARRIED AGE ALLOWANCE FROM £3,755 TO £3,955.

FOR THE BASIC THRESHOLDS, STATUTORY INDEXATION WOULD MEAN PUTTING THE SINGLE AND MARRIED ALLOWANCES UP BY £100 AND £150 RESPECTIVELY. I AM GLAD TO SAY THAT I CAN DO CONSIDERABLY BETTER THAN THAT. I PROPOSE TO INCREASE THE BASIC THRESHOLDS BY WELL OVER DOUBLE WHAT IS REQUIRED BY INDEXATION. THE SINGLE PERSON'S ALLOWANCE WILL BE INCREASED BY £220,

/FROM £1,785 TO

FROM £1,785 TO £2,005; AND THE MARRIED MAN'S ALLOWANCE BY £360, FROM £2,795 TO £3,155.

THIS IS AN INCREASE OF AROUND 12½ PER CENT, OR SOME 7 PER CENT IN REAL TERMS. IT BRINGS THE MARRIED MAN'S TAX ALLOWANCE FOR 1984-85 TO ITS HIGHEST LEVEL IN REAL TERMS SINCE THE WAR. IT MEANS THAT THE GREAT MAJORITY OF MARRIED COUPLES WILL ENJOY AN INCOME TAX CUT OF AT LEAST £2 A WEEK. AND IT MEANS THAT A LARGE NUMBER OF PEOPLE, THOSE WITH THE SMALLEST INCOMES OF ALL, ARE TAKEN OUT OF INCOME TAX ALTOGETHER. SOME 850,000 PEOPLE - OVER 100,000 OF THEM WIDOWS - WHO WOULD HAVE PAID TAX IF THRESHOLDS HAD NOT BEEN INCREASED, WILL PAY NO TAX IN 1984-85. THAT IS 400,000 MORE TAKEN OUT OF TAX THAN IF THE ALLOWANCES HAD MERELY BEEN INDEXED.

ALL THESE CHANGES WILL TAKE EFFECT UNDER PAYE ON THE FIRST PAY DAY AFTER 10 MAY. THEIR COST IS CONSIDERABLE: SOME £1.8 BILLION IN 1984-85, OF

/WHICH ROUGHLY

WHICH ROUGHLY HALF REPRESENTS THE COST OF INDEXATION.

THIS IS AS FAR AS I CAN GO ON INCOME TAX THIS YEAR, WITHIN A BROADLY REVENUE-NEUTRAL BUDGET FOR 1984-85. BUT SO LONG AS WE HOLD TO OUR PUBLISHED PLANNED LEVELS OF PUBLIC SPENDING, THERE IS AN EXCELLENT PROSPECT OF FURTHER CUTS IN INCOME TAX IN NEXT YEAR'S BUDGET. THESE WOULD BE ON TOP OF THE MEASURES I HAVE ANNOUNCED IN THIS BUDGET WHICH, AS I HAVE ALREADY TOLD THE HOUSE, WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1½ BILLION, WITH BUSINESS TAKING THE LION'S SHARE.

/I HAVE, MR DEPUTY SPEAKER,

CONCLUSION

I HAVE, MR DEPUTY SPEAKER, COMPLETED THE COURSE I CHARTED AT THE OUTSET THIS AFTERNOON. I HAVE DESCRIBED THE RECOVERY, AND HOW THE GOVERNMENT PLANS TO SUSTAIN IT, AND ASSIST THE CREATION OF NEW JOBS. I HAVE REAFFIRMED OUR COMMITMENT TO FURTHER REDUCTIONS IN INFLATION, BY MAINTAINING SOUND MONEY AND BY CURBING GOVERNMENT BORROWING. I HAVE EMBARKED ON A RADICAL PROGRAMME OF TAX REFORM, ABOLISHING OUTRIGHT TWO MAJOR TAXES - THE INVESTMENT INCOME SURCHARGE AND THE NATIONAL INSURANCE SURCHARGE. AND I HAVE BEEN ABLE TO PROPOSE MEASURES WHICH WILL SIGNIFICANTLY REDUCE THE BURDEN OF TAXATION OVER THE NEXT TWO YEARS. I COMMEND THIS BUDGET TO THE HOUSE.



FILE

Reg

cc: W Redwood

10 DOWNING STREET

From the Private Secretary

12 March, 1984

Dear John,

RESIDUAL SHAREHOLDINGS

The Prime Minister has seen the Chancellor's letter of 8 March to the Secretary of State for Energy attached to which was a revised passage on residual shareholdings. She agrees that the statement should be in a lower key, i.e. in the Budget Debate and not in the speech, and should be less specific, i.e. not identifying any candidates for share sales in 1984-85. She recognises that the second sentence in paragraph 2 is intended to provide Parliamentary cover for the rest of the year, avoiding the need for announcements on individual share sales, other than on the day of issue. The aim is to give the Government maximum flexibility to respond to market circumstances while avoiding the kind of row seen over the BP share sale last year. She wonders whether, if it is to achieve the latter, the statement ought to be more explicit. It is possible that some MPs might not realise the full implications of the statement, with the danger that the very kind of row it is intended to avoid could be created.

The Prime Minister also saw the Secretary of State for Trade and Industry's letter to the Chancellor, responding to the original proposals. She has commented that the conclusion to E(A) was that the possibility of further sales of BAe shares should be studied. While it is true, as a matter of fact, that no share sale is currently scheduled, it is important that the company does not interpret this as an undertaking by the Government. If there is any danger that the company are under a misapprehension, steps should be taken to put the situation right.

I am sending a copy of this letter to Michael Reidy (Department of Energy), Callum McCarthy (Department of Trade and Industry), John Graham (Scottish Office), Dinah Nichols (Department of Transport) and to Richard Hatfield (Cabinet Office).

*You need
Andrew*

(Andrew Turnbull)

J. Kerr, Esq.,
HM Treasury.

RW

B(84) 611

~~BUDGET SECRET~~



Fete

2J

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

10 March 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

BUDGET SPEECH

- .. I enclose the latest, and very nearly final, text of the Budget Speech. You will see that the Chancellor has taken considerable account of the points which you mentioned to me last night.

Yours ever,

Handwritten signature of J O Kerr.

J O KERR

INTRODUCTION

THIS BUDGET WILL SET THE GOVERNMENT'S COURSE FOR THIS PARLIAMENT. THERE WILL BE NO LETTING UP IN OUR DETERMINATION TO DEFEAT INFLATION. THIS BUDGET WILL CONTINUE THE POLICIES THAT WE HAVE FOLLOWED CONSISTENTLY SINCE 1979. THOSE POLICIES PROVIDE THE ONLY WAY TO ACHIEVE OUR ULTIMATE OBJECTIVE OF STABLE PRICES. TO LET THEM GO WOULD BE TO RISK RENEWED INFLATION, AND MUCH HIGHER UNEMPLOYMENT. AS A RESULT OF OUR DETERMINED EFFORTS, INFLATION IS AT ITS LOWEST LEVEL SINCE THE 'SIXTIES. GROWTH IN THE ECONOMY IS STRONG. EMPLOYMENT IS GROWING.

2. THOSE ACHIEVEMENTS ARE A TRIBUTE TO THE COURAGE AND FORESIGHT OF THE FIVE BUDGETS PRESENTED BY MY DISTINGUISHED PREDECESSOR, WHOSE DUTIES SADLY KEEP HIM IN BRUSSELS TODAY.

/My BUDGET

BUDGET SECRET

3. I SHALL DO NOTHING TODAY TO COMPROMISE THOSE SUCCESSES. BUT THERE IS MUCH THAT I CAN DO TO BUILD UPON THEM.

4. MY BUDGET TODAY HAS TWO THEMES.

5. FIRST, THE FURTHER REDUCTION OF INFLATION. AND SECOND, A SERIES OF TAX REFORMS DESIGNED TO ENABLE THE ECONOMY TO WORK BETTER. REFORMS TO STIMULATE ENTERPRISE AND SET BRITISH BUSINESS ON THE ROAD TO PROFITABLE EXPANSION. REFORMS THAT WILL HELP TO BRING NEW JOBS.

6. I SHALL BEGIN BY REVIEWING THE ECONOMIC BACKGROUND TO THE BUDGET. I SHALL THEN DEAL WITH THE MEDIUM TERM FINANCIAL STRATEGY; WITH MONETARY POLICY AND THE MONETARY TARGETS FOR NEXT YEAR; AND WITH PUBLIC BORROWING AND THE APPROPRIATE PSBR FOR THE COMING YEAR. I SHALL THEN TURN TO PUBLIC EXPENDITURE, INCLUDING THE PROSPECTS FOR THE LONGER

/TERM.

BUDGET SECRET

TERM. FINALLY I SHALL DEAL WITH TAXATION, AND THE CHANGES IN THE STRUCTURE OF TAXATION WHICH WILL PAVE THE WAY FOR CUTS IN TAXES IN SUBSEQUENT YEARS.

7. AS USUAL, A NUMBER OF PRESS RELEASES, FILLING OUT THE DETAILS OF MY TAX PROPOSALS, WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

THE ECONOMIC BACKGROUND

8. I START WITH THE ECONOMIC BACKGROUND.

9. SINCE 1980, INFLATION HAS FALLEN STEADILY FROM A PEAK OF OVER 20 PER CENT. LAST YEAR IT WAS DOWN TO ABOUT 4½ PER CENT, THE LOWEST FIGURE SINCE THE SIXTIES. AND WITH LOWER INFLATION HAVE COME LOWER INTEREST RATES.

10. THIS IN TURN HAS LED TO AN ECONOMIC RECOVERY WHOSE UNDERLYING STRENGTH IS NOW BEYOND DISPUTE. WHEREAS IN SOME PREVIOUS CYCLES RECOVERY HAS COME FROM A SELF-DEFEATING STIMULUS TO MONETARY DEMAND, THIS TIME IT HAS SPRUNG FROM SOUND FINANCE AND HONEST MONEY. LOWER INFLATION AND LOWER INTEREST RATES BENEFIT INDUSTRY, BUSINESS, AND CONSUMER CONFIDENCE ALIKE.

/ACROSS THE

BUDGET SECRET

11. ACROSS THE ECONOMY, TOTAL MONEY INCOMES GREW IN 1983 BY ABOUT 8 PER CENT, OF WHICH 3 PER CENT REPRESENTED REAL GROWTH IN OUTPUT. ALTHOUGH THERE IS STILL ROOM FOR IMPROVEMENT, THIS IS A VERY MUCH HEALTHIER DIVISION BETWEEN INFLATION AND REAL GROWTH THAN THE NATION EXPERIENCED IN THE 1970s. OUTPUT IN THE SECOND HALF OF 1983 IS NOW RECKONED TO HAVE EXCEEDED THE PREVIOUS PEAK, BEFORE THE WORLD RECESSION SET IN, AND IS STILL RISING STRONGLY.

12. PRODUCTIVITY TOO HAS CONTINUED TO IMPROVE RAPIDLY. JUST AS OVER THE PAST YEAR MANY HAVE WRONGLY PREDICTED AN END TO THE RECOVERY, SO SOME HAVE TRIED TO DISMISS THE SHARP RISE IN PRODUCTIVITY AS A FLASH IN THE PAN. YET DURING 1983 MANUFACTURING PRODUCTIVITY GREW BY 6 PER CENT WITH NO SIGN OF SLOWING DOWN. UNIT LABOUR COSTS ACROSS THE WHOLE ECONOMY ARE LIKELY TO SHOW THE SMALLEST ANNUAL INCREASE SINCE THE 1960s. THIS HAS ALLOWED A WELCOME AND NECESSARY RECOVERY IN REAL LEVELS OF PROFITABILITY.

/HIGHER PROFITS

BUDGET SECRET

13. HIGHER PROFITS LEAD TO MORE JOBS. THE NUMBER OF PEOPLE IN WORK INCREASED BY ABOUT 80,000 BETWEEN MARCH AND SEPTEMBER LAST YEAR. THE LOSS OF JOBS IN MANUFACTURING HAS SLOWED DOWN SHARPLY, WHILE JOBS IN SERVICES INCREASED BY ALMOST 200,000 IN THE FIRST NINE MONTHS OF LAST YEAR.

14. BUT FURTHER PROGRESS IS NEEDED: ALTHOUGH OUR UNIT WAGE COSTS IN MANUFACTURING ROSE BY UNDER 3 PER CENT LAST YEAR, OUR THREE BIGGEST COMPETITORS, THE US, JAPAN AND GERMANY, DID BETTER. THE EMPLOYMENT PROSPECT WOULD BE SIGNIFICANTLY IMPROVED IF A BIGGER CONTRIBUTION TO IMPROVED COST PERFORMANCE WERE TO COME FROM LOWER PAY RISES.

15. DEMAND, OUTPUT, PROFITS AND EMPLOYMENT ALL ROSE LAST YEAR. HOME DEMAND HAS PLAYED THE MAJOR PART IN THE RECOVERY SO FAR. LOWER INFLATION REDUCED PEOPLE'S NEED TO SAVE, AND REAL INCOMES ROSE. PERSONAL CONSUMPTION INCREASED BY OVER 3½ PER

/CENT COMPARED

BUDGET SECRET

CENT COMPARED WITH 1982. FIXED INVESTMENT ROSE RATHER FASTER THAN CONSUMPTION, WITH INVESTMENT IN HOUSING AND SERVICES PARTICULARLY STRONG.

16. OUR RATE OF ECONOMIC GROWTH LAST YEAR WAS THE HIGHEST IN THE EUROPEAN COMMUNITY. FOR MUCH OF 1983 OUR EXPORT PERFORMANCE WAS AFFECTED BY WEAK DEMAND IN MANY OF OUR OVERSEAS MARKETS, WHILE IMPORTS ROSE SLIGHTLY FASTER THAN HOME DEMAND. BUT BY THE END OF LAST YEAR WORLD TRADE WAS CLEARLY MOVING AHEAD AGAIN, AND IN THE THREE MONTHS TO JANUARY MANUFACTURING EXPORTS INCREASED VERY SUBSTANTIALLY. THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT LAST YEAR IS ESTIMATED TO HAVE BEEN IN SURPLUS BY ABOUT £2 BILLION.

17. OUR CRITICS HAVE BEEN CONFOUNDED BY THIS COMBINATION OF RECOVERY AND LOW INFLATION. EVEN THE PESSIMISTS HAVE BEEN FORCED TO ACKNOWLEDGE THE DURABILITY OF THE RECOVERY. IT IS SET TO CONTINUE

/THROUGHOUT

BUDGET SECRET

THROUGHOUT THIS YEAR AT AN ANNUAL RATE OF 3 PER CENT. INFLATION IS EXPECTED TO REMAIN LOW, EDGING BACK DOWN TO 4½ PER CENT BY THE END OF THIS YEAR. WITH RISING INCOMES AND LOW INFLATION, CONSUMPTION WILL CONTINUE TO GROW. AND, ENCOURAGED BY IMPROVED PROFITABILITY AND BETTER LONG-TERM GROWTH PROSPECTS, INVESTMENT IS EXPECTED TO RISE BY A GOOD 6 PER CENT THIS YEAR.

18. LOOKING ABROAD, TOO, ECONOMIC PROSPECTS ARE MORE FAVOURABLE THAN FOR SOME TIME. OUTPUT IN THE UNITED STATES SHOULD CONTINUE TO GROW STRONGLY THIS YEAR. AND RECOVERY IS SPREADING TO THE REST OF THE WORLD.

19. OF COURSE, THERE ARE INEVITABLE RISKS AND UNCERTAINTIES. THE SIZE AND CONTINUED GROWTH OF THE UNITED STATES BUDGET DEFICIT IS A CAUSE OF WIDESPREAD CONCERN AND KEEPS INTEREST RATES HIGH, EXACERBATING THE PROBLEMS OF THE DEBTOR COUNTRIES.

/AND THE NEED

BUDGET SECRET

AND THE NEED TO FINANCE THE US DEFICIT BY INFLOWS OF FOREIGN CAPITAL HAS KEPT THE DOLLAR ARTIFICIALLY HIGH AND LED TO A MASSIVE AND GROWING TRADE DEFICIT, GREATLY INCREASING THE PRESSURES FOR PROTECTIONISM WITHIN THE UNITED STATES.

20. A SECOND POTENTIAL RISK IS DISRUPTION IN THE OIL MARKET. THE UNITED KINGDOM, AND INDEED THE WORLD ECONOMY, INEVITABLY REMAIN VULNERABLE TO ANY MAJOR DISTURBANCES IN THIS MARKET.

21. BUT DESPITE THESE RISKS THERE IS A GROWING SENSE THROUGHOUT THE INDUSTRIALISED WORLD THAT THE RECOVERY THIS TIME IS ONE WHICH CAN BE SUSTAINED. THE ESSENTIAL REQUIREMENT IS THE CONTINUED PURSUIT OF PRUDENT MONETARY AND FISCAL POLICIES.

THE MTFS

22. FOR THE UNITED KINGDOM, THE MEDIUM TERM FINANCIAL STRATEGY HAS BEEN THE CORNERSTONE OF SUCH POLICIES. IT WILL CONTINUE TO PLAY THAT ROLE; TO PROVIDE A FRAMEWORK AND DISCIPLINE FOR GOVERNMENT AND TO SET OUT CLEARLY, TO INDUSTRY AND THE FINANCIAL MARKETS, THE GUIDELINES OF POLICY. TOO OFTEN IN THE PAST GOVERNMENTS ABANDONED FINANCIAL DISCIPLINE WHENEVER THE GOING GOT ROUGH, AND STAGGERED FROM ONE SHORT-TERM POLICY EXPEDIENT TO ANOTHER. THE TEMPTATION TO ACCOMMODATE INFLATIONARY PRESSURES PROVED IRRESISTIBLE, AND THE NATION'S LONGER-TERM ECONOMIC PERFORMANCE WAS PROGRESSIVELY UNDERMINED.

/THE MTFS WAS

BUDGET SECRET

23. THE MTFS WAS DESIGNED TO REMEDY THIS, BY IMPOSING A DISCIPLINED FINANCIAL FRAMEWORK WHICH WOULD ALSO ENSURE CONSISTENCY BETWEEN MONETARY AND FISCAL POLICIES, AND A PROPER BALANCE IN THE ECONOMY. IT IS SO DESIGNED TO ENSURE THAT THE MORE INFLATION AND INFLATIONARY EXPECTATIONS COME DOWN, THE MORE ROOM IS AVAILABLE FOR OUTPUT AND EMPLOYMENT TO GROW.

24. PEOPLE NOW KNOW THAT THE GOVERNMENT INTENDS TO STICK TO ITS MEDIUM TERM OBJECTIVES. THEY UNDERSTAND THAT THE FASTER INFLATION COMES DOWN, THE FASTER OUTPUT AND EMPLOYMENT ARE LIKELY TO RECOVER. THE INCREASING DEGREE OF REALISM AND FLEXIBILITY IN THE ECONOMY OWES MUCH TO THE PURSUIT OF FIRM AND CONSISTENT POLICIES WITHIN THE MTFS FRAMEWORK.

25. ORIGINALLY THE MTFS COVERED FOUR YEARS. IN THIS FIRST BUDGET OF A NEW PARLIAMENT IT IS

/APPROPRIATE TO

BUDGET SECRET

APPROPRIATE TO CARRY IT FORWARD FOR FIVE YEARS. SO THE MTFS PUBLISHED TODAY IN THE FINANCIAL STATEMENT AND BUDGET REPORT -THE RED BOOK - SHOWS A CONTINUING DOWNWARD PATH FOR THE MONETARY TARGET RANGES OVER THE NEXT FIVE YEARS, AND A PATH FOR PUBLIC BORROWING CONSISTENT WITH THAT REDUCTION. IT TAKES FULL ACCOUNT OF IMPORTANT INFLUENCES SUCH AS THE PATTERN OF NORTH SEA OIL REVENUES, AND THE LEVEL OF ASSET SALES ARISING FROM THE PRIVATISATION PROGRAMME. FOR THE LAST TWO YEARS OF THE NEW MTFS, WHICH LIE BEYOND THE PERIOD COVERED IN LAST YEARS PUBLIC EXPENDITURE SURVEY AND LAST MONTH'S WHITE PAPER, THE GOVERNMENT HAS NOT YET MADE FIRM PLANS FOR PUBLIC SPENDING. BUT THE MTFS ASSUMPTION - AND AT PRESENT IT IS NO MORE THAN AN ASSUMPTION - IS THAT THE LEVEL OF PUBLIC SPENDING IN 1987-88 AND 1988-89 WILL BE THE SAME IN REAL TERMS AS THAT CURRENTLY PLANNED FOR 1986-87.

/THE PRECISE

BUDGET SECRET

26. THE PRECISE FIGURES SET OUT IN THE MTFS ARE NOT OF COURSE A RIGID FRAMEWORK, LACKING ALL FLEXIBILITY. AS IN THE PAST, THERE MAY WELL NEED TO BE ADJUSTMENTS TO TAKE ACCOUNT OF CHANGING CIRCUMSTANCES. BUT NO CHANGES WILL BE MADE THAT MIGHT JEOPARDISE THE CONSISTENT PURSUIT OF THE GOVERNMENT'S OBJECTIVES.

BUDGET SECRET

MONETARY POLICY

27. MONETARY POLICY WILL CONTINUE TO PLAY A CENTRAL ROLE. FURTHER REDUCTIONS IN MONETARY GROWTH ARE NEEDED TO ACHIEVE STILL LOWER INFLATION.

28. OVER THE TWELVE MONTHS TO MID-FEBRUARY THE GROWTH OF EM3 HAS BEEN WELL WITHIN THE 7-11 PER CENT TARGET RANGE, WITH M1 AND PSL2 AT OR A LITTLE ABOVE THE TOP OF IT. WHILE IN THE EARLY MONTHS OF THE TARGET PERIOD MOST MEASURES OF MONEY SHOWED SIGNS OF ACCELERATING, SINCE THE SUMMER GROWTH IN ALL THE TARGET AGGREGATES HAS BEEN COMFORTABLY WITHIN THE RANGE. AND NOMINAL INTEREST RATES HAVE CONTINUED TO DECLINE IN LINE WITH FALLING INFLATION.

/OTHER EVIDENCE

BUDGET SECRET

29. OTHER EVIDENCE CONFIRMS THAT MONETARY CONDITIONS ARE SATISFACTORY. THE EFFECTIVE EXCHANGE RATE HAS REMAINED FAIRLY STABLE, DESPITE THE INTERNATIONAL UNCERTAINTIES WHICH I HAVE DESCRIBED.

30. IF MONETARY POLICY IS TO STAY ON TRACK ITS PRACTICAL IMPLEMENTATION MUST ADAPT TO CHANGES IN THE FINANCIAL SYSTEM AND IN THE SIGNIFICANCE OF DIFFERENT MEASURES OF MONEY. THERE IS NOTHING NEW IN THIS. OVER THE YEARS WE HAVE MORE THAN ONCE ALTERED THE TARGET RANGES AND AGGREGATES TO TAKE ACCOUNT OF SUCH CHANGES. BUT THE THRUST OF THE STRATEGY HAS BEEN MAINTAINED.

31. ONE IMPORTANT DEVELOPMENT HAS BEEN THE ATTEMPT TO GIVE A MORE EXPLICIT ROLE TO THE NARROW MEASURES OF MONEY. $M3$ AND THE OTHER BROAD AGGREGATES GIVE A GOOD INDICATION OF THE GROWTH OF LIQUIDITY. BUT A LARGE PROPORTION OF THIS MONEY IS IN REALITY A FORM

/OF SAVINGS,

BUDGET SECRET

OF SAVINGS, INVESTED FOR THE INTEREST IT CAN EARN. IN DEFINING POLICY IT IS HELPFUL ALSO TO MAKE SPECIFIC REFERENCE TO MEASURES OF MONEY WHICH RELATE MORE NARROWLY TO BALANCES HELD FOR CURRENT SPENDING.

32. IT WAS FOR THIS REASON THAT M1 WAS INTRODUCED AS A TARGET AGGREGATE, BUT IT HAS NOT PROVED ENTIRELY SATISFACTORY FOR THAT PURPOSE. WITH THE RAPID GROWTH OF INTEREST-BEARING SIGHT DEPOSITS, M1 HAS BECOME AN INCREASINGLY POOR MEASURE OF MONEY HELD TO FINANCE CURRENT SPENDING. THE SIGNS ARE THAT THIS WILL CONTINUE.

33. OTHER MEASURES OF NARROW MONEY HAVE NOT BEEN DISTORTED TO THE SAME EXTENT. IN PARTICULAR, M0, WHICH CONSISTS MAINLY OF CURRENCY, IS LIKELY TO BE A BETTER INDICATOR OF FINANCIAL CONDITIONS THAN M1. THERE IS ALSO THE NEW AGGREGATE M2, WHICH WAS SPECIFICALLY DEVISED TO PROVIDE A COMPREHENSIVE MEASURE OF TRANSACTIONS BALANCES. THIS MAY ALSO BE

/A USEFUL GUIDE

BUDGET SECRET

A USEFUL GUIDE BUT, BEING NEW, STILL NEEDS TO BE INTERPRETED WITH PARTICULAR CARE.

34. IN THE PAST TWO YEARS, IT HAS BEEN POSSIBLE TO SET A SINGLE TARGET RANGE FOR BOTH BROAD AND NARROW MEASURES OF MONEY. BUT THIS WILL NOT NORMALLY BE THE CASE; FOR NARROW MONETARY AGGREGATES TEND IN THE LONG RUN TO GROW MORE SLOWLY THAN BROADER MEASURES. THUS THIS YEAR'S RED BOOK SETS OUT TWO SEPARATE (THOUGH OVERLAPPING) RANGES.

35. THE TARGET RANGE FOR BROAD MONEY WILL CONTINUE TO APPLY TO EM3 , AND FOR THE COMING YEAR WILL BE SET AT 6-10 PER CENT, AS INDICATED IN LAST YEAR'S MTF'S. THE TARGET RANGE FOR NARROW MONEY WILL APPLY TO M0 AND FOR NEXT YEAR WILL BE SET AT 4-8 PER CENT. TO AVOID ANY POSSIBLE MISUNDERSTANDING, LET ME STRESS THAT THE USE OF M0 AS A TARGET AGGREGATE WILL NOT INVOLVE ANY CHANGE IN METHODS OF MONETARY CONTROL.

/THE TWO TARGET

BUDGET SECRET

36. THE TWO TARGET AGGREGATES WILL HAVE EQUAL IMPORTANCE IN THE CONDUCT OF POLICY. AND THE AUTHORITIES WILL CONTINUE TO TAKE INTO ACCOUNT OTHER MEASURES OF MONEY, ESPECIALLY M2 AND PSL2, WHICH INCLUDE BUILDING SOCIETY LIABILITIES, AS WELL AS WIDER EVIDENCE OF FINANCIAL CONDITIONS, INCLUDING THE EXCHANGE RATE. AS IN THE PAST, MONETARY CONDITIONS WILL BE KEPT UNDER CONTROL BY AN APPROPRIATE COMBINATION OF FUNDING AND OPERATIONS IN THE MONEY MARKET.

37. SO FAR AS FUNDING IS CONCERNED, THE PUBLIC SECTOR'S BORROWING REQUIREMENT, AS I SHALL SHORTLY EXPLAIN, WILL BE SIGNIFICANTLY LOWER IN THE COMING YEAR. IN FINANCING IT, THE ROLE OF THE NATIONAL SAVINGS WILL REMAIN IMPORTANT. THIS YEAR'S NATIONAL SAVING'S TARGET OF £3 BILLION IS LIKELY TO BE ACHIEVED: THE TARGET FOR THE COMING YEAR WILL AGAIN BE £3 BILLION.

/PRECISE MONETARY

BUDGET SECRET

38. PRECISE MONETARY TARGETS FOR THE LATER YEARS WILL BE DECIDED NEARER THE TIME. BUT TO GIVE A BROAD INDICATION OF THE OBJECTIVES OF MONETARY POLICY, THE NEW MTFS, LIKE PREVIOUS VERSIONS, SHOWS MONETARY RANGES FOR A NUMBER OF YEARS AHEAD. THESE RANGES ARE CONSISTENT WITH A CONTINUING DOWNWARD TREND IN INFLATION: THEY DEMONSTRATE THE GOVERNMENT'S INTENTION TO MAKE FURTHER PROGRESS TOWARDS STABLE PRICES.

BUDGET SECRET

PUBLIC SECTOR BORROWING

39. I TURN NOW TO PUBLIC BORROWING. JUST AS THE CLASSICAL FORMULA FOR FINANCIAL DISCIPLINE -THE GOLD STANDARD AND THE BALANCED BUDGET - HAD BOTH A MONETARY AND A FISCAL COMPONENT, SO DOES THE MEDIUM TERM FINANCIAL STRATEGY.

40. THE MTFS HAS ALWAYS ENVISAGED THAT THE PUBLIC SECTOR BORROWING REQUIREMENT WOULD FALL AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT OVER THE MEDIUM TERM. BY 1981-82 WE HAD BROUGHT IT DOWN TO 3½ PER CENT OF GDP.

41. SINCE THEN THERE HAS BEEN LITTLE FURTHER FALL. THE LATEST ESTIMATE OF THE PSBR FOR THE CURRENT YEAR, 1983-84, REMAINS WHAT IT WAS IN NOVEMBER:

/AROUND £10 BILLION

BUDGET SECRET

AROUND £10 BILLION, EQUIVALENT TO $3\frac{1}{4}$ PER CENT OF GDP. THIS IS SIGNIFICANTLY ABOVE WHAT WAS INTENDED AT THE TIME OF LAST YEAR'S BUDGET, AND WOULD OF COURSE HAVE BEEN HIGHER STILL HAD IT NOT BEEN FOR THE JULY MEASURES.

42. WE NOW NEED A FURTHER SUBSTANTIAL REDUCTION IN BORROWING, IN ORDER TO HELP BRING INTEREST RATES DOWN FURTHER AS MONETARY GROWTH SLOWS DOWN. STERLING INTEREST RATES ARE, OF COURSE, ALSO INFLUENCED BY DOLLAR INTEREST RATES; BUT THAT MAKES IT ALL THE MORE IMPORTANT TO CURB DOMESTIC PRESSURES. IN CONTRAST TO VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD, UK LONGER-TERM RATES ARE NOW LONGER THAN AMERICAN RATES. AS LONG AS AMERICAN RATES REMAIN NEAR THEIR CURRENT LEVEL, IT IS HIGHLY DESIRABLE THAT THIS ADVANTAGE BE MAINTAINED.

43. THE HIGHER LEVEL OF ASSET SALES WE ARE PLANNING AS THE PRIVATISATION PROGRAMME GATHERS PACE IS A

/FURTHER REASON

BUDGET SECRET

FURTHER REASON FOR REDUCING THE PSBR SIGNIFICANTLY IN THE COMING YEAR. ASSET SALES REDUCE THE GOVERNMENT'S NEED TO BORROW. BUT THEIR EFFECT ON INTEREST RATES MAY BE LESS THAN THE EFFECT OF MOST OTHER REDUCTIONS IN GOVERNMENT SPENDING PROGRAMMES.

44. LAST YEAR'S MTFS SHOWED AN ILLUSTRATIVE PSBR FOR 1984-85 OF 2½ PER CENT OF GDP, EQUIVALENT TO AROUND £8 MILLION. BUT I BELIEVE THAT IT IS POSSIBLE, AND INDEED PRUDENT, TO AIM FOR A SOMEWHAT LOWER FIGURE. I AM THEREFORE PROVIDING FOR A PSBR NEXT YEAR OF 2¼ PER CENT OF GDP, OR £7¼ BILLION.

45. THE HOUSE WILL RECALL THAT IN NOVEMBER I WARNED THAT ON CONVENTIONAL ASSUMPTIONS, INCLUDING THE 1983 RED BOOK'S PSBR FIGURE OF £8 BILLION FOR NEXT YEAR, I MIGHT HAVE TO INCREASE TAXES SLIGHTLY IN THE BUDGET. I AM GLAD TO REPORT THAT THE LATEST, AND MORE BUOYANT, FORECASTS OF TAX REVENUE IN THE COMING YEAR HAVE IMPROVED THE PICTURE. A PSBR OF

/£7¼ BILLION

BUDGET SECRET

£7½ BILLION WILL REQUIRE NO OVERALL NET INCREASE TAXATION.

46. MOREOVER, WHILE THE MEASURES I SHALL SHORTLY ANNOUNCE WILL, AFTER INDEXATION, BE BROADLY NEUTRAL IN THEIR EFFECTS ON REVENUE IN 1984-85, THEY WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1½ BILLION. AND THE MTFS PUBLISHED TODAY SHOWS THAT THERE SHOULD BE ROOM FOR FURTHER TAX CUTS NOT ONLY IN 1985-86, BUT ^{ALSO OVER} THROUGHOUT THE REMAINDER OF THIS PARLIAMENT, PROVIDED ~~THAT~~ WE STICK FIRMLY TO OUR PUBLISHED PLANS FOR PUBLIC EXPENDITURE TO 1986-87, AND MAINTAIN AN EQUALLY FIRM CONTROL OF PUBLIC SPENDING THEREAFTER.

PUBLIC EXPENDITURE

47. THE PUBLIC EXPENDITURE WHITE PAPER SETTING OUT OUR SPENDING PLANS FOR THE NEXT THREE YEARS WAS APPROVED BY THE HOUSE LAST WEEK. TODAY I WANT TO CONSIDER THE IMPORTANT ISSUE OF GOVERNMENT SPENDING IN A RATHER WIDER PERSPECTIVE.

48. FOR FAR TOO LONG, PUBLIC SPENDING HAS GROWN FASTER THAN THE ECONOMY AS A WHOLE. AS A RESULT, THE TAX BURDEN HAS STEADILY INCREASED AND INCOME TAX HAS EXTENDED STEADILY LOWER DOWN THE WAGE SCALE.

49. WE HAVE SEEN A MASSIVE ENLARGEMENT IN THE ROLE OF THE STATE, AT THE EXPENSE OF THE INDIVIDUAL, AND A CORRESPONDING INCREASE IN THE DEAD WEIGHT OF TAXATION HOLDING BACK OUR ECONOMIC PROGRESS AS A NATION.

/THIS PROCESS

BUDGET SECRET

50. THIS PROCESS HAS TO STOP. BUT IT HAS ARISEN BECAUSE MUCH PUBLIC SPENDING IS DIRECTED TO EMINENTLY DESIRABLE ENDS. THIS RAISES DIFFICULT ISSUES WHICH DESERVE THE WIDEST POSSIBLE CONSIDERATION AND DEBATE.

51. THE GOVERNMENT IS THEREFORE PUBLISHING TODAY, IN ADDITION TO THE CUSTOMARY BUDGET DOCUMENTS, A GREEN PAPER ON THE PROSPECTS FOR PUBLIC SPENDING AND TAXATION OVER THE NEXT TEN YEARS. IT EXAMINES PAST TRENDS; DISCUSSES THE PRESSURES FOR STILL HIGHER SPENDING; AND EXAMINES THE REWARDS FOR THE INDIVIDUAL AND THE BENEFITS FOR THE ECONOMY IF THESE PRESSURES CAN BE CONTAINED.

52. THE GREEN PAPER CONCLUDES THAT, WITHOUT FIRM CONTROL OVER PUBLIC SPENDING, THERE CAN BE NO PROSPECT OF BRINGING THE BURDEN OF TAX BACK TO MORE REASONABLE LEVELS. ON THE ASSUMPTIONS MADE IN THE GREEN PAPER, THE BURDEN OF TAXATION WILL BE REDUCED

/TO THE LEVELS

BUDGET SECRET

TO THE LEVELS OF THE EARLY 1970s ONLY IF PUBLIC SPENDING IS KEPT BROADLY STABLE IN REAL TERMS OVER THE NEXT TEN YEARS.

53. THE GOVERNMENT BELIEVES THAT THE ISSUES DISCUSSED IN THE GREEN PAPER MERIT THE ATTENTION OF THE HOUSE AND THE COUNTRY.

54. IN CONTRAST TO PREVIOUS YEARS, I HAVE NO PACKAGE OF PUBLIC EXPENDITURE MEASURES TO ANNOUNCE IN THIS BUDGET. THE WHITE PAPER PLANS STAND.

55. I CAN HOWEVER MAKE ONE ANNOUNCEMENT, WHICH I THINK THE HOUSE WILL WELCOME. WITHIN THE PUBLISHED PLANS THE GOVERNMENT HAVE BEEN ABLE TO PROVIDE THE NATIONAL HERITAGE MEMORIAL FUND WITH ADDITIONAL RESOURCES WHICH WILL ENABLE THEM AMONG OTHER THINGS TO SECURE THE FUTURE OF CALKE ABBEY. MY RT HON FRIEND THE SECRETARY OF STATE FOR THE ENVIRONMENT WILL BE ANNOUNCING THE DETAILS SHORTLY.

/THE HOUSE WILL

BUDGET SECRET

56. THE HOUSE WILL RECALL THAT PROPOSALS FOR THE NEW RATES OF SOCIAL SECURITY BENEFIT TO COME INTO FORCE IN NOVEMBER ARE NOT NOW MADE AT THE TIME OF THE BUDGET. FOLLOWING LAST YEAR'S LEGISLATION TO RETURN TO THE HISTORIC METHOD OF UPDATING, PRICE PROTECTION IS MEASURED BY REFERENCE TO THE RETAIL PRICE INDEX FOR MAY. MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES WILL BE ANNOUNCING THE NEW RATES OF SOCIAL SECURITY BENEFITS, INCLUDING CHILD BENEFIT, WHEN THE MAY RPI IS KNOWN.

57. BEFORE LEAVING GOVERNMENT SPENDING, I SHOULD ADD A WORD ON PUBLIC SECTOR MANPOWER. AT THE BEGINNING OF THE LAST PARLIAMENT, THE GOVERNMENT SET ITSELF THE TARGET OF REDUCING THE SIZE OF THE CIVIL SERVICE FROM 732,000 IN APRIL 1979 TO 630,000 BY APRIL OF THIS YEAR. THAT TARGET WILL BE ACHIEVED. WE HAVE NOW SET OURSELVES THE FURTHER TARGET OF 593,000 BY APRIL 1988. I AM CONFIDENT THAT A

/SMALLER CIVIL

BUDGET SECRET

SMALLER CIVIL SERVICE WILL CONTINUE TO IMPROVE ITS EFFICIENCY. THE TAX CHANGES I SHALL BE ANNOUNCING TODAY WILL REDUCE MANPOWER REQUIREMENTS BY AT LEAST 1,000 IN MY OWN DEPARTMENTS, WHICH WILL HELP TOWARDS MEETING THE 1988 TARGET.

TAX REFORM

58. I MENTIONED AT THE OUTSET THAT THIS WILL BE A RADICAL, TAX-REFORMING, BUDGET. IT WILL ALSO SIGNIFICANTLY REDUCE THE OVERALL BURDEN OF TAX OVER THE NEXT TWO YEARS TAKEN TOGETHER. AND I HOPE TO HAVE SCOPE FOR FURTHER REDUCTIONS IN SUBSEQUENT BUDGETS.

59. MY PROPOSALS FOR REFORM ARE GUIDED BY TWO BASIC PRINCIPLES. FIRST, THE NEED TO MAKE CHANGES THAT WILL IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM. SECOND, THE DESIRE TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER.

60. BUT I AM WELL AWARE THAT THE TAX REFORMER'S PATH IS A STONY ONE. ANY CHANGE IN THE SYSTEM IS BOUND, AT LEAST IN THE SHORT TERM, TO BRING BENEFITS

/TO SOME AND

BUDGET SECRET

TO SOME AND DISADVANTAGES TO OTHERS. AND THE DISAPPROVAL OF THE LATTER GROUP TENDS TO BE RATHER MORE AUDIBLE THAN THE MURMURINGS OF SATISFACTION FROM THE FORMER.

61. SOME COMMENTATORS HAVE SUGGESTED THAT OUR ENTIRE INCOME-BASED TAX SYSTEM SHOULD BE REPLACED WITH AN EXPENDITURE-BASED SYSTEM. EVEN IF A ROOT-AND-BRANCH CHANGE OF THIS KIND WERE DESIRABLE, IT WOULD, I BELIEVE, BE WHOLLY IMPRACTICAL AND UNREALISTIC.

62. BUT I DO NOT BELIEVE WE CAN AFFORD TO OPT FOR THE QUIET LIFE AND DO NOTHING. SO I HAVE CHOSEN THE MIDDLE WAY: TO INTRODUCE REFORMS, SOME OF THEM OF A MAJOR NATURE, WITHIN THE FRAMEWORK OF OUR EXISTING INCOME-BASED SYSTEM. I SHALL ALSO BE PROPOSING TRANSITIONAL ARRANGEMENTS WHERE I BELIEVE IT FAIR AND APPROPRIATE TO DO SO.

/THE CHANGES

BUDGET SECRET

63. THE CHANGES I SHALL BE PROPOSING TODAY FALL INTO THREE BROAD CATEGORIES. THESE ARE THE TAXATION OF SAVINGS AND INVESTMENT, BUSINESS TAXATION, AND THE TAXATION OF PERSONAL INCOME AND SPENDING.

SAVINGS AND INVESTMENT

64. FIRST, THE TAXATION OF SAVINGS AND INVESTMENT. THE PROPOSALS I AM ABOUT TO MAKE SHOULD IMPROVE THE DIRECTION AND QUALITY OF BOTH. AND THEY WILL CONTRIBUTE FURTHER TO THE CREATION OF A PROPERTY-OWNING AND SHARE-OWING DEMOCRACY, IN WHICH MORE DECISIONS ARE MADE BY INDIVIDUALS RATHER THAN BY INTERMEDIARY INSTITUTIONS.

65. I START WITH STAMP DUTY. THIS WAS DOUBLED FROM ITS LONG-STANDING 1 PER CENT BY THE POST-WAR LABOUR GOVERNMENT IN 1947, REDUCED BY THE MACMILLAN GOVERNMENT IN 1963, AND ONCE AGAIN DOUBLED TO 2 PER CENT BY LABOUR IN THE FIRST BUDGET PRESENTED BY THE RT HON MEMBER FOR LEEDS EAST IN 1974. AT ITS PRESENT LEVEL IT IS AN IMPEDIMENT TO MOBILITY AND

/INCOMPATIBLE

BUDGET SECRET

INCOMPATIBLE WITH THE FORCES OF COMPETITION NOW AT WORK IN THE CITY, FOLLOWING THE WITHDRAWAL OF THE STOCK EXCHANGE CASE FROM THE RESTRICTIVE PRACTICES COURT.

66. I THEREFORE PROPOSE TO HALVE THE RATE OF STAMP DUTY TO 1 PER CENT. WITH THE EXCEPTION OF THOSE DOCUMENTS WHICH HAVE TO BE STAMPED BEFORE 20 MARCH, THE CHANGE WILL TAKE EFFECT FROM TODAY.

67. FOR THE HOME BUYER, THE NEW FLAT RATE 1 PER CENT STAMP DUTY WILL START AT £30,000. BELOW THIS LEVEL NO DUTY WILL BE PAYABLE. AS A RESULT OF THIS £5,000 INCREASE IN THE THRESHOLD, 90 PER CENT OF FIRST TIME HOME BUYERS WILL NOT HAVE TO PAY STAMP DUTY AT ALL.

68. REDUCING THE RATE OF DUTY ON SHARE TRANSFERS WILL REMOVE AN IMPORTANCE DISINCENTIVE TO INVESTMENT IN EQUITIES AND INCREASE THE

/INTERNATIONAL

BUDGET SECRET

INTERNATIONAL COMPETITIVENESS OF OUR STOCK MARKET. IT SHOULD ALSO HELP BRITISH COMPANIES TO RAISE EQUITY FINANCE.

69. IN ADDITION, I HAVE THREE PROPOSALS TO ENCOURAGE THE ISSUE OF CORPORATE BONDS. I SHALL GO AHEAD WITH THE NEW ARRANGEMENTS FOR DEEP DISCOUNT STOCK AND THE RELIEFS FOR COMPANIES ISSUING EUROBONDS AND CONVERTIBLE LOAN STOCK WHICH WERE ANNOUNCED BUT NOT ENACTED LAST YEAR. AND I PROPOSE TO EXEMPT FROM CAPITAL GAINS TAX MOST CORPORATE FIXED INTEREST SECURITIES PROVIDED THEY ARE HELD FOR MORE THAN A YEAR. SINCE SUCH SECURITIES ARE ALREADY EXEMPT FROM STAMP DUTY THIS MEANS THAT THE TAX CONCESSIONS FOR PRIVATE SECTOR BORROWING IN THE CORPORATE BOND MARKET WILL NOW BE VIRTUALLY THE SAME AS FOR GOVERNMENT BORROWING IN THE GILT-EDGED MARKET.

/THE REDUCTIONS

BUDGET SECRET

70. THE REDUCTIONS IN STAMP DUTY WILL COST £450 MILLION IN 1984-85, OF WHICH £160 MILLION IS THE COST OF THE RELIEF ON SHARE TRANSFERS, AND £290 MILLION THE COST OF THE RELIEF ON TRANSFERS OF HOUSES AND OTHER BUILDINGS AND LAND.

71. NEXT, LIFE ASSURANCE. THE MAIN EFFECT OF LIFE ASSURANCE PREMIUM RELIEF TODAY IS UNDULY TO FAVOUR INSTITUTIONAL RATHER THAN DIRECT INVESTMENT. IT HAS ALSO SPAWNED A MULTIPLICITY OF WELL-ADVERTISED TAX MANAGEMENT SCHEMES. I THEREFORE PROPOSE TO WITHDRAW THE RELIEF ON ALL NEW CONTRACTS MADE AFTER TODAY. I STRESS THAT THIS CHANGE WILL APPLY ONLY TO NEW (OR NEWLY ENHANCED) POLICIES, TAKEN OUT OR INCREASED AFTER TODAY. EXISTING POLICIES WILL NOT BE AFFECTED AT ALL. THE CHANGE IS ESTIMATED TO YIELD ABOUT £90 MILLION IN 1984-85. (X)

72. I AM ALSO PROPOSING TO WITHDRAW THE SPECIAL - BUT UNFORTUNATELY WIDELY ABUSED - PRIVILEGES FOR

/WHAT ARE KNOWN

BUDGET SECRET

WHAT ARE KNOWN AS 'TAX EXEMPT' FRIENDLY SOCIETIES, AND BRING THEM INTO LINE WITH THE NORMAL RULES FOR FRIENDLY SOCIETIES DOING 'MIXED' BUSINESS. HOWEVER THE LIMITS WITHIN WHICH IN FUTURE ALL FRIENDLY SOCIETIES WILL BE ABLE TO WRITE ASSURANCE ON A TAX EXEMPT BASIS WILL BE INCREASED FROM £500 TO £750.

73. I HAVE ALSO REVIEWED THE TAX TREATMENT OF DIRECT PERSONAL INVESTMENT. THE INVESTMENT INCOME SURCHARGE IS AN UNFAIR AND ANOMALOUS TAX ON SAVINGS AND ON THE REWARDS OF SUCCESSFUL ENTERPRISE. IT HITS THE SMALL BUSINESSMAN WHO REACHES RETIREMENT WITHOUT THE CUSHION OF A COMPANY PENSION SCHEME, AND IMPEDES THE CREATION OF FARM TENANCIES. IN THE VAST MAJORITY OF CASES IT IS A TAX ON SAVINGS MADE OUT OF HARD-EARNED AND FULLY-TAXED INCOME. MORE THAN HALF OF THOSE WHO PAY THE INVESTMENT INCOME SURCHARGE ARE OVER 65, AND OF THESE HALF WOULD OTHERWISE BE LIABLE TO TAX AT ONLY THE BASIC RATE.

/I HAVE THEREFORE

BUDGET SECRET

74. I HAVE THEREFORE DECIDED THAT THE INVESTMENT INCOME SURCHARGE SHOULD BE ABOLISHED. THE COST IN 1984-85 WILL BE SOME £25 MILLION, BUILDING UP TO £360 MILLION IN A FULL YEAR.

75. FINALLY, I PROPOSE TO DRAW MORE CLOSELY TOGETHER THE TAX TREATMENT OF DEPOSITORS IN BANKS AND BUILDING SOCIETIES. THESE INSTITUTIONS COMPETE IN THE SAME MARKET FOR PERSONAL DEPOSITS. I BELIEVE THAT THEY SHOULD BE ABLE TO DO SO ON MORE EQUAL TERMS AS FAR AS TAX IS CONCERNED. ONE SOURCE OF UNEQUAL TREATMENT HAS ALREADY BEEN REMOVED, WITH THE RECENT CHANGE MADE ON LEGAL ADVICE IN THE TAX TREATMENT OF BUILDING SOCIETIES' PROFITS FROM GILT-EDGED SECURITIES. THEY ARE NOW TREATED IN THE SAME WAY AS THOSE OF THE BANKS HAVE ALWAYS BEEN.

/BUT THE MAJOR

BUDGET SECRET

76. BUT THE MAJOR SOURCE OF UNEQUAL TREATMENT, AGAINST WHICH THE BANKS IN PARTICULAR HAVE FREQUENTLY COMPLAINED, IS THE SPECIAL ARRANGEMENT FOR INTEREST PAID BY BUILDING SOCIETIES. THE SOCIETIES PAY TAX AT A SPECIAL RATE - THE "COMPOSITE RATE" - ON THE INTEREST PAID TO THE DEPOSITOR, WHO RECEIVES CREDIT FOR INCOME TAX AT THE FULL BASIC RATE.

77. THIS SYSTEM, WHICH HAS WORKED WELL FOR THE PAST 90 YEARS, HAS BOTH AN ADVANTAGE AND A DISADVANTAGE. THE DISADVANTAGE IS THAT A MINORITY OF DEPOSITORS, WHO ARE BELOW THE INCOME TAX THRESHOLD, STILL HAVE TAX DEDUCTED AT THE COMPOSITE RATE. IT HAS NOT HOWEVER STOPPED MANY OF THEM USING BUILDING SOCIETIES BECAUSE OF THE COMPETITIVE RATES THEY HAVE OFFERED. THE ADVANTAGE OF THE SCHEME IS ITS EXTREME SIMPLICITY, PARTICULARLY FOR THE TAXPAYER; MOST TAXPAYERS ARE SPARED THE BOTHER OF PAYING TAX ON INTEREST THROUGH PAYE OR INDIVIDUAL ASSESSMENT,

/WHILE THE REVENUE

BUDGET SECRET

WHILE THE REVENUE ARE SPARED THE NEED TO RECRUIT UP TO 2000 EXTRA STAFF TO COLLECT THE TAX DUE ON INTEREST PAID WITHOUT DEDUCTION.

78. IN COMMON WITH MY PREDECESSORS OF ALL PARTIES OVER THE PAST 90 YEARS, I AM SATISFIED THAT THE ADVANTAGE OF THE COMPOSITE RATE ARRANGEMENT OUTWEIGHS THE DISADVANTAGE. IT FOLLOWS THAT EQUAL TREATMENT OF BUILDING SOCIETIES AND BANKS SHOULD BE ACHIEVED, NOT BY REMOVING THE COMPOSITE RATE FROM THE SOCIETIES, BUT BY EXTENDING IT TO THE BANKS AND OTHER LICENSED DEPOSIT TAKERS.

79. NON-TAXPAYERS WILL CONTINUE TO BE ABLE TO RECEIVE INTEREST GROSS, SHOULD THEY WISH TO DO SO, BY PUTTING THEIR MONEY INTO APPROPRIATE NATIONAL SAVINGS FACILITIES. BUT THE PURPOSE OF THE MOVE IS NOT, OF COURSE, TO ATTRACT SAVINGS INTO GOVERNMENT HANDS: AS I HAVE ALREADY ANNOUNCED, NEXT YEAR'S TARGET FOR NATIONAL SAVINGS WILL BE THE SAME AS THIS

/YEAR'S AND

BUDGET SECRET

YEAR'S AND LAST YEAR'S; AND THE TOTAL GOVERNMENT APPETITE FOR SAVINGS, WHICH IS MEASURED BY THE SIZE OF THE PUBLIC SECTOR BORROWING REQUIREMENT, IS BEING SIGNIFICANTLY REDUCED.

80. THE TRUE PURPOSE OF THE MOVE IS SIMPLE: FAIRER COMPETITION AND SIMPLICITY ITSELF. UNLESS THEY ARE HIGHER RATE TAXPAYERS, INDIVIDUAL BANK CUSTOMERS WILL, WHEN IT COMES TO TAX, BE ABLE TO FORGET ABOUT BANK INTEREST ALTOGETHER, FOR ALL THE TAX DUE ON IT WILL ALREADY HAVE BEEN PAID. AND IT WILL BE EASIER FOR PEOPLE TO COMPARE THE TERMS OFFERED FOR THEIR SAVINGS BY BANKS AND BUILDING SOCIETIES. THERE WILL BE NO DIRECT GAIN TO THE EXCHEQUER. HOWEVER, THE INLAND REVENUE WILL BE ABLE TO MAKE STAFF SAVINGS OF UP TO AN EXTRA 1000 CIVIL SERVANTS. MOREOVER, THIS FIGURE TAKES NO ACCOUNT OF THE SUBSTANTIAL NUMBERS OF ADDITIONAL INLAND REVENUE STAFF WHO WOULD HAVE BEEN REQUIRED TO OPERATE THE PRESENT SYSTEM AS THE TREND TOWARDS THE PAYMENT OF INTEREST ON CURRENT ACCOUNTS DEVELOPS.

/ACCORDINGLY,

BUDGET SECRET

81. ACCORDINGLY, I PROPOSE TO EXTEND THE COMPOSITE RATE ARRANGEMENTS TO INTEREST RECEIVED BY UK RESIDENT INDIVIDUALS FROM BANKS AND OTHER LICENSED DEPOSIT TAKERS WITH EFFECT FROM 1985-86. THE COMPOSITE RATE WILL NOT APPLY EITHER TO NON-RESIDENTS OR TO THE CORPORATE SECTOR. ARRANGEMENTS WILL ALSO BE MADE TO EXCLUDE FROM THE SCHEME CERTIFICATES OF DEPOSIT AND TIME DEPOSITS OF £50,000 OR MORE.

82. TAKEN TOGETHER, THE MAJOR PROPOSALS I HAVE JUST ANNOUNCED ON STAMP DUTY, LIFE ASSURANCE PREMIUM RELIEF, THE INVESTMENT INCOME SURCHARGE, AND THE COMPOSITE RATE, COUPLED WITH OTHER MINOR PROPOSALS, WILL PROVIDE A SIMPLER AND MORE STRAIGHTFORWARD TAX SYSTEM FOR SAVINGS AND INVESTMENT. THEY WILL REMOVE BIASES WHICH HAVE DISCOURAGED THE INDIVIDUAL SAVER FROM INVESTING DIRECTLY IN INDUSTRY. AND THEY WILL REINFORCE THE GOVERNMENT'S POLICY OF ENCOURAGING COMPETITION IN THE FINANCIAL SECTOR, AS IN THE ECONOMY AS A WHOLE.

BUSINESS TAXATION

83. I NOW TURN TO BUSINESS TAXATION. HERE, GOVERNMENT HAS TWO RESPONSIBILITIES TOWARDS BRITISH BUSINESS AND INDUSTRY. THE FIRST IS TO ENSURE THAT THEY DO NOT HAVE TO BEAR AN EXCESSIVE BURDEN OF TAXATION. THE SECOND IS TO ENSURE THAT, GIVEN A PARTICULAR BURDEN, IT IS STRUCTURED IN THE WAY THAT DOES LEAST DAMAGE TO THE NATION'S ECONOMIC PERFORMANCE.

84. THE MEASURES I AM ANNOUNCING TODAY WILL, TAKING THE NEXT TWO YEARS TOGETHER, RESULT IN A SUBSTANTIAL REDUCTION IN THE BURDEN OF TAXATION ON BRITISH BUSINESS. AND IN ADDITION I SHALL BE PROPOSING A FAR-REACHING REFORM OF THE STRUCTURE OF COMPANY TAXATION.

/RESPONSES TO THE

BUDGET SECRET

85. RESPONSES TO THE CORPORATION TAX GREEN PAPER IN 1982 SHOWED A STRONG GENERAL DESIRE TO RETAIN THE IMPUTATION SYSTEM. I ACCEPT THAT, BUT OTHER CHANGES ARE NEEDED.

86. THE CURRENT RATES OF CORPORATION TAX ARE FAR TOO HIGH, PENALISING PROFIT AND SUCCESS, AND BLUNTING THE CUTTING EDGE OF ENTERPRISE. THEY ARE THE PRODUCT OF TOO MANY SPECIAL RELIEFS, INDISCRIMINATELY APPLIED AND OF DIMINISHING RELEVANCE TO THE CONDITIONS OF TODAY. SOME OF THESE RELIEFS REFLECT ECONOMIC PRIORITIES OR CIRCUMSTANCES WHICH HAVE LONG VANISHED, AND NOW SERVE ONLY TO DISTORT INVESTMENT DECISIONS AND CHOICES ABOUT FINANCE. OTHERS WERE INTRODUCED TO MEET SHORT-TERM PRESSURES, NOTABLY THE UPWARD SURGE OF INFLATION. WITH INFLATION DOWN TO TODAY'S LOW LEVELS, THIS IS CLEARLY THE TIME TO TAKE A FRESH LOOK. AND WITH UNEMPLOYMENT AS HIGH AS IT IS TODAY, IT IS PARTICULARLY DIFFICULT TO JUSTIFY A TAX SYSTEM

/WHICH ENCOURAGES

BUDGET SECRET

WHICH ENCOURAGES LOW-YIELDING OR EVEN LOSS-MAKING INVESTMENT AT THE EXPENSE OF JOBS.

87. MY PURPOSE THEREFORE IS TO PHASE OUT SOME UNNECESSARY RELIEFS, IN ORDER TO BRING ABOUT, OVER TIME, A MARKEDLY LOWER RATE OF TAX ON COMPANY PROFITS.

88. FIRST, CAPITAL ALLOWANCES. OVER VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD THERE HAVE BEEN INCENTIVES FOR INVESTMENT IN BOTH PLANT AND MACHINERY AND INDUSTRIAL (THOUGH NOT COMMERCIAL) BUILDINGS. BUT THERE IS LITTLE EVIDENCE THAT THESE INCENTIVES HAVE STRENGTHENED THE ECONOMY OR IMPROVED THE QUALITY OF INVESTMENT. QUITE THE CONTRARY: THE EVIDENCE SUGGESTS THAT BUSINESSES HAVE INVESTED SUBSTANTIALLY IN ASSETS YIELDING A LOWER RATE OF RETURN THAN THE INVESTMENTS MADE BY OUR PRINCIPAL COMPETITORS. TOO MUCH OF BRITISH INVESTMENT HAS BEEN MADE BECAUSE THE TAX ALLOWANCES

/MAKE IT LOOK

BUDGET SECRET

MAKE IT LOOK PROFITABLE, RATHER THAN BECAUSE IT WOULD BE TRULY PRODUCTIVE. WE NEED INVESTMENT DECISIONS BASED ON FUTURE MARKET ASSESSMENTS, NOT FUTURE TAX ASSESSMENTS.

89. I PROPOSE TO RESTRUCTURE THE CAPITAL ALLOWANCES IN THREE ANNUAL STAGES. IN THE CASE OF PLANT AND MACHINERY, AND ASSETS WHOSE ALLOWANCES ARE LINKED WITH THEM, THE FIRST YEAR ALLOWANCE WILL BE REDUCED FROM 100 PER CENT TO 75 PER CENT FOR ALL SUCH EXPENDITURE INCURRED AFTER TODAY, AND TO 50 PER CENT FOR EXPENDITURE INCURRED AFTER 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THERE WILL BE NO FIRST YEAR ALLOWANCES, AND ALL EXPENDITURE ON PLANT AND MACHINERY WILL QUALIFY FOR ANNUAL ALLOWANCES ON A 25 PER CENT REDUCING BALANCE BASIS.

90. IN ADDITION, FROM NEXT YEAR ANNUAL ALLOWANCES WILL BE GIVEN AS SOON AS THE EXPENDITURE IS INCURRED, AND NOT, AS THEY ARE TODAY, WHEN THE ASSET

/COMES INTO USE.

BUDGET SECRET

COMES INTO USE. THIS WILL BRING FORWARD THE ENTITLEMENT TO ANNUAL ALLOWANCES FOR THOSE ASSETS, SUCH AS SHIPS AND OIL RIGS, FOR WHICH SOME PAYMENT IS NORMALLY MADE WELL BEFORE THEY ARE BROUGHT INTO USE.

91. FOR INDUSTRIAL BUILDINGS, I PROPOSE THAT THE INITIAL ALLOWANCE SHOULD FALL FROM 75 PER CENT TO 50 PER CENT FROM TONIGHT, AND BE FURTHER REDUCED TO 25 PER CENT FROM 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THE INITIAL ALLOWANCE WILL BE ABOLISHED, AND EXPENDITURE WILL BE WRITTEN OFF ON AN ANNUAL 4 PER CENT STRAIGHT LINE BASIS. I SHOULD ADD THAT, WHEN THESE CHANGES HAVE ALL TAKEN PLACE, TAX ALLOWANCES FOR BOTH PLANT AND MACHINERY AND INDUSTRIAL BUILDINGS WILL STILL ON AVERAGE BE RATHER MORE GENEROUS THAN WOULD BE PROVIDED BY A STRICT SYSTEM OF ECONOMIC DEPRECIATION.

/THE CHANGES

BUDGET SECRET

92. THE CHANGES IN THE RATES OF ALLOWANCES WILL NOT APPLY TO PAYMENTS UNDER BINDING CONTRACTS ENTERED INTO ON OR BEFORE TODAY, PROVIDED THAT THE EXPENDITURE IS INCURRED WITHIN THE NEXT THREE YEARS.

93. THERE WILL BE TRANSITIONAL TAX ARRANGEMENTS FOR CERTAIN INVESTMENT PROJECTS IN THE DEVELOPMENT AREAS AND SPECIAL DEVELOPMENT AREAS. WHEN A PROJECT IN THOSE AREAS HAS HAD AN OFFER OF INDUSTRY ACT SELECTIVE FINANCIAL ASSISTANCE AND ALSO ATTRACTS REGIONAL DEVELOPMENT GRANTS, THE EXISTING CAPITAL ALLOWANCES WILL CONTINUE TO APPLY TO THE EXPENDITURE TO WHICH THE SELECTIVE ASSISTANCE IS RELATED. THESE ARRANGEMENTS WILL COVER PROJECTS FOR WHICH OFFERS HAVE ALREADY BEEN MADE BETWEEN 1 APRIL 1980 AND TODAY. SIMILAR ARRANGEMENTS FOR REGIONAL DEVELOPMENT GRANTS WERE ANNOUNCED BY MY RT. HON. FRIEND THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IN HIS WHITE PAPER LAST DECEMBER.

/OVER THE SAME

BUDGET SECRET

94. OVER THE SAME PERIOD TO 31 MARCH 1986 MOST OTHER CAPITAL ALLOWANCES WILL BE BROUGHT INTO LINE WITH THE MAIN CHANGES I HAVE ANNOUNCED. THE INLAND REVENUE WILL BE ISSUING A PRESS NOTICE TONIGHT GIVING FULL DETAILS OF THESE PROPOSALS.

95. NEXT, STOCK RELIEF. AS THE HOUSE WILL RECALL, THIS WAS INTRODUCED BY THE LAST LABOUR GOVERNMENT AS A FORM OF EMERGENCY HELP TO BUSINESSES FACING THE RAVAGES OF HIGH INFLATION. THOSE DAYS ARE PAST; AND THE RELIEF IS NO LONGER NECESSARY. COMPANY LIQUIDITY HAS IMPROVED AND, ABOVE ALL, INFLATION HAS FALLEN SHARPLY. ACCORDINGLY, I PROPOSE TO ABOLISH STOCK RELIEF FROM THIS MONTH.

96. THE CHANGES I HAVE JUST ANNOUNCED, IN CAPITAL ALLOWANCES AND STOCK RELIEF, ENABLE ME TO EMBARK ON A MAJOR PROGRAMME OF PROGRESSIVE REDUCTIONS IN THE MAIN RATE OF CORPORATION TAX. FOR PROFITS EARNED IN THE YEAR JUST ENDING, ON WHICH TAX IS GENERALLY

/PAYABLE IN

BUDGET SECRET

PAYABLE IN 1984-85, THE RATE WILL BE CUT FROM 52 PER CENT TO 50 PER CENT. FOR PROFITS EARNED IN 1984-85 THE RATE WILL BE FURTHER CUT TO 45 PER CENT. LOOKING FURTHER AHEAD, TO PROFITS EARNED IN 1985-86, THE RATE WILL GO DOWN TO 40 PER CENT; AND FOR PROFITS EARNED IN 1986-87 THE MAIN RATE OF CORPORATION TAX WILL BE 35 PER CENT - NO LESS THAN 17 PERCENTAGE POINTS BELOW THE CURRENT RATE.

97. ALL THESE RATES FOR THE YEARS AHEAD WILL BE INCLUDED IN THIS YEAR'S FINANCE BILL. AND WHEN THESE CHANGES ARE COMPLETE, OUR RATES OF CAPITAL ALLOWANCES FOR THE GENERALITY OF PLANT AND MACHINERY WILL BE COMPARABLE WITH THOSE IN MOST OTHER COUNTRIES, WHILE THE RATE OF TAX WILL BE SIGNIFICANTLY LOWER.

98. THE SUBSTANTIAL REDUCTION IN THE RATE OF CORPORATION TAX WILL BRING A FURTHER BENEFIT. OUR

/IMPUTATION SYSTEM

BUDGET SECRET

IMPUTATION SYSTEM ALLOWS A COMPANY TO OFFSET IN FULL ALL INTEREST PAID. BUT ONLY A PARTIAL OFFSET FOR DIVIDENDS IS ALLOWED. COMPANIES THUS HAVE A CLEAR INCENTIVE TO FINANCE THEMSELVES THROUGH BORROWING, IN PARTICULAR BANK BORROWING, RATHER THAN BY RAISING EQUITY CAPITAL. THE CLOSER THE CORPORATION TAX RATE COMES TO THE BASIC RATE OF INCOME TAX, THE SMALLER THIS UNDESIRABLE DISTORTION BECOMES.

99. OF COURSE, THE MAJORITY OF COMPANIES ARE NOT LIABLE TO PAY THE MAIN RATE OF CORPORATION TAX AT ALL. FOR THEM IT IS THE SMALL COMPANIES' RATE, AT PRESENT 38 PER CENT, WHICH APPLIES. I PROPOSE TO REDUCE THIS RATE FORTHWITH TO 30 PER CENT, FOR PROFITS EARNED IN 1983-84 AND THEREAFTER. A TAX REGIME FOR SMALL COMPANIES WHICH IS ALREADY GENEROUS BY INTERNATIONAL STANDARDS WILL THUS BECOME MARKEDLY MORE GENEROUS.

/THE CORPORATION

BUDGET SECRET

100. THE CORPORATION TAX MEASURES I HAVE JUST ANNOUNCED WILL COST £280 MILLION IN 1984-85. IN 1985-86 THE COST WILL BE £450 MILLION - MADE UP OF £1,100 MILLION BY WAY OF REDUCTIONS IN THE RATES, ONLY PARTIALLY OFFSET BY A £650 MILLION REDUCTION IN THE VALUE OF THE RELIEFS. DURING THE TRANSITIONAL PERIOD AS A WHOLE, THESE MEASURES SHOULD HAVE A BROADLY NEUTRAL EFFECT ON THE FINANCIAL POSITION OF COMPANIES. BUT WHEN THE CHANGES HAVE FULLY WORKED THROUGH, COMPANIES WILL ENJOY VERY SUBSTANTIAL REDUCTIONS IN THE TAX THEY PAY.

101. BUSINESS AND INDUSTRY CAN GO AHEAD CONFIDENTLY ON THE BASIS OF THE CORPORATION TAX RATES I HAVE ANNOUNCED TODAY, WHICH SET THE FRAMEWORK OF COMPANY TAXATION FOR THE REST OF THIS PARLIAMENT.

102. OVER THE NEXT TWO YEARS, THESE CHANGES WILL CAUSE SOME INVESTMENT TO BE BROUGHT FORWARD, TO TAKE ADVANTAGE OF HIGH FIRST YEAR CAPITAL ALLOWANCES

/ - A PROSPECT MADE

BUDGET SECRET

- A PROSPECT MADE ALL THE MORE ALLURING FOR BUSINESS SINCE THE PROFITS EARNED WILL BE TAXED AT THE NEW, LOWER, RATES. BUT THE MORE IMPORTANT AND LASTING EFFECT WILL BE TO ENCOURAGE THE SEARCH FOR INVESTMENT PROJECTS WITH A GENUINELY WORTHWHILE RETURN, AND TO DISCOURAGE UNECONOMIC INVESTMENT.

103. IT IS DOUBTFUL WHETHER IT WAS EVER REALLY SENSIBLE TO SUBSIDISE CAPITAL INVESTMENT IRRESPECTIVE OF THE TRUE RATE OF RETURN. CERTAINLY, WITH OVER THREE MILLION UNEMPLOYED IT CANNOT MAKE SENSE TO DO SO.

104. THESE CHANGES HOLD OUT AN EXCITING OPPORTUNITY FOR BRITISH INDUSTRY AS A WHOLE: AN OPPORTUNITY FURTHER TO IMPROVE ITS PROFITABILITY, AND TO EXPAND, BUILDING ON THE RECOVERY THAT IS ALREADY WELL UNDER WAY. HIGHER PROFITS AFTER TAX WILL ENCOURAGE AND REWARD ENTERPRISE, STIMULATE INNOVATION IN ALL ITS FORMS, AND CREATE MORE JOBS.

/I NOW TURN

BUDGET SECRET

105. I NOW TURN TO SOME MORE DETAILED MEASURES AFFECTING BUSINESS.

106. THE BUSINESS EXPANSION SCHEME, INTRODUCED LAST YEAR AS A SUCCESSOR TO THE BUSINESS START UP SCHEME, HAS BEEN WIDELY WELCOMED AS A HIGHLY IMAGINATIVE SCHEME FOR ENCOURAGING INDIVIDUALS TO INVEST IN SMALL COMPANIES. IT IS ALREADY PROVING A CONSIDERABLE SUCCESS. IT NOW NEEDS TIME TO SETTLE DOWN, AND I HAVE ONLY ONE CHANGE TO PROPOSE THIS YEAR.

107. THE SCHEME WAS DESIGNED TO OFFER GENEROUS INCENTIVES FOR INVESTMENT BY NEW OR EXPANDING COMPANIES IN HIGH RISK AREAS. THE OWNERSHIP OF FARMLAND CANNOT BE SAID TO FALL WITHIN THIS CATEGORY, AND I THEREFORE PROPOSE THAT FROM TODAY FARMING SHOULD CEASE TO BE TREATED AS A QUALIFYING TRADE UNDER THE SCHEME.

/NEXT, IN KEEPING

BUDGET SECRET

108. NEXT, IN KEEPING WITH WHAT I HAVE SAID ABOUT REMOVING DISTORTIONS, I PROPOSE TO ABOLISH TWO RELIEFS IN THE PERSONAL TAX FIELD WHICH WERE INTRODUCED AT A TIME WHEN THIS COUNTRY SUFFERED FROM EXCESSIVELY HIGH RATES OF INCOME TAX. AS WE HAVE REDUCED THOSE RATES, THE RELIEFS ARE NO LONGER JUSTIFIED.

109. THE FIRST DISTORTION IS THE 50 PER CENT TAX RELIEF (FALLING AFTER 9 YEARS TO 25 PER CENT) APPLIED TO THE EMOLUMENTS OF FOREIGN-DOMICILED EMPLOYEES WORKING HERE FOR FOREIGN EMPLOYERS. THESE EMPLOYEES ARE OFTEN PAYING MUCH LESS TAX HERE THAN THEY WOULD EITHER IN THEIR OWN COUNTRY OR IN MOST OTHER EUROPEAN COUNTRIES. AT PRESENT INCOME TAX RATES, THE NEED FOR THIS RELIEF HAS CLEARLY DISAPPEARED. MOREOVER, IT IS OPEN TO WIDESPREAD ABUSE. IT IS, FOR EXAMPLE, POSSIBLE FOR THE SON OF AN IMMIGRANT, WORKING HERE FOR A FOREIGN COMPANY, TO ENJOY THIS RELIEF EVEN IF HE HAS LIVED IN THIS

/COUNTRY ALL HIS

BUDGET SECRET

COUNTRY ALL HIS LIFE. I THEREFORE PROPOSE TO WITHDRAW THE RELIEF FOR ALL NEW CASES FROM TODAY. FOR EXISTING BENEFICIARIES, THE 25 PER CENT RELIEF WILL CEASE ON 6 APRIL, AND THE 50 PER CENT RELIEF WILL BE PHASED OUT OVER THE NEXT FIVE YEARS.

110. I ALSO PROPOSE TO WITHDRAW THE FOREIGN EARNINGS RELIEF FOR UNITED KINGDOM RESIDENTS WHO WORK AT LEAST 30 DAYS ABROAD IN A TAX YEAR. THIS RELIEF TOO HARKS BACK TO THE DAYS OF PENALLY HIGH INCOME TAX RATES. IT TOO HAS BEEN EXPLOITED, IN PARTICULAR BY THOSE WHO PROLONG THEIR OVERSEAS VISITS PURELY IN ORDER TO GAIN A TAX ADVANTAGE. I PROPOSE TO WITHDRAW THE MATCHING RELIEF FOR THE SELF-EMPLOYED WHO SPEND 30 DAYS ABROAD, AND FOR THOSE RESIDENT IN THE UK WHO HAVE SEPARATE EMPLOYMENTS OR SEPARATE TRADES CARRIED ON WHOLLY ABROAD. THE RELIEF WILL BE HALVED TO 12½ PER CENT IN 1984-85 AND REMOVED ENTIRELY FROM 6 APRIL 1985. HOWEVER, I AM NOT MAKING ANY CHANGE TO THE 100 PER

/CENT REDUCTION

BUDGET SECRET

CENT DEDUCTION GIVEN FOR ABSENCES ABROAD OF 365 DAYS OR MORE. IN ADDITION, I HAVE AUTHORISED CONSULTATIONS BY THE INLAND REVENUE ABOUT A POSSIBLE RELAXATION IN THE RULES GOVERNING THE TAXATION OF EXPENSES REIMBURSED TO EMPLOYEES FOR TRAVEL OVERSEAS.

111. THE ABOLITION OF THESE RELIEFS WILL EVENTUALLY YIELD REVENUE SAVINGS OF OVER £150 MILLION; AND REPRESENTS ANOTHER USEFUL STEP IN THE REMOVAL OF COMPLEXITY AND DISTORTIONS IN THE TAX SYSTEM.

112. I NEED TO SET THE CAR BENEFIT SCALES FOR 1985-86 FOR THOSE PROVIDED WITH THE USE OF A CAR BY THEIR EMPLOYER. DESPITE THE INCREASES OVER RECENT YEARS, THE LEVELS STILL FALL SHORT OF ANY REALISTIC MEASURE OF THE TRUE BENEFIT. I AM PROPOSING AN INCREASE OF 10 PER CENT IN BOTH THE CAR AND CAR FUEL SCALES WITH EFFECT FROM APRIL 1985.

/UNNECESSARILY

BUDGET SECRET

113. UNNECESSARILY HIGH RATES OF TAX DISCOURAGE ENTERPRISE AND RISK TAKING. THIS IS TRUE OF THE CAPITAL TAXES, JUST AS IT IS OF THE CORPORATION AND INCOME TAXES. IT IS A MATTER OF PARTICULAR CONCERN TO THOSE INVOLVED IN RUNNING UNQUOTED FAMILY BUSINESSES. THE HIGHEST RATES OF CAPITAL TRANSFER TAX ARE FAR TOO HIGH AND BADLY OUT OF LINE WITH COMPARABLE RATES ABROAD. I PROPOSE THEREFORE, IN ADDITION TO STATUTORY INDEXATION, TO REDUCE THE HIGHEST RATE OF CAPITAL TRANSFER TAX FROM 75 PER CENT TO 60 PER CENT. FOR LIFETIME GIFTS I PROPOSE TO SIMPLIFY THE SCALE SO THAT THE RATE IS ALWAYS ONE-HALF OF THAT ON DEATH.

114. FOR CAPITAL GAINS TAX I WILL, AS PROMISED, BRING FORWARD IN THE FINANCE BILL PROPOSALS TO DOUBLE THE LIMIT FOR RETIREMENT RELIEF TO A FIGURE OF £100,000, BACKDATED TO APRIL 1983. A CONSULTATIVE DOCUMENT ON OTHER POSSIBLE CHANGES IN THIS RELIEF IS BEING ISSUED NEXT WEEK. I AM

/PROPOSING NO

BUDGET SECRET

PROPOSING NO OTHER CHANGES THIS YEAR IN CAPITAL GAINS TAX BEYOND THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT FROM £5,300 TO £5,600. HOWEVER, THE TAX CONTINUES TO ATTRACT CRITICISM -NOT LEAST FOR ITS COMPLEXITY - AND THAT IS A MATTER TO WHICH I HOPE TO RETURN IN A LATER YEAR.

115. WE HAVE DONE MUCH TO IMPROVE THE DEVELOPMENT LAND TAX. EARLY IN THE LAST PARLIAMENT, MY PREDECESSOR INCREASED THE THRESHOLD FROM £10,000 TO £50,000. I NOW PROPOSE A FURTHER INCREASE TO £75,000, WHICH WILL REDUCE THE NUMBER OF CASES LIABLE TO THE TAX BY MORE THAN ONE-THIRD.

116. NEXT SHARE OPTIONS. THE MEASURES INTRODUCED IN THE LAST PARLIAMENT TO IMPROVE EMPLOYEE INVOLVEMENT THROUGH PROFIT-SHARING AND SAVINGS-RELATED SHARE OPTIONS SCHEMES HAVE BEEN A NOTABLE SUCCESS. THE NUMBER OF THESE EMPLOYEE SCHEMES OPEN TO ALL EMPLOYEES HAS INCREASED FROM ABOUT 30 IN 1979 TO

/OVER 670 NOW,

BUDGET SECRET

OVER 670 NOW, BENEFITING SOME HALF A MILLION EMPLOYEES. TO MAINTAIN AND BUILD ON THIS PROGRESS I PROPOSE TO INCREASE THE MONTHLY LIMIT ON CONTRIBUTIONS TO SAVINGS-RELATED SHARE OPTION SCHEMES FROM £50 TO £100. I HAVE ALSO AUTHORISED THE INLAND REVENUE TO DOUBLE THE TAX-FREE LIMITS UNDER THE CONCESSION ON LONG SERVICE AWARDS, AND TO INCLUDE WITHIN THESE LIMITS THE GIFT OF SHARES IN THE EMPLOYEE'S COMPANY.

117. BUT BEYOND THIS, I AM CONVINCED THAT WE NEED TO DO MORE TO ATTRACT TOP CALIBRE COMPANY MANAGEMENT AND TO INCREASE THE INCENTIVES AND MOTIVATION OF EXISTING EXECUTIVES AND KEY PERSONNEL BY LINKING THEIR REWARDS TO PERFORMANCE. I PROPOSE THEREFORE THAT, SUBJECT TO CERTAIN NECESSARY LIMITS AND CONDITIONS, SHARE OPTIONS GENERALLY WILL BE TAKEN OUT OF INCOME TAX, LEAVING ANY GAIN TO BE CHARGED TO CAPITAL GAINS TAX ON ULTIMATE DISPOSAL OF THE SHARES. THE NEW RULES WILL APPLY TO OPTIONS MEETING THE CONDITIONS WHICH ARE GRANTED FROM 6 APRIL.

/I AM SURE

BUDGET SECRET

118. I AM SURE THAT ALL THESE CHANGES WILL BE WELCOMED AS MEASURES TO ENCOURAGE THE COMMITMENT OF EMPLOYEES TO THE SUCCESS OF THEIR COMPANIES AND TO IMPROVE THE PERFORMANCE, COMPETITIVENESS AND PROFITABILITY OF BRITISH INDUSTRY.

119. AS THE HOUSE KNOWS, THE GOVERNMENT IS DEEPLY CONCERNED AT THE THREAT WHICH THE SPREAD OF UNITARY TAXATION IN CERTAIN US STATES HAS POSED TO THE US SUBSIDIARIES OF BRITISH FIRMS. WITH OUR EUROPEAN PARTNERS WE ARE MONITORING THE SITUATION CLOSELY, AND AWAIT WITH KEEN INTEREST THE IMMINENT REPORT OF US TREASURY SECRETARY REGAN'S WORKING GROUP. IT IS ESSENTIAL THAT A SATISFACTORY SOLUTION IS FOUND AND SPEEDILY IMPLEMENTED.

120. US FIRMS OPERATING IN THIS COUNTRY ARE NOT OF COURSE TAXED ON A UNITARY BASIS.

/I NOW TURN

BUDGET SECRET

121. I NOW TURN TO OIL TAXATION. LAST YEAR'S NORTH SEA TAX CHANGES WERE WELL RECEIVED, AND THERE HAS BEEN A SUBSTANTIAL INCREASE IN THE NUMBER OF DEVELOPMENT PROJECTS COMING FORWARD, AND A NEW SURGE IN EXPLORATION. THE GOVERNMENT IS ALREADY COMMITTED TO A STUDY OF THE ECONOMICS OF INVESTMENT IN INCREMENTAL DEVELOPMENT IN EXISTING FIELDS. THIS IS OF INCREASING IMPORTANCE, AND IN CONSULTATION WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR ENERGY I THEREFORE PROPOSE TO REVIEW THIS AREA WITH THE INDUSTRY, AND TO LEGISLATE AS APPROPRIATE NEXT YEAR TO IMPROVE THE POSITION. TO PREVENT PROJECTS BEING DEFERRED PENDING THIS REVIEW, ANY CHANGES WILL APPLY TO ALL PROJECTS WHICH RECEIVE DEVELOPMENT CONSENT AFTER TODAY.

122. MEANWHILE, I AM TAKING TWO MEASURES TO PREVENT AN UNJUSTIFIED LOSS OF TAX IN THE NORTH SEA. FIRST, IN ADDITION TO THE PRT MEASURES ON FARMOUTS WHICH I ANNOUNCED LAST SEPTEMBER, I AM LIMITING THE

/POTENTIAL

BUDGET SECRET

POTENTIAL CORPORATION TAX COST OF SUCH DEALS. SECOND, I PROPOSE TO REPEAL THE PROVISION WHICH ALLOWS ADVANCE CORPORATION TAX TO BE REPAID WHERE CORPORATION TAX IS REDUCED BY PRT. I HAVE ALSO REVIEWED THE CASE FOR EXTENDING LAST YEAR'S FUTURE FIELD CONCESSIONS TO THE SOUTHERN BASIN, BUT HAVE CONCLUDED THAT ADDITIONAL INCENTIVES HERE ARE NOT NEEDED.

123. I HAVE JUST TWO FURTHER CHANGES AFFECTING BUSINESS TO PROPOSE, BOTH OF WHICH WILL COME INTO FORCE ON 1 OCTOBER.

124. EVER SINCE VAT WAS INTRODUCED IN THIS COUNTRY, WE HAVE TREATED IMPORTS DIFFERENTLY FROM THE WAY OUR MAIN EUROPEAN COMMUNITY COMPETITORS TREAT THEM. WHILE THEY REQUIRE VAT ON IMPORTED GOODS TO BE PAID IN THE SAME WAY AS CUSTOMS DUTIES, WE DO NOT. UNDER OUR SYSTEM AN IMPORTER DOES NOT HAVE TO ACCOUNT FOR VAT ON HIS IMPORTS UNTIL HE MAKES HIS NORMAL VAT

/RETURN,

BUDGET SECRET

RETURN, ON AVERAGE SOME 11 WEEKS LATER. DURING THIS TIME THE IMPORTER ENJOYS FREE CREDIT AT THE TAXPAYER'S EXPENSE. BUT BUSINESSES BUYING FROM UK SUPPLIERS HAVE TO PAY VAT STRAIGHT AWAY.

125. THE EUROPEAN COMMISSION HAS FOR SOME YEARS NOW BEEN SEEKING, WITH OUR FULL SUPPORT, TO GET A SYSTEM LIKE OURS ADOPTED THROUGHOUT THE COMMUNITY. BUT THE PLAIN FACT IS THAT IN ALL THAT TIME THE COMMISSION HAS MADE NO PROGRESS WHATEVER.

126. I MUST TELL THE HOUSE HAVE I AM NOT PREPARED TO PUT BRITISH INDUSTRY AT A COMPETITIVE DISADVANTAGE IN THE HOME MARKET ANY LONGER. SHOULD OUR EUROPEAN PARTNERS AT ANY TIME UNDERGO A DAMASCENE CONVERSION, AND AGREE THAT THE COMMISSION'S PROPOSAL SHOULD BE ACCEPTED AFTER ALL, THEN OF COURSE WE WOULD REVERT TO THE PRESENT SYSTEM. BUT IN THE MEANTIME I PROPOSE TO MOVE TO THE SYSTEM USED BY OUR EUROPEAN COMPETITORS. WE SHALL PROVIDE THE SAME FACILITIES

/FOR PAYMENT

BUDGET SECRET

FOR PAYMENT OF VAT ON IMPORTS AS APPLY TO CUSTOMS DUTIES. THAT MEANS THAT MOST IMPORTERS WILL BE ABLE TO DEFER PAYMENT OF VAT BY ON AVERAGE ONE MONTH FROM THE DATE OF IMPORTATION. BUT THAT IS ALL.

127. AS I HAVE SAID, THIS CHANGE WILL APPLY FROM 1 OCTOBER. BY BRINGING FORWARD VAT RECEIPTS, IT WILL BRING IN AN EXTRA £1.2 BILLION IN 1984-85, SOME OF WHICH WILL BE BORNE BY FOREIGN PRODUCERS AND MANUFACTURERS. THERE WILL OF COURSE BE NO INCREASED REVENUE IN SUBSEQUENT YEARS.

128. THE SECOND CHANGE I PROPOSE TO MAKE ON 1 OCTOBER CONCERNS THE NATIONAL INSURANCE SURCHARGE. THIS TAX ON JOBS WAS INTRODUCED BY THE LABOUR GOVERNMENT IN 1977 AT THE RATE OF 2 PER CENT, AND FURTHER INCREASED BY THE RT. HON. MEMBER FOR LEEDS EAST IN 1978 TO 3½ PER CENT. DURING THE LAST PARLIAMENT, THIS GOVERNMENT REDUCED IT TO 1 PER CENT, AND WE ARE PLEDGED TO ABOLISH IT DURING THE LIFETIME OF THIS PARLIAMENT.

/GIVEN THE IMPACT

BUDGET SECRET

129. GIVEN THE IMPACT THAT THIS TAX HAS, NOT ONLY ON INDUSTRIAL COSTS BUT ALSO - AT A TIME OF HIGH UNEMPLOYMENT - ON JOBS, I HAVE DECIDED TO TAKE THE OPPORTUNITY OF THIS MY FIRST BUDGET TO FULFIL THAT PLEDGE. ABOLITION OF THE NATIONAL INSURANCE SURCHARGE FROM OCTOBER WILL REDUCE PRIVATE SECTOR EMPLOYERS' COSTS BY ALMOST £350 MILLION IN 1984-85, AND OVER £850 MILLION IN A FULL YEAR. IT WILL THUS BE OF CONTINUING HELP TO BRITISH INDUSTRY. AS BEFORE, THE BENEFIT WILL BE CONFINED TO THE PRIVATE SECTOR.

130. THE HOUSE WILL I AM SURE AGREE THAT A BUDGET WHICH ABOLISHES THE NATIONAL INSURANCE SURCHARGE, AND CUTS THE RATES AND SIMPLIFIES THE STRUCTURE OF CORPORATION TAX, IS A BUDGET FOR JOBS AND FOR ENTERPRISE. IT OFFERS BRITISH INDUSTRY AN OPPORTUNITY WHICH I AM CONFIDENT IT WILL SEIZE.

/HAVING

INDIRECT TAXES

131. HAVING ANNOUNCED MAJOR REFORMS OF BOTH THE TAXATION OF SAVINGS AND INVESTMENT AND THE TAXATION OF BUSINESS, I TURN NOW TO THE THIRD AND FINAL AREA IN WHICH I PROPOSE TO MAKE PROGRESS ON TAX REFORM. THIS IS THE TAXATION OF PERSONAL INCOME AND SPENDING.

132. THE BROAD PRINCIPLE WAS CLEARLY SET OUT IN THE MANIFESTO ON WHICH WE WERE FIRST ELECTED IN 1979. THIS EMPHASISED THE NEED FOR A SWITCH FROM TAXES ON EARNINGS TO TAXES ON SPENDING. MY PREDECESSOR MADE AN IMPORTANT MOVE IN THIS DIRECTION IN HIS FIRST BUDGET, AND THE TIME HAS COME TO MAKE A FURTHER MOVE TODAY. TO REDUCE DIRECT TAXATION BY THIS MEANS IS IMPORTANT IN TWO WAYS. IT IMPROVES INCENTIVES AND MAKES IT MORE WORTHWHILE TO WORK, AND IT INCREASES THE FREEDOM OF CHOICE OF THE INDIVIDUAL.

/HAVING REGARD

BUDGET SECRET

133. HAVING REGARD TO THE REPRESENTATIONS I HAVE RECEIVED ON HEALTH GROUNDS, I THEREFORE PROPOSE AN INCREASE IN THE TOBACCO DUTY WHICH, INCLUDING VAT, WILL PUT 10P ON THE PRICE OF A PACKET OF CIGARETTES, WITH CORRESPONDING INCREASES FOR HAND-ROLLING TOBACCO AND CIGARS. THIS WILL DO NO MORE THAN RESTORE THE TAX ON TOBACCO TO ITS 1965 LEVEL. THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT ON THURSDAY. I DO NOT PROPOSE ANY INCREASE IN THE DUTY ON PIPE TOBACCO.

134. I PROPOSE TO RAISE MOST OF THE OTHER EXCISE DUTIES BROADLY IN LINE WITH INFLATION, SO AS TO MAINTAIN THEIR REAL VALUE: NOT TO DO SO WOULD RUN COUNTER TO THE PHILOSOPHY I OUTLINED A MOMENT AGO. BUT WITH INFLATION AS LOW AS IT NOW IS, THE NECESSARY INCREASES ARE ON THE WHOLE MERCIFULLY MODEST.

/I PROPOSE TO

BUDGET SECRET

135. I PROPOSE TO INCREASE THE DUTIES ON PETROL AND DERV BY AMOUNTS WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY 4½P AND 3½P A GALLON RESPECTIVELY. THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. THE CHANGES WILL TAKE EFFECT FOR OIL DELIVERED FROM REFINERIES AND WAREHOUSES FROM SIX O'CLOCK THIS EVENING. I DO NOT PROPOSE TO INCREASE THE DUTY ON HEAVY FUEL OIL, WHICH IS OF PARTICULAR IMPORTANCE TO INDUSTRIAL COSTS.

136. THERE IS ONE EXCISE DUTY WHICH I PROPOSE TO DO AWAY WITH ALTOGETHER. MANY OF THOSE WHO FIND IT HARDEST TO MAKE ENDS MEET, INCLUDING IN PARTICULAR MANY PENSIONERS, USE PARAFFIN STOVES TO HEAT THEIR HOMES, AND IT IS WITH THEM IN MIND THAT I PROPOSE TO ABOLISH THE DUTY ON KEROSENE FROM SIX O'CLOCK TONIGHT. I AM SURE THAT THIS WILL BE WELCOMED ON ALL SIDES OF THE HOUSE.

/THE VARIOUS RATES

BUDGET SECRET

137. THE VARIOUS RATES OF VEHICLE EXCISE DUTY WILL, ONCE AGAIN, GO UP ROUGHLY IN LINE WITH PRICES. THUS THE DUTY FOR CARS AND LIGHT VANS WILL BE INCREASED BY £5, FROM £85 TO £90 A YEAR. HOWEVER, IN THE LIGHT OF THE REASSESSMENT BY MY RT HON FRIEND THE SECRETARY OF STATE FOR TRANSPORT OF THE WEAR AND TEAR THAT VARIOUS TYPES OF VEHICLE CAUSE TO THE ROADS, THERE WILL BE REDUCTIONS IN DUTY FOR THE LIGHTEST LORRIES, OFFSET BY HIGHER INCREASES FOR SOME HEAVIER LORRIES. ALL THESE CHANGES IN VEHICLE EXCISE DUTY WILL TAKE EFFECT FROM TOMORROW.

138. HOWEVER, I PROPOSE TO EXEMPT FROM VEHICLE EXCISE DUTY ALL RECIPIENTS OF THE WAR PENSIONERS' MOBILITY SUPPLEMENT. IN ADDITION, THE EXISTING VAT RELIEF FOR MOTOR VEHICLES DESIGNED OR ADAPTED FOR USE BY THE HANDICAPPED WILL BE EXTENDED, AND MATCHED BY A NEW CAR TAX RELIEF. THE EFFECT WILL BE THAT NEITHER VAT NOR CAR TAX WILL APPLY TO FAMILY CARS DESIGNED FOR DISABLED PEOPLE OR SUBSTANTIALLY ADAPTED FOR THEIR USE.

/I NOW COME

BUDGET SECRET

139. I NOW COME TO THE MOST DIFFICULT DECISION I HAVE TO TAKE IN THE EXCISE DUTY FIELD. AS THE HOUSE WILL BE AWARE, THE RULES OF THE EUROPEAN COMMUNITY, SO FAR AS ALCOHOLIC DRINKS ARE CONCERNED, ARE DESIGNED TO PREVENT A MEMBER STATE FROM PROTECTING ITS OWN DOMESTIC PRODUCT BY IMPOSING A SIGNIFICANTLY HIGHER DUTY ON COMPETING IMPORTS. IN PURSUIT OF THIS, THE COMMISSION HAS TAKEN A NUMBER OF COUNTRIES TO THE EUROPEAN COURT OF JUSTICE.

140. IN OUR CASE, THE COMMISSION CONTENDED THAT WE WERE PROTECTING BEER BY UNDER-TAXING IT IN RELATION TO WINE. WE FOUGHT THE CASE, BUT LOST; AND I AM NOW IMPLEMENTING THE JUDGEMENT HANDED DOWN BY THE COURT LAST YEAR. ACCORDINGLY, I PROPOSE TO INCREASE THE DUTY ON BEER BY THE MINIMUM AMOUNT NEEDED TO COMPLY WITH THE JUDGEMENT AND MAINTAIN REVENUE: 2P ON A TYPICAL PINT OF BEER, INCLUDING VAT. AT THE SAME TIME, THE DUTY ON TABLE WINE WILL BE REDUCED BY THE EQUIVALENT OF ABOUT 18P A BOTTLE, AGAIN INCLUDING VAT.

/WE HAVE THUS

BUDGET SECRET

141. WE HAVE THUS COMPLIED WITH THE COURT'S JUDGEMENT. AND I AM HAPPY TO BE ABLE TO TELL THE HOUSE THAT THE ITALIAN GOVERNMENT HAVE, AFTER DISCUSSIONS, GIVEN US AN UNDERTAKING THAT THEY WILL COMPLY WITH AN EARLIER COURT RULING ON DISCRIMINATION AGAINST SCOTCH WHISKY AND OTHER IMPORTED SPIRITS.

142. AS FOR THE REST OF THE ALCOHOLIC DRINKS, CIDER, WHICH INCREASINGLY COMPETES WITH BEER BUT ATTRACTS A LOWER DUTY, WILL GO UP BY 3P A PINT. THE DUTIES ON MADE-WINE WILL BE ALIGNED WITH THOSE ON OTHER WINE. AND I PROPOSE TO INCREASE THE DUTY ON SPARKLING WINE, FORTIFIED WINE AND SPIRITS BY ABOUT 10P A BOTTLE, INCLUDING VAT. ALL THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT TONIGHT.

143. THESE CHANGES IN EXCISE DUTIES WILL, ALL TOLD, BRING IN SOME £840 MILLION IN 1984-85, SOME £200M MORE THAN IS REQUIRED TO KEEP PACE WITH INFLATION.

/THE ADDITION

BUDGET SECRET

THE ADDITION IS OF COURSE DUE TO THE INCREASE IN TOBACCO DUTY.

144. THE REMAINDER OF THE EXTRA REVENUE I NEED TO MAKE A SUBSTANTIAL SWITCH THIS YEAR FROM TAXES ON EARNINGS TO TAXES ON SPENDING WILL COME FROM VAT. I PROPOSE NO CHANGE IN THE RATE OF VAT. INSTEAD, I INTEND TO BROADEN THE BASE OF THE TAX BY EXTENDING THE 15 PER CENT RATE TO TWO AREAS OF EXPENDITURE THAT HAVE HITHERTO BEEN ZERO-RATED.

145. FIRST, ALTERATIONS TO BUILDINGS. AT PRESENT REPAIRS AND MAINTENANCE ARE TAXED, BUT ALTERATIONS ARE NOT. THE BORDERLINE BETWEEN THESE TWO CATEGORIES IS THE MOST CONFUSED IN THE WHOLE FIELD OF VAT. I PROPOSE TO END THIS CONFUSION AND ILLOGICALITY BY BRINGING ALL ALTERATIONS INTO TAX. I RECOGNISE THAT THIS WILL BE UNWELCOME NEWS FOR THE CONSTRUCTION INDUSTRY, BUT CONSTRUCTION WILL OF COURSE BENEFIT GREATLY FROM THE REDUCTION IN THE

/RATE OF STAMP

BUDGET SECRET

RATE OF STAMP DUTY WHICH I HAVE ALREADY ANNOUNCED. £290 MILLION OF THE COST OF THAT REDUCTION IN 1984-85 RELATES TO TRANSFERS OF LAND AND BUILDINGS, AND OF THAT £290 MILLION SOME 90 PER CENT RELATES TO BUILDINGS AND BUILDING LAND. NEVERTHELESS, TO ALLOW A REASONABLE TIME FOR EXISTING COMMITMENTS TO BE COMPLETED OR ADJUSTED, THE VAT CHANGE WILL BE DEFERRED UNTIL 1 JUNE.

146. SECONDLY, FOOD. MOST FOOD IS ZERO-RATED. BUT FOOD SERVED IN RESTAURANTS IS TAXED, TOGETHER WITH A MISCELLANEOUS RANGE OF ITEMS INCLUDING ICE-CREAM, CONFECTIONERY, SOFT DRINKS AND CRISPS, WHICH WERE BROUGHT INTO TAX BY THE RT HON MEMBER FOR LEEDS EAST. TAKE-AWAY FOOD CLEARLY COMPETES WITH OTHER FORMS OF CATERING, AND I THEREFORE INTEND TO BRING INTO TAX HOT TAKE-AWAY FOOD AND DRINKS, WITH EFFECT FROM 1 MAY.

/THE TOTAL EFFECT

BUDGET SECRET

147. THE TOTAL EFFECT OF THE EXTENSIONS OF THE VAT COVERAGE WHICH I HAVE PROPOSED WILL BE TO INCREASE THE YIELD OF THE TAX BY £375 MILLION IN 1984-85 AND BY £650 MILLION IN A FULL YEAR.

148 THE TOTAL IMPACT EFFECT ON THE RETAIL PRICE INDEX OF THE VAT CHANGES AND EXCISE DUTY CHANGES TAKEN TOGETHER WILL BE LESS THAN THREE-QUARTERS OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST WHICH I HAVE GIVEN TO THE HOUSE OF A DECLINE IN INFLATION TO $4\frac{1}{2}$ PER CENT BY THE END OF THE YEAR.

149. THE EXTRA REVENUE RAISED IN THIS WAY WILL ENABLE ME, WITHIN THE OVERALL FRAMEWORK OF A NEUTRAL BUDGET, TO LIGHTEN THE BURDEN OF INCOME TAX.

INCOME TAX

151. SINCE WE TOOK OFFICE IN 1979, WE HAVE CUT THE BASIC RATE OF INCOME TAX FROM 33 PER CENT TO 30 PER CENT AND SHARPLY REDUCED THE CONFISCATORY HIGHER RATES INHERITED FROM THE LAST LABOUR GOVERNMENT. WE HAVE INCREASED THE MAIN TAX ALLOWANCES NOT SIMPLY IN LINE WITH PRICES BUT BY AROUND 8 PER CENT IN REAL TERMS. IT IS A GOOD RECORD. BUT IT IS NOT ENOUGH. THE BURDEN OF INCOME TAX IS STILL TOO HEAVY.

152. DURING THE LIFETIME OF THIS PARLIAMENT, I INTEND TO CARRY FORWARD THE PROGRESS WE HAVE ALREADY MADE. FOR THE MOST PART, THIS WILL HAVE TO WAIT FOR FUTURE BUDGETS, PARTICULARLY SINCE I HAVE THOUGHT IT RIGHT THIS YEAR TO CONCENTRATE ON SETTING A NEW REGIME OF BUSINESS TAXATION FOR THE LIFETIME OF A PARLIAMENT - AND BEYOND. BUT AS A RESULT OF THE CHANGES TO TAXES ON SPENDING WHICH I HAVE JUST ANNOUNCED, I CAN TAKE A FURTHER STEP IN THIS BUDGET.

/I PROPOSE

BUDGET SECRET

153. I PROPOSE TO MAKE NO CHANGE THIS YEAR IN THE RATES OF INCOME TAX. SO FAR AS THE ALLOWANCES AND THRESHOLDS ARE CONCERNED, I MUST CLEARLY INCREASE THESE BY THE AMOUNTS SET OUT IN THE STATUTORY INDEXATION FORMULA, BASED ON THE 5.3 PER CENT INCREASE IN THE RETAIL PRICE INDEX TO DECEMBER. THE QUESTION IS HOW MUCH MORE I CAN DO, AND HOW TO DIRECT IT.

154. I HAVE DECIDED THAT, THIS YEAR, THE RIGHT COURSE IS TO USE EVERY PENNY I HAVE IN HAND, WITHIN THE FRAMEWORK OF A REVENUE NEUTRAL BUDGET, TO LIFT THE LEVEL OF THE BASIC TAX THRESHOLDS, FOR THE MARRIED AND SINGLE ALIKE. IT MAKES VERY LITTLE SENSE TO BE COLLECTING INCOME TAX FROM PEOPLE WHO ARE AT THE SAME TIME RECEIVING MEANS-TESTED BENEFITS. MOREOVER LOW TAX THRESHOLDS WORSEN THE POVERTY AND UNEMPLOYMENT TRAPS, SO THAT THERE IS LITTLE IF ANY FINANCIAL INCENTIVE TO FIND A BETTER JOB OR EVEN ANY JOB AT ALL. THERE IS, ALAS, NO

/QUICK OR CHEAP

BUDGET SECRET

QUICK OR CHEAP SOLUTION TO THESE PROBLEMS. BUT THAT IS ALL THE MORE REASON TO MAKE A FURTHER MOVE TOWARDS SOLVING THEM NOW.

155. I PROPOSE TO INCREASE THE OTHER THRESHOLDS IN LINE WITH THE STATUTORY INDEXATION REQUIREMENT, AND BY NO MORE. THE FIRST HIGHER RATE OF 40 PER CENT WILL APPLY WHEN TAXABLE INCOME REACHES £15,400 A YEAR AND THE TOP RATE OF 60 PER CENT TO TAXABLE INCOME OF £38,100 OR MORE. THE SINGLE AGE ALLOWANCE WILL RISE FROM £2,360 TO £2,490 AND THE MARRIED AGE ALLOWANCE FROM £3,755 TO £3,955.

156. FOR THE BASIC THRESHOLDS, STATUTORY INDEXATION WOULD MEAN PUTTING THE SINGLE AND MARRIED ALLOWANCES UP BY £100 AND £150 RESPECTIVELY. I AM GLAD TO SAY THAT I CAN DO CONSIDERABLY BETTER THAN THAT. I PROPOSE TO INCREASE THE BASIC THRESHOLDS BY WELL OVER DOUBLE WHAT IS REQUIRED BY INDEXATION. THE SINGLE PERSON'S THRESHOLD WILL BE INCREASED BY £220,

/FROM £1,785

BUDGET SECRET

FROM £1,785 TO £2,005; AND THE MARRIED THRESHOLD BY £360, FROM £2,795 TO £3,155.

157. THIS IS AN INCREASE OF AROUND 12½ PER CENT, OR SOME 7 PER CENT IN REAL TERMS. IT BRINGS THE MARRIED MAN'S TAX THRESHOLD FOR 1984-85 TO ITS HIGHEST LEVEL IN REAL TERMS SINCE THE WAR. IT MEANS THAT THE GREAT MAJORITY OF MARRIED COUPLES WILL ENJOY AN INCOME TAX CUT OF AT LEAST £2 A WEEK. AND IT MEANS THAT A LARGE NUMBER OF PEOPLE, THOSE WITH THE SMALLEST INCOMES OF ALL, ARE TAKEN OUT OF INCOME TAX ALTOGETHER. SOME 850,000 PEOPLE - OVER 100,000 OF THEM WIDOWS - WHO WOULD HAVE PAID TAX IF THRESHOLDS HAD NOT BEEN INCREASED, WILL PAY NO TAX IN 1984-85. THAT IS 400,000 FEWER THAN IF THE ALLOWANCES HAD MERELY BEEN INDEXED.

158. ALL THESE CHANGES WILL TAKE EFFECT UNDER PAYE ON THE FIRST PAY DAY AFTER 10 MAY. THEIR COST IS CONSIDERABLE: SOME £1.8 BILLION IN 1984-85, OF

/WHICH ROUGHLY

BUDGET SECRET

WHICH ROUGHLY HALF REPRESENTS THE COST OF INDEXATION.

159. THIS IS AS FAR AS I CAN GO ON INCOME TAX THIS YEAR, WITHIN A BROADLY REVENUE-NEUTRAL BUDGET FOR 1984-85. BUT AS I HAVE ALREADY SAID, SO LONG AS WE HOLD TO OUR PUBLISHED PLANNED LEVELS OF PUBLIC SPENDING, THERE IS AN EXCELLENT PROSPECT OF FURTHER CUTS IN INCOME TAX IN NEXT YEAR'S BUDGET. THESE WOULD BE ON TOP OF THE MEASURES I HAVE ANNOUNCED IN THIS BUDGET WHICH, AS I HAVE ALREADY TOLD THE HOUSE, WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1½ BILLION, WITH BUSINESS TAKING THE LION'S SHARE.



10 DOWNING STREET

With the compliments of

Andrew 'volunteered'
this set - Our sets
have been held up.

SZ

SECRET

CHANCELLOR OF THE EXCHEQUER'S BUDGET STATEMENT

21

13 MARCH 1984

INDEX

SECTION	PAGES	TITLE
1	1-3	INTRODUCTION
2	4-9	THE ECONOMIC BACKGROUND
3	10-13	MEDIUM TERM FINANCIAL STRATEGY
4	14-19	MONETARY POLICY
5	20-23	PUBLIC SECTOR BORROWING
6	24-28	PUBLIC EXPENDITURE
7	29-31	TAX REFORM
8	32-42	SAVINGS AND INVESTMENT
9	43-67	BUSINESS TAXATION
10	68-76	PERSONAL TAXATION: TAXES ON SPENDING
11	77-81	PERSONAL TAXATION: INCOME TAX
12	82	CONCLUSION

SECRET

INTRODUCTION

THIS BUDGET WILL SET THE GOVERNMENT'S COURSE FOR THIS PARLIAMENT.

THERE WILL BE NO LETTING UP IN OUR DETERMINATION TO DEFEAT INFLATION. WE SHALL CONTINUE THE POLICIES THAT WE HAVE FOLLOWED CONSISTENTLY SINCE 1979. THESE POLICIES PROVIDE THE ONLY WAY TO ACHIEVE OUR ULTIMATE OBJECTIVE OF STABLE PRICES. TO ABANDON THEM WOULD BE TO RISK RENEWED INFLATION, AND MUCH HIGHER UNEMPLOYMENT. AS A RESULT OF OUR DETERMINED EFFORTS, INFLATION IS AT ITS LOWEST LEVEL SINCE THE 'SIXTIES. ECONOMIC RECOVERY IS WELL UNDER WAY. EMPLOYMENT IS GROWING.

THESE ACHIEVEMENTS ARE A TRIBUTE TO THE COURAGE AND FORESIGHT OF THE FIVE BUDGETS PRESENTED BY MY DISTINGUISHED PREDECESSOR, WHOSE DUTIES UNFORTUNATELY KEEP HIM IN BRUSSELS TODAY.

/I SHALL DO

I SHALL DO NOTHING TODAY TO COMPROMISE THOSE SUCCESSES. BUT THERE IS MUCH THAT I CAN DO TO BUILD UPON THEM.

MY BUDGET TODAY HAS TWO THEMES.

FIRST, THE FURTHER REDUCTION OF INFLATION. AND SECOND, A SERIES OF TAX REFORMS DESIGNED TO ENABLE THE ECONOMY TO WORK BETTER. REFORMS TO STIMULATE ENTERPRISE AND SET BRITISH BUSINESS ON THE ROAD TO PROFITABLE EXPANSION. REFORMS THAT WILL HELP TO BRING NEW JOBS.

I SHALL BEGIN BY REVIEWING THE ECONOMIC BACKGROUND TO THE BUDGET. I SHALL THEN DEAL WITH THE MEDIUM TERM FINANCIAL STRATEGY; WITH MONETARY POLICY AND THE MONETARY TARGETS FOR NEXT YEAR; AND WITH PUBLIC BORROWING AND THE APPROPRIATE PSBR FOR THE COMING YEAR. I SHALL THEN TURN TO PUBLIC EXPENDITURE, INCLUDING THE PROSPECTS FOR THE LONGER

TERM.

TERM. FINALLY I SHALL DEAL WITH TAXATION, AND THE CHANGES IN THE STRUCTURE OF TAXATION WHICH WILL PAVE THE WAY FOR CUTS IN TAXES IN SUBSEQUENT YEARS. FOR THIS WILL BE A TAX REFORM BUDGET.

AS USUAL, A NUMBER OF PRESS RELEASES, FILLING OUT THE DETAILS OF MY TAX PROPOSALS, WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

/I START WITH

THE ECONOMIC BACKGROUND

I START WITH THE ECONOMIC BACKGROUND.

SINCE 1980, INFLATION HAS FALLEN STEADILY FROM A PEAK OF OVER 20 PER CENT. FOR LAST YEAR AS A WHOLE IT WAS DOWN TO ABOUT 4½ PER CENT, THE LOWEST FIGURE SINCE THE SIXTIES. AND WITH LOWER INFLATION HAVE COME LOWER INTEREST RATES.

THIS IN TURN HAS LED TO AN ECONOMIC RECOVERY WHOSE UNDERLYING STRENGTH IS NOW BEYOND DISPUTE. WHEREAS IN SOME PREVIOUS CYCLES RECOVERY HAS COME FROM A SELF-DEFEATING STIMULUS TO MONETARY DEMAND, THIS TIME IT HAS SPRUNG FROM SOUND FINANCE AND HONEST MONEY. LOWER INFLATION AND LOWER INTEREST RATES BENEFIT INDUSTRY, BUSINESS, AND CONSUMER CONFIDENCE ALIKE.

/ACROSS THE ECONOMY,

ACROSS THE ECONOMY, TOTAL MONEY INCOMES GREW IN 1983 BY ABOUT 8 PER CENT, OF WHICH 3 PER CENT REPRESENTED REAL GROWTH IN OUTPUT. ALTHOUGH THERE IS STILL ROOM FOR IMPROVEMENT, THIS IS A VERY MUCH HEALTHIER DIVISION BETWEEN INFLATION AND REAL GROWTH THAN THE NATION EXPERIENCED IN THE 1970s. OUTPUT IN THE SECOND HALF OF 1983 IS NOW RECKONED TO HAVE EXCEEDED THE PREVIOUS PEAK, BEFORE THE WORLD RECESSION SET IN, AND IS STILL RISING STRONGLY.

PRODUCTIVITY TOO HAS CONTINUED TO IMPROVE RAPIDLY. JUST AS OVER THE PAST YEAR MANY HAVE WRONGLY PREDICTED AN END TO THE RECOVERY, SO SOME HAVE TRIED TO DISMISS THE SHARP RISE IN PRODUCTIVITY AS A FLASH IN THE PAN. YET IN 1983 MANUFACTURING PRODUCTIVITY GREW BY 6 PER CENT FOR THE SECOND YEAR IN SUCCESSION. UNIT LABOUR COSTS ACROSS THE WHOLE ECONOMY ARE LIKELY TO SHOW THE SMALLEST ANNUAL INCREASE SINCE THE 1960s. THIS HAS ALLOWED A WELCOME AND NECESSARY RECOVERY IN REAL LEVELS OF PROFITABILITY.

/HIGHER PROFITS

HIGHER PROFITS LEAD TO MORE JOBS. THE NUMBER OF PEOPLE IN WORK INCREASED BY ABOUT 80,000 BETWEEN MARCH AND SEPTEMBER LAST YEAR. THE LOSS OF JOBS IN MANUFACTURING HAS SLOWED DOWN SHARPLY, WHILE JOBS IN SERVICES INCREASED BY GETTING ON FOR 200,000 IN THE FIRST NINE MONTHS OF LAST YEAR.

BUT FURTHER PROGRESS IS NEEDED: ALTHOUGH OUR UNIT WAGE COSTS IN MANUFACTURING ROSE BY UNDER 3 PER CENT LAST YEAR, OUR THREE BIGGEST COMPETITORS, THE US, JAPAN AND GERMANY, DID BETTER. THE EMPLOYMENT PROSPECT WOULD BE SIGNIFICANTLY IMPROVED IF A BIGGER CONTRIBUTION TO IMPROVED COST PERFORMANCE WERE TO COME FROM LOWER PAY RISES.

DEMAND, OUTPUT, PROFITS AND EMPLOYMENT ALL ROSE LAST YEAR. HOME DEMAND HAS PLAYED THE MAJOR PART IN THE RECOVERY SO FAR. LOWER INFLATION REDUCED PEOPLE'S NEED TO SAVE, AND REAL INCOMES ROSE. PERSONAL CONSUMPTION INCREASED BY OVER 3½ PER

/CENT COMPARED

CENT COMPARED WITH 1982. FIXED INVESTMENT ROSE RATHER FASTER THAN CONSUMPTION, WITH INVESTMENT IN HOUSING AND SERVICES PARTICULARLY STRONG.

OUR RATE OF ECONOMIC GROWTH LAST YEAR WAS THE HIGHEST IN THE EUROPEAN COMMUNITY. FOR MUCH OF 1983 OUR EXPORT PERFORMANCE WAS AFFECTED BY WEAK DEMAND IN MANY OF OUR OVERSEAS MARKETS, WHILE IMPORTS ROSE SLIGHTLY FASTER THAN HOME DEMAND. BUT BY THE END OF LAST YEAR WORLD TRADE WAS CLEARLY MOVING AHEAD AGAIN, AND IN THE THREE MONTHS TO JANUARY MANUFACTURING EXPORTS INCREASED VERY SUBSTANTIALLY. THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT LAST YEAR IS ESTIMATED TO HAVE BEEN IN SURPLUS BY ABOUT £2 BILLION.

OUR CRITICS HAVE BEEN CONFOUNDED BY THIS COMBINATION OF ECONOMIC RECOVERY AND LOW INFLATION. EVEN THE PESSIMISTS HAVE BEEN FORCED TO ACKNOWLEDGE THE DURABILITY OF THE RECOVERY. IT IS SET TO

/CONTINUE THROUGHOUT

CONTINUE THROUGHOUT THIS YEAR AT AN ANNUAL RATE OF 3 PER CENT. INFLATION IS EXPECTED TO REMAIN LOW, EDGING BACK DOWN TO 4½ PER CENT BY THE END OF THIS YEAR. WITH RISING INCOMES AND LOW INFLATION, CONSUMPTION WILL CONTINUE TO GROW. AND, ENCOURAGED BY IMPROVED PROFITABILITY AND BETTER LONG-TERM GROWTH PROSPECTS, INVESTMENT IS EXPECTED TO RISE BY A GOOD 6 PER CENT THIS YEAR.

LOOKING ABROAD, TOO, ECONOMIC PROSPECTS ARE MORE FAVOURABLE THAN FOR SOME TIME. OUTPUT IN THE UNITED STATES SHOULD CONTINUE TO GROW STRONGLY THIS YEAR. AND RECOVERY IS SPREADING TO THE REST OF THE WORLD.

OF COURSE, THERE ARE INEVITABLE RISKS AND UNCERTAINTIES. THE SIZE AND CONTINUED GROWTH OF THE UNITED STATES BUDGET DEFICIT IS A CAUSE OF WIDESPREAD CONCERN AND KEEPS INTEREST RATES HIGH, EXACERBATING THE PROBLEMS OF THE DEBTOR COUNTRIES.

/AND THE NEED

AND THE NEED TO FINANCE THE US DEFICIT BY INFLOWS OF FOREIGN CAPITAL HAS KEPT THE DOLLAR ARTIFICIALLY HIGH AND LED TO A MASSIVE AND GROWING TRADE DEFICIT, GREATLY INCREASING THE PRESSURES FOR PROTECTIONISM WITHIN THE UNITED STATES.

A SECOND POTENTIAL RISK IS DISRUPTION IN THE OIL MARKET. THE UNITED KINGDOM, AND INDEED THE WORLD ECONOMY, INEVITABLY REMAIN VULNERABLE TO ANY MAJOR DISTURBANCES IN THIS MARKET.

BUT DESPITE THESE RISKS THERE IS A GROWING SENSE THROUGHOUT THE INDUSTRIALISED WORLD THAT THE RECOVERY THIS TIME IS ONE WHICH CAN BE SUSTAINED. THE ESSENTIAL REQUIREMENT IS THE CONTINUED PURSUIT OF PRUDENT MONETARY AND FISCAL POLICIES.

/FOR THE UNITED KINGDOM

THE MEDIUM TERM FINANCIAL STRATEGY

FOR THE UNITED KINGDOM, THE MEDIUM TERM FINANCIAL STRATEGY HAS BEEN THE CORNERSTONE OF SUCH POLICIES. IT WILL CONTINUE TO PLAY THAT ROLE; TO PROVIDE A FRAMEWORK AND DISCIPLINE FOR GOVERNMENT AND TO SET OUT CLEARLY, TO INDUSTRY AND THE FINANCIAL MARKETS, THE GUIDELINES OF POLICY. TOO OFTEN IN THE PAST GOVERNMENTS ABANDONED FINANCIAL DISCIPLINE WHENEVER THE GOING GOT ROUGH, AND STAGGERED FROM ONE SHORT-TERM POLICY EXPEDIENT TO ANOTHER. THE TEMPTATION TO ACCOMMODATE INFLATIONARY PRESSURES PROVED IRRESISTIBLE, AND THE NATION'S LONGER-TERM ECONOMIC PERFORMANCE WAS PROGRESSIVELY UNDERMINED.

THE MTFS WAS DESIGNED TO REMEDY THIS, BY IMPOSING A DISCIPLINED FINANCIAL FRAMEWORK WHICH WOULD ALSO ENSURE CONSISTENCY BETWEEN MONETARY AND

/FISCAL POLICIES

FISCAL POLICIES, AND A PROPER BALANCE IN THE ECONOMY. IT IS SO DESIGNED TO ENSURE THAT THE MORE INFLATION AND INFLATIONARY EXPECTATIONS COME DOWN, THE MORE ROOM IS AVAILABLE FOR OUTPUT AND EMPLOYMENT TO GROW.

PEOPLE NOW KNOW THAT THE GOVERNMENT INTENDS TO STICK TO ITS MEDIUM TERM OBJECTIVES. THEY UNDERSTAND THAT THE FASTER INFLATION COMES DOWN, THE FASTER OUTPUT AND EMPLOYMENT ARE LIKELY TO RECOVER. THE INCREASING DEGREE OF REALISM AND FLEXIBILITY IN THE ECONOMY OWES MUCH TO THE PURSUIT OF FIRM AND CONSISTENT POLICIES WITHIN THE MTFS FRAMEWORK.

ORIGINALLY THE MTFS COVERED FOUR YEARS. IN THIS FIRST BUDGET OF A NEW PARLIAMENT IT IS APPROPRIATE TO CARRY IT FORWARD FOR FIVE YEARS. SO THE MTFS PUBLISHED TODAY IN THE FINANCIAL STATEMENT AND BUDGET REPORT -THE RED BOOK - SHOWS A CONTINUING

/DOWNWARD PATH

DOWNWARD PATH FOR THE MONETARY TARGET RANGES OVER THE NEXT FIVE YEARS, AND A PATH FOR PUBLIC BORROWING CONSISTENT WITH THAT REDUCTION. IT TAKES FULL ACCOUNT OF IMPORTANT INFLUENCES SUCH AS THE PATTERN OF NORTH SEA OIL REVENUES, AND THE LEVEL OF ASSET SALES ARISING FROM THE PRIVATISATION PROGRAMME.

FOR THE TWO FINAL YEARS OF THE NEW MTFS, WHICH LIE BEYOND THE PERIOD COVERED IN LAST YEAR'S PUBLIC EXPENDITURE SURVEY AND LAST MONTH'S WHITE PAPER, THE GOVERNMENT HAS NOT YET MADE FIRM PLANS FOR PUBLIC SPENDING. BUT THE MTFS ASSUMPTION - AND AT PRESENT IT IS NO MORE THAN AN ASSUMPTION - IS THAT THE LEVEL OF PUBLIC SPENDING IN 1987-88 AND 1988-89 WILL BE THE SAME IN REAL TERMS AS THAT CURRENTLY PLANNED FOR 1986-87.

THE PRECISE FIGURES SET OUT IN THE MTFS ARE NOT OF COURSE A RIGID FRAMEWORK, LACKING ALL FLEXIBILITY. AS IN THE PAST, THERE MAY NEED TO BE

/ADJUSTMENTS TO

ADJUSTMENTS TO TAKE ACCOUNT OF CHANGING
CIRCUMSTANCES. BUT NO CHANGES WILL BE MADE THAT
MIGHT JEOPARDISE THE CONSISTENT PURSUIT OF THE
GOVERNMENT'S OBJECTIVES.

/MONETARY POLICY

MONETARY POLICY

MONETARY POLICY WILL CONTINUE TO PLAY A CENTRAL ROLE. FURTHER REDUCTIONS IN MONETARY GROWTH ARE NEEDED TO ACHIEVE STILL LOWER INFLATION.

OVER THE TWELVE MONTHS TO MID-FEBRUARY THE GROWTH OF £M3 HAS BEEN WELL WITHIN THE 7-11 PER CENT TARGET RANGE, WITH M1 AT THE TOP OF THE RANGE AND PSL2 A LITTLE ABOVE IT. WHILE IN THE EARLY MONTHS OF THE TARGET PERIOD MOST MEASURES OF MONEY SHOWED SIGNS OF ACCELERATING, SINCE THE SUMMER GROWTH IN ALL THE TARGET AGGREGATES HAS BEEN COMFORTABLY WITHIN THE RANGE. AND NOMINAL INTEREST RATES HAVE CONTINUED TO DECLINE IN LINE WITH FALLING INFLATION.

OTHER EVIDENCE CONFIRMS THAT MONETARY CONDITIONS ARE SATISFACTORY. THE EFFECTIVE EXCHANGE RATE HAS REMAINED FAIRLY STABLE, DESPITE

/THE INTERNATIONAL

THE INTERNATIONAL UNCERTAINTIES WHICH I HAVE DESCRIBED.

IF MONETARY POLICY IS TO STAY ON TRACK ITS PRACTICAL IMPLEMENTATION MUST ADAPT TO CHANGES IN THE FINANCIAL SYSTEM AND IN THE SIGNIFICANCE OF DIFFERENT MEASURES OF MONEY. THERE IS ^{of course} NOTHING NEW IN THIS. OVER THE YEARS WE HAVE MORE THAN ONCE ALTERED THE TARGET RANGES AND AGGREGATES TO TAKE ACCOUNT OF SUCH CHANGES. BUT THE THRUST OF THE STRATEGY HAS BEEN MAINTAINED.

ONE IMPORTANT DEVELOPMENT HAS BEEN THE DECISION TO GIVE A MORE EXPLICIT ROLE TO THE NARROW MEASURES OF MONEY. £M3 AND THE OTHER BROAD AGGREGATES GIVE A GOOD INDICATION OF THE GROWTH OF LIQUIDITY. BUT A LARGE PROPORTION OF THIS MONEY IS IN REALITY A FORM OF SAVINGS, INVESTED FOR THE INTEREST IT CAN EARN. IN DEFINING POLICY IT IS HELPFUL ALSO TO MAKE SPECIFIC REFERENCE TO MEASURES

/OF MONEY WHICH

OF MONEY WHICH RELATE MORE NARROWLY TO BALANCES HELD FOR CURRENT SPENDING.

IT WAS FOR THIS REASON THAT M1 WAS INTRODUCED AS A TARGET AGGREGATE, BUT IT HAS NOT PROVED ENTIRELY SATISFACTORY FOR THAT PURPOSE. WITH THE RAPID GROWTH OF INTEREST-BEARING SIGHT DEPOSITS, M1 HAS BECOME AN INCREASINGLY POOR MEASURE OF MONEY HELD TO FINANCE CURRENT SPENDING. THE SIGNS ARE THAT THIS WILL CONTINUE.

OTHER MEASURES OF NARROW MONEY HAVE NOT BEEN DISTORTED TO THE SAME EXTENT. IN PARTICULAR, M0, WHICH CONSISTS MAINLY OF CURRENCY, IS LIKELY TO BE A BETTER INDICATOR OF FINANCIAL CONDITIONS THAN M1. THERE IS ALSO THE NEW AGGREGATE M2, WHICH WAS SPECIFICALLY DEVISED TO PROVIDE A COMPREHENSIVE MEASURE OF TRANSACTIONS BALANCES. THIS MAY ALSO BE A USEFUL GUIDE BUT, BEING NEW, STILL NEEDS TO BE INTERPRETED WITH PARTICULAR CARE.

/IN THE PAST

IN THE PAST TWO YEARS, IT HAS BEEN POSSIBLE TO SET A SINGLE TARGET RANGE FOR BOTH BROAD AND NARROW MEASURES OF MONEY. BUT THIS WILL NOT NORMALLY BE THE CASE; FOR NARROW MONETARY AGGREGATES TEND IN THE LONG RUN TO GROW MORE SLOWLY THAN BROADER MEASURES. THUS THIS YEAR'S RED BOOK SETS OUT TWO SEPARATE (THOUGH OVERLAPPING) RANGES.

THE TARGET RANGE FOR BROAD MONEY WILL CONTINUE TO APPLY TO £M3, AND FOR THE COMING YEAR WILL BE SET AT 6-10 PER CENT, AS INDICATED IN LAST YEAR'S MTFS. THE TARGET RANGE FOR NARROW MONEY WILL APPLY TO M0 AND FOR NEXT YEAR WILL BE SET AT 4-8 PER CENT. TO AVOID ANY POSSIBLE MISUNDERSTANDING, LET ME STRESS THAT THE USE OF M0 AS A TARGET AGGREGATE WILL NOT INVOLVE ANY CHANGE IN METHODS OF MONETARY CONTROL.

THE TWO TARGET AGGREGATES WILL HAVE EQUAL IMPORTANCE IN THE CONDUCT OF POLICY. AND THE AUTHORITIES WILL CONTINUE TO TAKE INTO ACCOUNT OTHER

/MEASURES OF MONEY,

MEASURES OF MONEY, ESPECIALLY M2 AND PSL2, WHICH INCLUDE BUILDING SOCIETY LIABILITIES, AS WELL AS WIDER EVIDENCE OF FINANCIAL CONDITIONS, INCLUDING THE EXCHANGE RATE. AS IN THE PAST, MONETARY CONDITIONS WILL BE KEPT UNDER CONTROL BY AN APPROPRIATE COMBINATION OF FUNDING AND OPERATIONS IN THE MONEY MARKET.

SO FAR AS FUNDING IS CONCERNED, THE PUBLIC SECTOR'S BORROWING REQUIREMENT, AS I SHALL SHORTLY EXPLAIN, WILL BE SIGNIFICANTLY LOWER IN THE COMING YEAR. IN FINANCING IT, THE ROLE OF NATIONAL SAVINGS WILL REMAIN IMPORTANT. THIS YEAR'S NATIONAL SAVINGS' TARGET OF £3 BILLION IS LIKELY TO BE ACHIEVED: THE TARGET FOR THE COMING YEAR WILL AGAIN BE £3 BILLION.

PRECISE MONETARY TARGETS FOR THE LATER YEARS WILL BE DECIDED NEARER THE TIME. BUT TO GIVE A BROAD INDICATION OF THE OBJECTIVES OF MONETARY

/POLICY, THE NEW

POLICY, THE NEW MTFS, LIKE PREVIOUS VERSIONS, SHOWS MONETARY RANGES FOR A NUMBER OF YEARS AHEAD. THESE RANGES ARE CONSISTENT WITH A CONTINUING DOWNWARD TREND IN INFLATION: THEY DEMONSTRATE THE GOVERNMENT'S INTENTION TO MAKE FURTHER PROGRESS TOWARDS STABLE PRICES.

/I TURN NOW

PUBLIC SECTOR BORROWING

I TURN NOW TO PUBLIC BORROWING. JUST AS THE CLASSICAL FORMULA FOR FINANCIAL DISCIPLINE -THE GOLD STANDARD AND THE BALANCED BUDGET - HAD BOTH A MONETARY AND A FISCAL COMPONENT, SO DOES THE MEDIUM TERM FINANCIAL STRATEGY.

THE MTFS HAS ALWAYS ENVISAGED THAT THE PUBLIC SECTOR BORROWING REQUIREMENT WOULD FALL AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT OVER THE MEDIUM TERM. BY 1981-82 WE HAD BROUGHT IT DOWN TO $3\frac{1}{2}$ PER CENT OF GDP.

SINCE THEN THERE HAS BEEN LITTLE FURTHER FALL. THE LATEST ESTIMATE OF THE PSBR FOR THE CURRENT YEAR, 1983-84, REMAINS WHAT IT WAS IN NOVEMBER: AROUND £10 BILLION, EQUIVALENT TO $3\frac{1}{4}$ PER CENT OF GDP. THIS IS SIGNIFICANTLY ABOVE WHAT WAS INTENDED

/AT THE TIME OF

AT THE TIME OF LAST YEAR'S BUDGET, AND WOULD OF COURSE HAVE BEEN HIGHER STILL HAD IT NOT BEEN FOR THE JULY MEASURES.

WE NOW NEED A FURTHER SUBSTANTIAL REDUCTION IN BORROWING, IN ORDER TO HELP BRING INTEREST RATES DOWN FURTHER AS MONETARY GROWTH SLOWS DOWN. STERLING INTEREST RATES ARE, OF COURSE, ALSO INFLUENCED BY DOLLAR INTEREST RATES; BUT THAT MAKES IT ALL THE MORE IMPORTANT TO CURB DOMESTIC PRESSURES. IN CONTRAST TO VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD, UK THREE-MONTH AND LONG-TERM RATES ARE NOW LOWER THAN AMERICAN RATES. AS LONG AS AMERICAN RATES REMAIN NEAR THEIR CURRENT LEVEL, IT IS HIGHLY DESIRABLE THAT THIS ADVANTAGE BE MAINTAINED.

THE HIGHER LEVEL OF ASSET SALES WE ARE PLANNING AS THE PRIVATISATION PROGRAMME GATHERS PACE IS A FURTHER REASON FOR REDUCING THE PSBR SIGNIFICANTLY

/IN THE COMING

IN THE COMING YEAR. ASSET SALES REDUCE THE GOVERNMENT'S NEED TO BORROW. BUT THEIR EFFECT ON INTEREST RATES MAY BE LESS THAN THE EFFECT OF MOST OTHER REDUCTIONS IN GOVERNMENT SPENDING PROGRAMMES.

LAST YEAR'S MTF'S SHOWED AN ILLUSTRATIVE PSBR FOR 1984-85 OF 2½ PER CENT OF GDP, EQUIVALENT TO AROUND £8 BILLION. BUT I BELIEVE THAT IT IS POSSIBLE, AND INDEED PRUDENT, TO AIM FOR A SOMEWHAT LOWER FIGURE. I AM THEREFORE PROVIDING FOR A PSBR NEXT YEAR OF 2¼ PER CENT OF GDP, OR £7¼ BILLION.

THE HOUSE WILL RECALL THAT IN NOVEMBER I WARNED THAT ON CONVENTIONAL ASSUMPTIONS, INCLUDING THE 1983 RED BOOK'S PSBR FIGURE OF £8 BILLION FOR NEXT YEAR, I MIGHT HAVE TO INCREASE TAXES SLIGHTLY IN THE BUDGET. I AM GLAD TO REPORT THAT THE LATEST, AND MORE BUOYANT, FORECASTS OF TAX REVENUE IN THE COMING YEAR HAVE IMPROVED THE PICTURE. A PSBR OF £7¼ BILLION WILL REQUIRE NO OVERALL NET INCREASE IN TAXATION.

/MOREOVER,

MOREOVER, WHILE THE MEASURES I SHALL SHORTLY ANNOUNCE WILL, AFTER INDEXATION, BE BROADLY NEUTRAL IN THEIR EFFECTS ON REVENUE IN 1984-85, THEY WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1½ BILLION. AND THE MTFS PUBLISHED TODAY SHOWS THAT THERE SHOULD BE ROOM FOR FURTHER TAX CUTS NOT ONLY IN 1985-86, BUT THROUGHOUT THE REMAINDER OF THIS PARLIAMENT, PROVIDED THAT WE STICK FIRMLY TO OUR PUBLISHED PLANS FOR PUBLIC EXPENDITURE TO 1986-87, AND MAINTAIN AN EQUALLY FIRM CONTROL OF PUBLIC SPENDING THEREAFTER.

/THE PUBLIC EXPENDITURE

PUBLIC EXPENDITURE

THE PUBLIC EXPENDITURE WHITE PAPER SETTING OUT OUR SPENDING PLANS FOR THE NEXT THREE YEARS WAS APPROVED BY THE HOUSE LAST WEEK. TODAY I WANT TO CONSIDER THE IMPORTANT ISSUE OF GOVERNMENT SPENDING IN A RATHER WIDER PERSPECTIVE.

FOR FAR TOO LONG, PUBLIC SPENDING HAS GROWN FASTER THAN THE ECONOMY AS A WHOLE. AS A RESULT, THE TAX BURDEN HAS STEADILY INCREASED AND INCOME TAX HAS EXTENDED STEADILY LOWER DOWN THE INCOME SCALE.

WE HAVE SEEN A MASSIVE ENLARGEMENT IN THE ROLE OF THE STATE, AT THE EXPENSE OF THE INDIVIDUAL, AND A CORRESPONDING INCREASE IN THE DEAD WEIGHT OF TAXATION HOLDING BACK OUR ECONOMIC PROGRESS AS A NATION.

/THIS PROCESS

THIS PROCESS HAS TO STOP. BUT IT HAS ARISEN BECAUSE MUCH PUBLIC SPENDING IS DIRECTED TO EMINENTLY DESIRABLE ENDS. THIS RAISES DIFFICULT ISSUES WHICH DESERVE THE WIDEST POSSIBLE CONSIDERATION AND DEBATE.

THE GOVERNMENT IS THEREFORE PUBLISHING TODAY, IN ADDITION TO THE CUSTOMARY BUDGET DOCUMENTS, A GREEN PAPER ON THE PROSPECTS FOR PUBLIC SPENDING AND TAXATION OVER THE NEXT TEN YEARS. IT EXAMINES PAST TRENDS; DISCUSSES THE PRESSURES FOR STILL HIGHER SPENDING; AND EXAMINES THE REWARDS FOR THE INDIVIDUAL AND THE BENEFITS FOR THE ECONOMY IF THESE PRESSURES CAN BE CONTAINED.

THE GREEN PAPER CONCLUDES THAT, WITHOUT FIRM CONTROL OVER PUBLIC SPENDING, THERE CAN BE NO PROSPECT OF BRINGING THE BURDEN OF TAX BACK TO MORE REASONABLE LEVELS. ON THE ASSUMPTIONS MADE IN THE GREEN PAPER, THE BURDEN OF TAXATION WILL BE REDUCED

/TO THE LEVELS

TO THE LEVELS OF THE EARLY 1970s ONLY IF PUBLIC SPENDING IS KEPT BROADLY STABLE IN REAL TERMS OVER THE NEXT TEN YEARS.

THE GOVERNMENT BELIEVES THAT THE ISSUES DISCUSSED IN THE GREEN PAPER MERIT THE ATTENTION OF THE HOUSE AND THE COUNTRY.

IN CONTRAST TO PREVIOUS YEARS, I HAVE NO PACKAGE OF PUBLIC EXPENDITURE MEASURES TO ANNOUNCE IN THIS BUDGET. THE WHITE PAPER PLANS STAND.

I CAN HOWEVER MAKE ONE ANNOUNCEMENT, WHICH I THINK THE HOUSE WILL WELCOME. WITHIN THE PUBLISHED PLANS THE GOVERNMENT HAS BEEN ABLE TO PROVIDE THE NATIONAL HERITAGE MEMORIAL FUND WITH ADDITIONAL RESOURCES WHICH WILL ENABLE THEM AMONG OTHER THINGS TO SECURE THE FUTURE OF CALKE ABBEY. MY RT HON FRIEND THE SECRETARY OF STATE FOR THE ENVIRONMENT WILL BE ANNOUNCING THE DETAILS LATER TODAY.

/THE HOUSE WILL

THE HOUSE WILL RECALL THAT PROPOSALS FOR THE NEW RATES OF SOCIAL SECURITY BENEFIT TO COME INTO FORCE IN NOVEMBER ARE NOT NOW MADE AT THE TIME OF THE BUDGET. FOLLOWING LAST YEAR'S LEGISLATION TO RETURN TO THE HISTORIC METHOD OF UPDATING, PRICE PROTECTION IS MEASURED BY REFERENCE TO THE RETAIL PRICE INDEX FOR MAY. MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES WILL BE ANNOUNCING THE NEW RATES OF SOCIAL SECURITY BENEFITS, INCLUDING CHILD BENEFIT, WHEN THE MAY RPI IS KNOWN.

BEFORE LEAVING GOVERNMENT SPENDING, I SHOULD ADD A WORD ON PUBLIC SECTOR MANPOWER. AT THE BEGINNING OF THE LAST PARLIAMENT, THE GOVERNMENT SET ITSELF THE TARGET OF REDUCING THE SIZE OF THE CIVIL SERVICE FROM 732,000 IN APRIL 1979 TO 630,000 BY APRIL OF THIS YEAR. THAT TARGET WILL BE ACHIEVED. WE HAVE NOW SET OURSELVES THE FURTHER TARGET OF 593,000 BY APRIL 1988. I AM CONFIDENT THAT A

/SMALLER CIVIL

SMALLER CIVIL SERVICE WILL CONTINUE TO IMPROVE ITS EFFICIENCY. THE TAX CHANGES I SHALL BE ANNOUNCING TODAY WILL REDUCE MANPOWER REQUIREMENTS BY AT LEAST 1,000 IN MY OWN DEPARTMENTS, WHICH WILL HELP TOWARDS MEETING THE 1988 TARGET.

/I INDICATED AT THE

TAX REFORM

I INDICATED AT THE OUTSET THAT THIS WILL BE A RADICAL, TAX-REFORMING, BUDGET. IT WILL ALSO SIGNIFICANTLY REDUCE THE OVERALL BURDEN OF TAX OVER THE NEXT TWO YEARS TAKEN TOGETHER. AND I HOPE TO HAVE SCOPE FOR FURTHER REDUCTIONS IN FUTURE BUDGETS.

MY PROPOSALS FOR REFORM ARE GUIDED BY TWO BASIC PRINCIPLES. FIRST, THE NEED TO MAKE CHANGES THAT WILL IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM. SECOND, THE DESIRE TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER.

BUT I AM WELL AWARE THAT THE TAX REFORMER'S PATH IS A STONY ONE. ANY CHANGE IN THE SYSTEM IS BOUND, AT LEAST IN THE SHORT TERM, TO BRING BENEFITS TO SOME AND DISADVANTAGES TO OTHERS. AND THE DISAPPROVAL OF THE LATTER GROUP TENDS TO BE RATHER

/MORE AUDIBLE

MORE AUDIBLE THAN THE MURMURINGS OF SATISFACTION FROM THE FORMER.

SOME COMMENTATORS HAVE SUGGESTED THAT OUR ENTIRE INCOME-BASED TAX SYSTEM SHOULD BE REPLACED WITH AN EXPENDITURE-BASED SYSTEM. EVEN IF A ROOT-AND-BRANCH CHANGE OF THIS KIND WERE DESIRABLE, IT WOULD, I BELIEVE, BE WHOLLY IMPRACTICAL AND UNREALISTIC.

BUT I DO NOT BELIEVE WE CAN AFFORD TO OPT FOR THE QUIET LIFE AND DO NOTHING. SO I HAVE CHOSEN THE MIDDLE WAY: TO INTRODUCE REFORMS, SOME OF THEM FAR-REACHING, WITHIN THE FRAMEWORK OF OUR EXISTING INCOME-BASED SYSTEM. I SHALL ALSO BE PROPOSING TRANSITIONAL ARRANGEMENTS WHERE I BELIEVE IT FAIR AND APPROPRIATE TO DO SO.

THE CHANGES I SHALL BE PROPOSING TODAY FALL INTO THREE BROAD CATEGORIES. THESE ARE THE TAXATION

/OF SAVINGS AND

OF SAVINGS AND INVESTMENT, BUSINESS TAXATION, AND
THE TAXATION OF PERSONAL INCOME AND SPENDING.

/FIRST, THE TAXATION

SAVINGS AND INVESTMENT

FIRST, THE TAXATION OF SAVINGS AND INVESTMENT. THE PROPOSALS I AM ABOUT TO MAKE SHOULD IMPROVE THE DIRECTION AND QUALITY OF BOTH. AND THEY WILL CONTRIBUTE FURTHER TO THE CREATION OF A PROPERTY-OWNING AND SHARE-OWNING DEMOCRACY, IN WHICH MORE DECISIONS ARE MADE BY INDIVIDUALS RATHER THAN BY INSTITUTIONS.

I START WITH STAMP DUTY. THIS WAS DOUBLED FROM ITS LONG-STANDING 1 PER CENT BY THE POST-WAR LABOUR GOVERNMENT IN 1947, REDUCED BY THE CONSERVATIVE GOVERNMENT IN 1963, AND ONCE AGAIN DOUBLED TO 2 PER CENT BY LABOUR IN THE FIRST BUDGET PRESENTED BY THE RT HON MEMBER FOR LEEDS EAST IN 1974. AT ITS PRESENT LEVEL IT IS AN IMPEDIMENT TO MOBILITY AND INCOMPATIBLE WITH THE FORCES OF COMPETITION NOW AT WORK IN THE CITY, FOLLOWING THE WITHDRAWAL OF THE

/STOCK EXCHANGE

STOCK EXCHANGE CASE FROM THE RESTRICTIVE PRACTICES COURT.

I THEREFORE PROPOSE TO HALVE THE RATE OF STAMP DUTY TO 1 PER CENT. THE NEW RATE WILL APPLY STRAIGHT AWAY TO STOCK EXCHANGE DEALS. IT WILL ALSO APPLY FROM TODAY TO OTHER TRANSACTIONS WHERE DOCUMENTS ARE STAMPED ON OR AFTER 20 MARCH.

FOR THE HOME BUYER, THE NEW FLAT RATE 1 PER CENT STAMP DUTY WILL START AT £30,000. BELOW THIS LEVEL NO DUTY WILL BE PAYABLE. AS A RESULT OF THIS £5,000 INCREASE IN THE THRESHOLD, 90 PER CENT OF FIRST TIME HOME BUYERS WILL NOT HAVE TO PAY STAMP DUTY AT ALL.

REDUCING THE RATE OF DUTY ON SHARE TRANSFERS WILL REMOVE AN IMPORTANT DISINCENTIVE TO INVESTMENT IN EQUITIES AND INCREASE THE INTERNATIONAL COMPETITIVENESS OF OUR STOCK MARKET. IT SHOULD ALSO HELP BRITISH COMPANIES TO RAISE EQUITY FINANCE.

/IN ADDITION, I

IN ADDITION, I HAVE FOUR PROPOSALS TO ENCOURAGE THE ISSUE OF CORPORATE BONDS. I SHALL GO AHEAD WITH THE NEW ARRANGEMENTS FOR DEEP DISCOUNT STOCK AND THE RELIEFS FOR COMPANIES ISSUING EUROBONDS, AND FOR CONVERTIBLE LOAN STOCK, WHICH WERE ANNOUNCED BUT NOT ENACTED LAST YEAR. AND I PROPOSE TO EXEMPT FROM CAPITAL GAINS TAX MOST CORPORATE FIXED INTEREST SECURITIES PROVIDED THEY ARE HELD FOR MORE THAN A YEAR. SINCE SUCH SECURITIES ARE ALREADY EXEMPT FROM STAMP DUTY THIS MEANS THAT THE TAX CONCESSIONS FOR PRIVATE SECTOR BORROWING IN THE CORPORATE BOND MARKET WILL NOW BE VIRTUALLY THE SAME AS FOR GOVERNMENT BORROWING IN THE GILT-EDGED MARKET.

THE REDUCTIONS IN STAMP DUTY WILL COST £450 MILLION IN 1984-85, OF WHICH £160 MILLION IS THE COST OF THE RELIEF ON SHARE TRANSFERS, AND £290 MILLION THE COST OF THE RELIEF ON TRANSFERS OF HOUSES AND OTHER BUILDINGS AND LAND.

/NEXT, LIFE ASSURANCE.

NEXT, LIFE ASSURANCE. THE MAIN EFFECT OF LIFE ASSURANCE PREMIUM RELIEF TODAY IS UNDULY TO FAVOUR INSTITUTIONAL RATHER THAN DIRECT INVESTMENT. IT HAS ALSO SPAWNED A MULTIPLICITY OF WELL-ADVERTISED TAX MANAGEMENT SCHEMES, AND NO LESS THAN 50 PAGES OF LEGISLATION ATTEMPTING TO DEAL WITH ITS ABUSE. I THEREFORE PROPOSE TO WITHDRAW THE RELIEF ON ALL NEW CONTRACTS MADE AFTER TODAY. I STRESS THAT THIS CHANGE WILL APPLY ONLY TO NEW (OR NEWLY ENHANCED) POLICIES, TAKEN OUT AFTER TODAY. EXISTING POLICIES WILL NOT BE AFFECTED AT ALL. THE CHANGE IS ESTIMATED TO YIELD ABOUT £90 MILLION IN 1984-85.

I AM ALSO PROPOSING TO CURTAIL THE SPECIAL -BUT UNFORTUNATELY WIDELY ABUSED - PRIVILEGES FOR WHAT ARE KNOWN AS 'TAX EXEMPT' FRIENDLY SOCIETIES, AND BRING THEM INTO LINE WITH THE NORMAL RULES FOR FRIENDLY SOCIETIES DOING 'MIXED' BUSINESS. HOWEVER THE LIMITS WITHIN WHICH IN FUTURE ALL FRIENDLY SOCIETIES WILL BE ABLE TO WRITE ASSURANCE ON A TAX EXEMPT BASIS WILL BE INCREASED FROM £500 TO £750.

/I HAVE ALSO

I HAVE ALSO REVIEWED THE TAX TREATMENT OF DIRECT PERSONAL INVESTMENT. THE INVESTMENT INCOME SURCHARGE IS AN UNFAIR AND ANOMALOUS TAX ON SAVINGS AND ON THE REWARDS OF SUCCESSFUL ENTERPRISE. IT HITS THE SMALL BUSINESSMAN WHO REACHES RETIREMENT WITHOUT THE CUSHION OF A COMPANY PENSION SCHEME, AND IMPEDES THE CREATION OF FARM TENANCIES. IN THE VAST MAJORITY OF CASES IT IS A TAX ON SAVINGS MADE OUT OF HARD-EARNED AND FULLY-TAXED INCOME. MORE THAN HALF OF THOSE WHO PAY THE INVESTMENT INCOME SURCHARGE ARE OVER 65, AND OF THESE HALF WOULD OTHERWISE BE LIABLE TO TAX AT ONLY THE BASIC RATE.

I HAVE THEREFORE DECIDED THAT THE INVESTMENT INCOME SURCHARGE SHOULD BE ABOLISHED. THE COST IN 1984-85 WILL BE SOME £25 MILLION, BUILDING UP TO AROUND £350 MILLION IN A FULL YEAR.

FINALLY, I PROPOSE TO DRAW MORE CLOSELY TOGETHER THE TAX TREATMENT OF DEPOSITORS IN BANKS

/AND BUILDING

AND BUILDING SOCIETIES. THESE INSTITUTIONS COMPETE IN THE SAME MARKET FOR PERSONAL DEPOSITS. I BELIEVE THAT THEY SHOULD BE ABLE TO DO SO ON MORE EQUAL TERMS AS FAR AS TAX IS CONCERNED. ONE SOURCE OF UNEQUAL TREATMENT HAS ALREADY BEEN REMOVED, WITH THE RECENT CHANGE MADE ON LEGAL ADVICE IN THE TAX TREATMENT OF BUILDING SOCIETIES' PROFITS FROM GILT-EDGED SECURITIES. THEY ARE NOW TREATED IN THE SAME WAY AS THOSE OF THE BANKS HAVE ALWAYS BEEN.

BUT THE MAJOR SOURCE OF UNEQUAL TREATMENT, AGAINST WHICH THE BANKS IN PARTICULAR HAVE FREQUENTLY COMPLAINED, IS THE SPECIAL ARRANGEMENT FOR INTEREST PAID BY BUILDING SOCIETIES. THE SOCIETIES PAY TAX AT A SPECIAL RATE - THE "COMPOSITE RATE" - ON THE INTEREST PAID TO THE DEPOSITOR, WHO RECEIVES CREDIT FOR INCOME TAX AT THE FULL BASIC RATE.

/THIS SYSTEM,

THIS SYSTEM, WHICH HAS WORKED WELL FOR THE PAST 90 YEARS, HAS BOTH AN ADVANTAGE AND A DISADVANTAGE. THE DISADVANTAGE IS THAT A MINORITY OF DEPOSITORS, WHO ARE BELOW THE INCOME TAX THRESHOLD, STILL PAY TAX AT THE COMPOSITE RATE. IT HAS NOT HOWEVER STOPPED MANY OF THEM USING BUILDING SOCIETIES BECAUSE OF THE COMPETITIVE RATES THEY HAVE OFFERED. THE ADVANTAGE OF THE SCHEME IS ITS EXTREME SIMPLICITY, PARTICULARLY FOR THE TAXPAYER; MOST TAXPAYERS ARE SPARED THE BOTHER OF PAYING TAX ON INTEREST THROUGH PAYE OR INDIVIDUAL ASSESSMENT, WHILE THE REVENUE ARE SPARED THE NEED TO RECRUIT UP TO 2000 EXTRA STAFF TO COLLECT THE TAX DUE ON INTEREST PAID WITHOUT DEDUCTION.

IN COMMON WITH MY PREDECESSORS OF ALL PARTIES OVER THE PAST 90 YEARS, I AM SATISFIED THAT THE ADVANTAGE OF THE COMPOSITE RATE ARRANGEMENT OUTWEIGHS THE DISADVANTAGE. IT FOLLOWS THAT EQUAL TREATMENT OF BUILDING SOCIETIES AND BANKS SHOULD BE

/ACHIEVED, NOT BY

ACHIEVED, NOT BY REMOVING THE COMPOSITE RATE FROM THE SOCIETIES, BUT BY EXTENDING IT TO THE BANKS AND OTHER LICENSED DEPOSIT TAKERS.

NON-TAXPAYERS WILL CONTINUE TO BE ABLE TO RECEIVE INTEREST GROSS, SHOULD THEY WISH TO DO SO, BY PUTTING THEIR MONEY INTO APPROPRIATE NATIONAL SAVINGS FACILITIES. BUT THE PURPOSE OF THE MOVE IS NOT, OF COURSE, TO ATTRACT SAVINGS INTO GOVERNMENT HANDS: AS I HAVE ALREADY ANNOUNCED, NEXT YEAR'S TARGET FOR NATIONAL SAVINGS WILL BE THE SAME AS THIS YEAR'S AND LAST YEAR'S; AND THE TOTAL GOVERNMENT APPETITE FOR SAVINGS, WHICH IS MEASURED BY THE SIZE OF THE PUBLIC SECTOR BORROWING REQUIREMENT, IS BEING SIGNIFICANTLY REDUCED.

THE TRUE PURPOSE OF THE MOVE IS SIMPLE: FAIRER COMPETITION AND SIMPLICITY ITSELF. THE GREAT MAJORITY OF INDIVIDUAL BANK CUSTOMERS WILL, WHEN IT COMES TO TAX, BE ABLE TO FORGET ABOUT BANK INTEREST

/ALTOGETHER, FOR

ALTOGETHER, FOR ALL THE TAX DUE ON IT WILL ALREADY HAVE BEEN PAID. AND IT WILL BE EASIER FOR PEOPLE TO COMPARE THE TERMS OFFERED FOR THEIR SAVINGS BY BANKS AND BUILDING SOCIETIES.

THE PURPOSE OF THE CHANGE IS NOT TO RAISE ADDITIONAL REVENUE. THE COMPOSITE RATE ARRANGEMENT IS DESIGNED TO COLLECT NO MORE TAX THAN WOULD BE DUE AT THE BASIC RATE FROM ALL DEPOSITORS UNDER EXISTING ARRANGEMENTS.

HOWEVER, THE INLAND REVENUE WILL BE ABLE TO MAKE STAFF SAVINGS OF UP TO 1000 CIVIL SERVANTS. MOREOVER, THIS FIGURE TAKES NO ACCOUNT OF THE SUBSTANTIAL NUMBERS OF ADDITIONAL INLAND REVENUE STAFF WHO WOULD HAVE BEEN REQUIRED TO OPERATE THE PRESENT SYSTEM AS THE TREND TOWARDS THE PAYMENT OF INTEREST ON CURRENT ACCOUNTS DEVELOPS.

/ACCORDINGLY, I

ACCORDINGLY, I PROPOSE TO EXTEND THE COMPOSITE RATE ARRANGEMENTS TO INTEREST RECEIVED BY UK RESIDENT INDIVIDUALS FROM BANKS AND OTHER LICENSED DEPOSIT TAKERS WITH EFFECT FROM 1985-86. THE COMPOSITE RATE WILL NOT APPLY EITHER TO NON-RESIDENTS OR TO THE CORPORATE SECTOR. ARRANGEMENTS WILL ALSO BE MADE TO EXCLUDE FROM THE SCHEME CERTIFICATES OF DEPOSIT AND TIME DEPOSITS OF £50,000 OR MORE.

TAKEN TOGETHER, THE MAJOR PROPOSALS I HAVE JUST ANNOUNCED ON STAMP DUTY, LIFE ASSURANCE PREMIUM RELIEF, THE INVESTMENT INCOME SURCHARGE, AND THE COMPOSITE RATE, COUPLED WITH OTHER MINOR PROPOSALS, WILL PROVIDE A SIMPLER AND MORE STRAIGHTFORWARD TAX SYSTEM FOR SAVINGS AND INVESTMENT. THEY WILL REMOVE BIASES WHICH HAVE DISCOURAGED THE INDIVIDUAL SAVER FROM INVESTING DIRECTLY IN INDUSTRY. THEY WILL REINFORCE THE GOVERNMENT'S POLICY OF ENCOURAGING COMPETITION IN THE FINANCIAL SECTOR, AS IN THE

/ECONOMY AS A

ECONOMY AS A WHOLE. AND THEY ARE PART OF A PACKAGE OF MEASURES DESIGNED TO ENABLE INTEREST RATES TO FALL, AND REDUCE THE COST OF BORROWING.

/I NOW TURN TO

BUSINESS TAXATION

I NOW TURN TO BUSINESS TAXATION. HERE, GOVERNMENT HAS TWO RESPONSIBILITIES TOWARDS BRITISH BUSINESS AND INDUSTRY. THE FIRST IS TO ENSURE THAT THEY DO NOT HAVE TO BEAR AN EXCESSIVE BURDEN OF TAXATION. THE SECOND IS TO ENSURE THAT, GIVEN A PARTICULAR BURDEN, IT IS STRUCTURED IN THE WAY THAT DOES LEAST DAMAGE TO THE NATION'S ECONOMIC PERFORMANCE.

THE MEASURES I AM ANNOUNCING TODAY WILL, TAKING THE NEXT TWO YEARS TOGETHER, RESULT IN A SUBSTANTIAL REDUCTION IN THE BURDEN OF TAXATION ON BRITISH BUSINESS. AND IN ADDITION I SHALL BE PROPOSING A FAR-REACHING REFORM OF COMPANY TAXATION.

RESPONSES TO THE CORPORATION TAX GREEN PAPER IN 1982 SHOWED A STRONG GENERAL DESIRE TO RETAIN THE

/IMPUTATION SYSTEM.

IMPUTATION SYSTEM. I ACCEPT THAT. BUT OTHER CHANGES ARE NEEDED.

THE CURRENT RATES OF CORPORATION TAX ARE FAR TOO HIGH, PENALISING PROFIT AND SUCCESS, AND BLUNTING THE CUTTING EDGE OF ENTERPRISE. THEY ARE THE PRODUCT OF TOO MANY SPECIAL RELIEFS, INDISCRIMINATELY APPLIED AND OF DIMINISHING RELEVANCE TO THE CONDITIONS OF TODAY. SOME OF THESE RELIEFS REFLECT ECONOMIC PRIORITIES OR CIRCUMSTANCES WHICH HAVE LONG VANISHED, AND NOW SERVE ONLY TO DISTORT INVESTMENT DECISIONS AND CHOICES ABOUT FINANCE. OTHERS WERE INTRODUCED TO MEET SHORT-TERM PRESSURES, NOTABLY THE UPWARD SURGE OF INFLATION.

WITH INFLATION DOWN TO TODAY'S LOW LEVELS, THIS IS CLEARLY THE TIME TO TAKE A FRESH LOOK. AND WITH UNEMPLOYMENT AS HIGH AS IT IS TODAY, IT IS PARTICULARLY DIFFICULT TO JUSTIFY A TAX SYSTEM WHICH

/ENCOURAGES

ENCOURAGES LOW-YIELDING OR EVEN LOSS-MAKING INVESTMENT AT THE EXPENSE OF JOBS.

MY PURPOSE THEREFORE IS TO PHASE OUT SOME UNNECESSARY RELIEFS, IN ORDER TO BRING ABOUT, OVER TIME, A MARKEDLY LOWER RATE OF TAX ON COMPANY PROFITS.

FIRST, CAPITAL ALLOWANCES. OVER VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD THERE HAVE BEEN INCENTIVES FOR INVESTMENT IN BOTH PLANT AND MACHINERY AND INDUSTRIAL (THOUGH NOT COMMERCIAL) BUILDINGS. BUT THERE IS LITTLE EVIDENCE THAT THESE INCENTIVES HAVE STRENGTHENED THE ECONOMY OR IMPROVED THE QUALITY OF INVESTMENT. QUITE THE CONTRARY: THE EVIDENCE SUGGESTS THAT BUSINESSES HAVE INVESTED SUBSTANTIALLY IN ASSETS YIELDING A LOWER RATE OF RETURN THAN THE INVESTMENTS MADE BY OUR PRINCIPAL COMPETITORS. TOO MUCH OF BRITISH INVESTMENT HAS BEEN MADE BECAUSE THE TAX ALLOWANCES

/MAKE IT LOOK

MAKE IT LOOK PROFITABLE, RATHER THAN BECAUSE IT WOULD BE TRULY PRODUCTIVE. WE NEED INVESTMENT DECISIONS BASED ON FUTURE MARKET ASSESSMENTS, NOT FUTURE TAX ASSESSMENTS.

I PROPOSE TO RESTRUCTURE THE CAPITAL ALLOWANCES IN THREE ANNUAL STAGES. IN THE CASE OF PLANT AND MACHINERY, AND ASSETS WHOSE ALLOWANCES ARE LINKED WITH THEM, THE FIRST YEAR ALLOWANCE WILL BE REDUCED FROM 100 PER CENT TO 75 PER CENT FOR ALL SUCH EXPENDITURE INCURRED AFTER TODAY, AND TO 50 PER CENT FOR EXPENDITURE INCURRED AFTER 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THERE WILL BE NO FIRST YEAR ALLOWANCES, AND ALL EXPENDITURE ON PLANT AND MACHINERY WILL QUALIFY FOR ANNUAL ALLOWANCES ON A 25 PER CENT REDUCING BALANCE BASIS.

IN ADDITION, FROM NEXT YEAR ANNUAL ALLOWANCES WILL BE GIVEN AS SOON AS THE EXPENDITURE IS INCURRED, AND NOT, AS THEY ARE TODAY, WHEN THE ASSET

/COMES INTO USE.

COMES INTO USE. THIS WILL BRING FORWARD THE ENTITLEMENT TO ANNUAL ALLOWANCES FOR THOSE ASSETS, SUCH AS SHIPS AND OIL RIGS, FOR WHICH SOME PAYMENT IS NORMALLY MADE WELL BEFORE THEY ARE BROUGHT INTO USE.

FOR INDUSTRIAL BUILDINGS, I PROPOSE THAT THE INITIAL ALLOWANCE SHOULD FALL FROM 75 PER CENT TO 50 PER CENT FROM TONIGHT, AND BE FURTHER REDUCED TO 25 PER CENT FROM 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THE INITIAL ALLOWANCE WILL BE ABOLISHED, AND EXPENDITURE WILL BE WRITTEN OFF ON AN ANNUAL 4 PER CENT STRAIGHT LINE BASIS.

WHEN THESE CHANGES HAVE ALL TAKEN PLACE, TAX ALLOWANCES FOR BOTH PLANT AND MACHINERY AND INDUSTRIAL BUILDINGS WILL STILL ON AVERAGE BE RATHER MORE GENEROUS THAN WOULD BE PROVIDED BY A STRICT SYSTEM OF COMMERCIAL DEPRECIATION.

/THE CHANGES

THE CHANGES IN THE RATES OF ALLOWANCES WILL NOT APPLY TO PAYMENTS UNDER BINDING CONTRACTS ENTERED INTO BEFORE MIDNIGHT TONIGHT, PROVIDED THAT THE EXPENDITURE IS INCURRED WITHIN THE NEXT THREE YEARS.

THERE WILL BE TRANSITIONAL TAX ARRANGEMENTS FOR CERTAIN INVESTMENT PROJECTS IN THE DEVELOPMENT AREAS AND SPECIAL DEVELOPMENT AREAS. WHEN A PROJECT IN THOSE AREAS HAS HAD AN OFFER OF INDUSTRY ACT SELECTIVE FINANCIAL ASSISTANCE AND ALSO ATTRACTS REGIONAL DEVELOPMENT GRANTS, THE EXISTING CAPITAL ALLOWANCES WILL CONTINUE TO APPLY TO THE EXPENDITURE TO WHICH THE SELECTIVE ASSISTANCE IS RELATED. THESE ARRANGEMENTS WILL COVER PROJECTS FOR WHICH OFFERS HAVE ALREADY BEEN MADE BETWEEN 1 APRIL 1980 AND TODAY. SIMILAR ARRANGEMENTS FOR REGIONAL DEVELOPMENT GRANTS WERE ANNOUNCED BY MY RT. HON. FRIEND THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IN HIS WHITE PAPER LAST DECEMBER.

/OVER THE SAME

OVER THE SAME PERIOD TO 31 MARCH 1986 MOST OTHER CAPITAL ALLOWANCES WILL BE BROUGHT INTO LINE WITH THE MAIN CHANGES I HAVE ANNOUNCED. THE INLAND REVENUE WILL BE ISSUING A PRESS NOTICE TONIGHT GIVING FULL DETAILS OF THESE PROPOSALS.

NEXT, STOCK RELIEF. AS THE HOUSE WILL RECALL, THIS WAS INTRODUCED BY THE LAST LABOUR GOVERNMENT AS A FORM OF EMERGENCY HELP TO BUSINESSES FACING THE RAVAGES OF HIGH INFLATION. THOSE DAYS ARE PAST; AND THE RELIEF IS NO LONGER NECESSARY. COMPANY LIQUIDITY HAS IMPROVED AND, ABOVE ALL, INFLATION HAS FALLEN SHARPLY. ACCORDINGLY, I PROPOSE NOT TO ALLOW STOCK RELIEF FOR INCREASES IN PRICES AFTER THIS MONTH.

THE CHANGES I HAVE JUST ANNOUNCED, IN CAPITAL ALLOWANCES AND STOCK RELIEF, ENABLE ME TO EMBARK ON A MAJOR PROGRAMME OF PROGRESSIVE REDUCTIONS IN THE MAIN RATE OF CORPORATION TAX. FOR PROFITS EARNED

/IN THE YEAR

IN THE YEAR JUST ENDING, ON WHICH TAX IS GENERALLY PAYABLE IN 1984-85, THE RATE WILL BE CUT FROM 52 PER CENT TO 50 PER CENT. FOR PROFITS EARNED IN 1984-85 THE RATE WILL BE FURTHER CUT TO 45 PER CENT. LOOKING FURTHER AHEAD, TO PROFITS EARNED IN 1985-86, THE RATE WILL GO DOWN TO 40 PER CENT; AND FOR PROFITS EARNED IN 1986-87 THE MAIN RATE OF CORPORATION TAX WILL BE 35 PER CENT - NO LESS THAN 17 PERCENTAGE POINTS BELOW THE CURRENT RATE.

ALL THESE RATES FOR THE YEARS AHEAD WILL BE INCLUDED IN THIS YEAR'S FINANCE BILL. AND WHEN THESE CHANGES ARE COMPLETE, OUR RATES OF CAPITAL ALLOWANCES FOR THE GENERALITY OF PLANT AND MACHINERY WILL BE COMPARABLE WITH THOSE IN MOST OTHER COUNTRIES, WHILE THE RATE OF TAX ON PROFITS WILL BE SIGNIFICANTLY LOWER.

THE SUBSTANTIAL REDUCTION IN THE RATE OF CORPORATION TAX WILL BRING A FURTHER BENEFIT. OUR

/IMPUTATION SYSTEM

IMPUTATION SYSTEM ALLOWS A COMPANY TO OFFSET IN FULL ALL INTEREST PAID. BUT ONLY A PARTIAL OFFSET FOR DIVIDENDS IS ALLOWED. COMPANIES THUS HAVE A CLEAR INCENTIVE TO FINANCE THEMSELVES THROUGH BORROWING, IN PARTICULAR BANK BORROWING, RATHER THAN BY RAISING EQUITY CAPITAL. THE CLOSER THE CORPORATION TAX RATE COMES TO THE BASIC RATE OF INCOME TAX, THE SMALLER THIS UNDESIRABLE DISTORTION BECOMES.

OF COURSE, THE MAJORITY OF COMPANIES ARE NOT LIABLE TO PAY THE MAIN RATE OF CORPORATION TAX AT ALL. FOR THEM IT IS THE SMALL COMPANIES' RATE, AT PRESENT 38 PER CENT, WHICH APPLIES. I PROPOSE TO REDUCE THIS RATE FORTHWITH TO 30 PER CENT, FOR PROFITS EARNED IN 1983-84 AND THEREAFTER. A TAX REGIME FOR SMALL COMPANIES WHICH IS ALREADY GENEROUS BY INTERNATIONAL STANDARDS WILL THUS BECOME MARKEDLY MORE GENEROUS.

/THE CORPORATION TAX

THE CORPORATION TAX MEASURES I HAVE JUST ANNOUNCED WILL COST £280 MILLION IN 1984-85. IN 1985-86 THE COST WILL BE £450 MILLION - MADE UP OF £1,100 MILLION BY WAY OF REDUCTIONS IN THE RATES, ONLY PARTIALLY OFFSET BY A £650 MILLION REDUCTION IN THE VALUE OF THE RELIEFS. DURING THE TRANSITIONAL PERIOD AS A WHOLE, THESE MEASURES SHOULD HAVE A BROADLY NEUTRAL EFFECT ON THE FINANCIAL POSITION OF COMPANIES. BUT WHEN THE CHANGES HAVE FULLY WORKED THROUGH, COMPANIES WILL ENJOY VERY SUBSTANTIAL REDUCTIONS IN THE TAX THEY PAY.

BUSINESS AND INDUSTRY CAN GO AHEAD CONFIDENTLY ON THE BASIS OF THE CORPORATION TAX RATES I HAVE ANNOUNCED TODAY, WHICH SET THE FRAMEWORK OF COMPANY TAXATION FOR THE REST OF THIS PARLIAMENT.

OVER THE NEXT TWO YEARS, THESE CHANGES WILL CAUSE SOME INVESTMENT TO BE BROUGHT FORWARD, TO TAKE ADVANTAGE OF HIGH FIRST YEAR CAPITAL ALLOWANCES - A

/PROSPECT MADE

PROSPECT MADE ALL THE MORE ALLURING FOR BUSINESS SINCE THE PROFITS EARNED WILL BE TAXED AT THE NEW, LOWER, RATES. BUT THE MORE IMPORTANT AND LASTING EFFECT WILL BE TO ENCOURAGE THE SEARCH FOR INVESTMENT PROJECTS WITH A GENUINELY WORTHWHILE RETURN, AND TO DISCOURAGE UNECONOMIC INVESTMENT.

IT IS DOUBTFUL WHETHER IT WAS EVER REALLY SENSIBLE TO SUBSIDISE CAPITAL INVESTMENT IRRESPECTIVE OF THE TRUE RATE OF RETURN. CERTAINLY, WITH OVER THREE MILLION UNEMPLOYED IT CANNOT MAKE SENSE TO SUBSIDISE CAPITAL SO HEAVILY AT THE EXPENSE OF LABOUR.

THESE CHANGES HOLD OUT AN EXCITING OPPORTUNITY FOR BRITISH INDUSTRY AS A WHOLE: AN OPPORTUNITY FURTHER TO IMPROVE ITS PROFITABILITY, AND TO EXPAND, BUILDING ON THE RECOVERY THAT IS ALREADY WELL UNDER WAY. HIGHER PROFITS AFTER TAX WILL ENCOURAGE AND REWARD ENTERPRISE, STIMULATE INNOVATION IN ALL ITS FORMS, AND CREATE MORE JOBS.

/I NOW TURN

I NOW TURN TO SOME MORE DETAILED MEASURES AFFECTING BUSINESS.

THE BUSINESS EXPANSION SCHEME, INTRODUCED LAST YEAR AS A SUCCESSOR TO THE BUSINESS START UP SCHEME, HAS BEEN WIDELY WELCOMED AS A HIGHLY IMAGINATIVE SCHEME FOR ENCOURAGING INDIVIDUALS TO INVEST IN SMALL COMPANIES. IT IS ALREADY PROVING A CONSIDERABLE SUCCESS. IT NOW NEEDS TIME TO SETTLE DOWN, AND I HAVE ONLY ONE CHANGE TO PROPOSE THIS YEAR.

THE SCHEME WAS DESIGNED TO OFFER GENEROUS INCENTIVES FOR INVESTMENT BY NEW OR EXPANDING COMPANIES IN HIGH RISK AREAS. THE OWNERSHIP OF FARMLAND CANNOT BE SAID TO FALL WITHIN THIS CATEGORY, AND I THEREFORE PROPOSE THAT FROM TOMORROW FARMING SHOULD CEASE TO BE TREATED AS A QUALIFYING TRADE UNDER THE SCHEME.

/NEXT, IN KEEPING

NEXT, IN KEEPING WITH WHAT I HAVE SAID ABOUT REMOVING COMPLEXITY AND DISTORTIONS, I PROPOSE TO ABOLISH TWO RELIEFS IN THE PERSONAL TAX FIELD WHICH WERE INTRODUCED AT A TIME WHEN THIS COUNTRY SUFFERED FROM EXCESSIVELY HIGH RATES OF INCOME TAX. AS WE HAVE REDUCED THOSE RATES, THE RELIEFS ARE NO LONGER JUSTIFIED.

THE FIRST IS THE 50 PER CENT TAX RELIEF (FALLING AFTER 9 YEARS TO 25 PER CENT) APPLIED TO THE EMOLUMENTS OF FOREIGN-DOMICILED EMPLOYEES WORKING HERE FOR FOREIGN EMPLOYERS. THESE EMPLOYEES ARE OFTEN PAYING MUCH LESS TAX HERE THAN THEY WOULD EITHER IN THEIR OWN COUNTRY OR IN MOST OTHER EUROPEAN COUNTRIES. AT PRESENT INCOME TAX RATES, THE NEED FOR THIS RELIEF HAS CLEARLY DISAPPEARED. MOREOVER, IT IS OPEN TO WIDESPREAD ABUSE. IT IS, FOR EXAMPLE, POSSIBLE FOR SOMEONE WHOSE PARENTS CAME HERE FROM ABROAD, AND WHO HAS HIMSELF LIVED HERE ALL HIS LIFE, TO ENJOY THIS RELIEF, IF HE WORKS FOR A FOREIGN COMPANY. THAT CANNOT BE RIGHT.

/I THEREFORE

I THEREFORE PROPOSE TO WITHDRAW THE RELIEF FOR ALL NEW CASES FROM TODAY. FOR EXISTING BENEFICIARIES, THE 25 PER CENT RELIEF WILL CEASE ON 6 APRIL, AND THE 50 PER CENT RELIEF WILL BE PHASED OUT OVER THE NEXT FIVE YEARS.

I ALSO PROPOSE TO WITHDRAW THE FOREIGN EARNINGS RELIEF FOR UNITED KINGDOM RESIDENTS WHO WORK AT LEAST 30 DAYS ABROAD IN A TAX YEAR. THIS RELIEF TOO HARKS BACK TO THE DAYS OF PENALLY HIGH INCOME TAX RATES. IT TOO HAS BEEN EXPLOITED, IN PARTICULAR BY THOSE WHO PROLONG THEIR OVERSEAS VISITS PURELY IN ORDER TO GAIN A TAX ADVANTAGE. I PROPOSE TO WITHDRAW THE MATCHING RELIEF FOR THE SELF-EMPLOYED WHO SPEND 30 DAYS ABROAD, AND FOR THOSE RESIDENT IN THE UK WHO HAVE SEPARATE EMPLOYMENTS OR SEPARATE TRADES CARRIED ON WHOLLY ABROAD. THE RELIEF WILL BE HALVED TO 12½ PER CENT IN 1984- 85 AND REMOVED ENTIRELY FROM 6 APRIL 1985.

/HOWEVER, I AM

HOWEVER, I AM NOT MAKING ANY CHANGE TO THE 100 PER CENT DEDUCTION GIVEN FOR ABSENCES ABROAD OF 365 DAYS OR MORE. IN ADDITION, I HAVE AUTHORISED CONSULTATIONS BY THE INLAND REVENUE ABOUT A POSSIBLE RELAXATION IN THE RULES GOVERNING THE TAXATION OF EXPENSES REIMBURSED TO EMPLOYEES FOR TRAVEL OVERSEAS.

THE ABOLITION OF THESE RELIEFS WILL EVENTUALLY YIELD REVENUE SAVINGS OF OVER £150 MILLION; AND REPRESENTS ANOTHER USEFUL STEP IN THE REMOVAL OF COMPLEXITY AND DISTORTIONS IN THE TAX SYSTEM.

I NEED TO SET THE CAR BENEFIT SCALES FOR 1985-86 FOR THOSE PROVIDED WITH THE USE OF A CAR BY THEIR EMPLOYER. DESPITE THE INCREASES OVER RECENT YEARS, THE LEVELS STILL FALL SHORT OF ANY REALISTIC MEASURE OF THE TRUE BENEFIT. I AM PROPOSING AN INCREASE OF 10 PER CENT IN BOTH THE CAR AND CAR FUEL SCALES WITH EFFECT FROM APRIL 1985.

/UNNECESSARILY

UNNECESSARILY HIGH RATES OF TAX DISCOURAGE ENTERPRISE AND RISK TAKING. THIS IS TRUE OF THE CAPITAL TAXES, JUST AS IT IS OF THE CORPORATION AND INCOME TAXES. IT IS A MATTER OF PARTICULAR CONCERN TO THOSE INVOLVED IN RUNNING UNQUOTED FAMILY BUSINESSES. THE HIGHEST RATES OF CAPITAL TRANSFER TAX ARE FAR TOO HIGH AND BADLY OUT OF LINE WITH COMPARABLE RATES ABROAD. I PROPOSE THEREFORE, IN ADDITION TO STATUTORY INDEXATION, TO REDUCE THE HIGHEST RATE OF CAPITAL TRANSFER TAX FROM 75 PER CENT TO 60 PER CENT. FOR LIFETIME GIFTS I PROPOSE TO SIMPLIFY THE SCALE SO THAT THE RATE IS ALWAYS ONE-HALF OF THAT ON DEATH.

FOR CAPITAL GAINS TAX I WILL, AS PROMISED, BRING FORWARD IN THE FINANCE BILL PROPOSALS TO DOUBLE THE LIMIT FOR RETIREMENT RELIEF TO A FIGURE OF £100,000, BACKDATED TO APRIL 1983. A CONSULTATIVE DOCUMENT ON OTHER POSSIBLE CHANGES IN THIS RELIEF IS BEING ISSUED NEXT WEEK. I AM

/PROPOSING NO

PROPOSING NO OTHER CHANGES THIS YEAR IN CAPITAL GAINS TAX BEYOND THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT FROM £5,300 TO £5,600. HOWEVER, THE TAX CONTINUES TO ATTRACT CRITICISM -NOT LEAST FOR ITS COMPLEXITY - AND THAT IS A MATTER TO WHICH I HOPE TO RETURN NEXT YEAR.

WE HAVE DONE MUCH TO IMPROVE THE DEVELOPMENT LAND TAX. EARLY IN THE LAST PARLIAMENT, MY PREDECESSOR INCREASED THE THRESHOLD FROM £10,000 TO £50,000. I NOW PROPOSE A FURTHER INCREASE TO £75,000, WHICH WILL REDUCE THE NUMBER OF CASES LIABLE TO THE TAX BY MORE THAN ONE-THIRD.

NEXT SHARE OPTIONS. THE MEASURES INTRODUCED IN THE LAST PARLIAMENT TO IMPROVE EMPLOYEE INVOLVEMENT THROUGH PROFIT-SHARING AND SAVINGS-RELATED SHARE OPTIONS SCHEMES HAVE BEEN A NOTABLE SUCCESS. THE NUMBER OF THESE SCHEMES OPEN TO ALL EMPLOYEES HAS INCREASED FROM ABOUT 30 IN 1979 TO OVER 670 NOW,

/BENEFITING SOME

BENEFITING SOME HALF A MILLION EMPLOYEES. TO MAINTAIN AND BUILD ON THIS PROGRESS I PROPOSE TO INCREASE THE MONTHLY LIMIT ON CONTRIBUTIONS TO SAVINGS-RELATED SHARE OPTION SCHEMES FROM £50 TO £100. I HAVE ALSO AUTHORISED THE INLAND REVENUE TO DOUBLE THE TAX-FREE LIMITS UNDER THE CONCESSION ON LONG SERVICE AWARDS, AND TO INCLUDE WITHIN THESE LIMITS THE GIFT OF SHARES IN THE EMPLOYEE'S COMPANY.

BUT BEYOND THIS, I AM CONVINCED THAT WE NEED TO DO MORE TO ATTRACT TOP CALIBRE COMPANY MANAGEMENT AND TO INCREASE THE INCENTIVES AND MOTIVATION OF EXISTING EXECUTIVES AND KEY PERSONNEL BY LINKING THEIR REWARDS TO PERFORMANCE. I PROPOSE THEREFORE THAT, SUBJECT TO CERTAIN NECESSARY LIMITS AND CONDITIONS, SHARE OPTIONS GENERALLY BE TAKEN OUT OF INCOME TAX ALTOGETHER, LEAVING ANY GAIN TO BE CHARGED TO CAPITAL GAINS TAX ON ULTIMATE DISPOSAL OF THE SHARES. THE NEW RULES WILL APPLY TO OPTIONS MEETING THE NECESSARY CONDITIONS WHICH ARE GRANTED FROM 6 APRIL.

/I AM SURE

I AM SURE THAT ALL THESE CHANGES WILL BE WELCOMED AS MEASURES TO ENCOURAGE THE COMMITMENT OF EMPLOYEES TO THE SUCCESS OF THEIR COMPANIES AND TO IMPROVE THE PERFORMANCE, COMPETITIVENESS AND PROFITABILITY OF BRITISH INDUSTRY.

AS THE HOUSE KNOWS, THE GOVERNMENT IS DEEPLY CONCERNED AT THE THREAT WHICH THE SPREAD OF UNITARY TAXATION IN CERTAIN US STATES HAS POSED TO THE US SUBSIDIARIES OF BRITISH FIRMS. WITH OUR EUROPEAN PARTNERS WE ARE MONITORING THE SITUATION CLOSELY, AND AWAIT WITH KEEN INTEREST THE IMMINENT REPORT OF US TREASURY SECRETARY REGAN'S WORKING GROUP. IT IS ESSENTIAL THAT A SATISFACTORY SOLUTION IS FOUND AND SPEEDILY IMPLEMENTED.

US FIRMS OPERATING IN THIS COUNTRY ARE NOT OF COURSE TAXED ON A UNITARY BASIS.

/I NOW TURN

I NOW TURN TO OIL TAXATION. LAST YEAR'S NORTH SEA TAX CHANGES WERE WELL RECEIVED, AND THERE HAS BEEN A SUBSTANTIAL INCREASE IN THE NUMBER OF DEVELOPMENT PROJECTS COMING FORWARD, AND A NEW SURGE IN EXPLORATION. WORK ON NO FEWER THAN 128 OFFSHORE EXPLORATION AND APPRAISAL WELLS STARTED LAST YEAR - AN ALL-TIME RECORD.

THE GOVERNMENT IS ALREADY COMMITTED TO A STUDY OF THE ECONOMICS OF INVESTMENT IN INCREMENTAL DEVELOPMENT IN EXISTING FIELDS. THIS IS OF INCREASING IMPORTANCE, AND IN CONSULTATION WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR ENERGY I THEREFORE PROPOSE TO REVIEW THIS AREA WITH THE INDUSTRY, AND TO LEGISLATE AS APPROPRIATE NEXT YEAR TO IMPROVE THE POSITION. TO PREVENT PROJECTS BEING DEFERRED PENDING THIS REVIEW, ANY CHANGES WILL APPLY TO ALL PROJECTS WHICH RECEIVE DEVELOPMENT CONSENT AFTER TODAY.

/MEANWHILE, I

MEANWHILE, I AM TAKING TWO MEASURES TO PREVENT AN UNJUSTIFIED LOSS OF TAX IN THE NORTH SEA. FIRST, IN ADDITION TO THE PRT MEASURES ON FARMOUTS WHICH I ANNOUNCED LAST SEPTEMBER, I AM LIMITING THE POTENTIAL CORPORATION TAX COST OF SUCH DEALS. SECOND, I PROPOSE TO REPEAL THE PROVISION WHICH ALLOWS ADVANCE CORPORATION TAX TO BE REPAID WHERE CORPORATION TAX IS REDUCED BY PRT. I HAVE ALSO REVIEWED THE CASE FOR EXTENDING LAST YEAR'S FUTURE FIELD CONCESSIONS TO THE SOUTHERN BASIN, BUT HAVE CONCLUDED THAT ADDITIONAL INCENTIVES HERE ARE NOT NEEDED.

I HAVE JUST TWO FURTHER CHANGES AFFECTING BUSINESS TO PROPOSE, BOTH OF WHICH WILL COME INTO FORCE ON 1 OCTOBER.

EVER SINCE VAT WAS INTRODUCED IN THIS COUNTRY, WE HAVE TREATED IMPORTS DIFFERENTLY FROM THE WAY OUR MAIN EUROPEAN COMMUNITY COMPETITORS TREAT THEM.

/WHILE THEY

WHILE THEY REQUIRE VAT ON IMPORTED GOODS TO BE PAID IN THE SAME WAY AS CUSTOMS DUTIES, WE DO NOT. UNDER OUR SYSTEM AN IMPORTER DOES NOT HAVE TO ACCOUNT FOR VAT ON HIS IMPORTS UNTIL HE MAKES HIS NORMAL VAT RETURN, ON AVERAGE SOME 11 WEEKS LATER. DURING THIS TIME THE IMPORTER ENJOYS FREE CREDIT AT THE TAXPAYER'S EXPENSE. BUT WHEN ONE BRITISH BUSINESSMAN BUYS FROM ANOTHER, HE GETS NO SUCH HELP FROM THE TAXPAYER: HE PAYS HIS VAT WHEN HE PAYS HIS SUPPLIER.

THE EUROPEAN COMMISSION HAS FOR SOME YEARS NOW BEEN SEEKING, WITH OUR FULL SUPPORT, TO GET A SYSTEM LIKE OURS ADOPTED THROUGHOUT THE COMMUNITY. BUT THE PLAIN FACT IS THAT IN ALL THAT TIME THE COMMISSION HAS MADE NO PROGRESS WHATEVER.

I MUST TELL THE HOUSE THAT I AM NOT PREPARED TO PUT BRITISH INDUSTRY AT A COMPETITIVE DISADVANTAGE IN THE HOME MARKET ANY LONGER. SHOULD OUR EUROPEAN

/PARTNERS AT ANY

PARTNERS AT ANY TIME UNDERGO A DAMASCENE CONVERSION, AND AGREE THAT THE COMMISSION'S PROPOSAL SHOULD BE ACCEPTED AFTER ALL, THEN OF COURSE WE WOULD REVERT TO THE PRESENT SYSTEM. BUT IN THE MEANTIME I PROPOSE TO MOVE TO THE SYSTEM USED BY OUR EUROPEAN COMPETITORS. WE SHALL PROVIDE THE SAME FACILITIES FOR PAYMENT OF VAT ON IMPORTS AS APPLY TO CUSTOMS DUTIES. THAT MEANS THAT MOST IMPORTERS WILL BE ABLE TO DEFER PAYMENT OF VAT BY ON AVERAGE ONE MONTH FROM THE DATE OF IMPORTATION. BUT THAT IS ALL.

AS I HAVE SAID, THIS CHANGE WILL APPLY FROM 1 OCTOBER. BY BRINGING FORWARD VAT RECEIPTS, IT WILL BRING IN AN EXTRA £1.2 BILLION IN 1984-85, SOME OF WHICH WILL BE BORNE BY FOREIGN PRODUCERS AND MANUFACTURERS. THERE WILL OF COURSE BE NO INCREASED REVENUE IN SUBSEQUENT YEARS.

THE SECOND CHANGE I PROPOSE TO MAKE ON 1 OCTOBER CONCERNS THE NATIONAL INSURANCE

/SURCHARGE.

SURCHARGE. THIS TAX ON JOBS WAS INTRODUCED BY THE LABOUR GOVERNMENT IN 1977 AT THE RATE OF 2 PER CENT, AND FURTHER INCREASED BY THE RT. HON. MEMBER FOR LEEDS EAST IN 1978 TO 3½ PER CENT. DURING THE LAST PARLIAMENT, THIS GOVERNMENT REDUCED IT TO 1 PER CENT, AND WE ARE PLEDGED TO ABOLISH IT DURING THE LIFETIME OF THIS PARLIAMENT.

GIVEN THE IMPACT THAT THIS TAX HAS, NOT ONLY ON INDUSTRIAL COSTS BUT ALSO - AT A TIME OF HIGH UNEMPLOYMENT - ON JOBS, I HAVE DECIDED TO TAKE THE OPPORTUNITY OF THIS MY FIRST BUDGET TO FULFIL THAT PLEDGE. ABOLITION OF THE NATIONAL INSURANCE SURCHARGE FROM OCTOBER WILL REDUCE PRIVATE SECTOR EMPLOYERS' COSTS BY ALMOST £350 MILLION IN 1984-85, AND OVER £850 MILLION IN A FULL YEAR. IT WILL THUS BE OF CONTINUING HELP TO BRITISH INDUSTRY. AS BEFORE, THE BENEFIT WILL BE CONFINED TO THE PRIVATE SECTOR.

/THE HOUSE WILL

THE HOUSE WILL I AM SURE AGREE THAT A BUDGET WHICH SUBSTANTIALLY REDUCES THE GOVERNMENT'S DEMANDS ON THE FINANCIAL ^{markets} SYSTEM, WHICH ABOLISHES THE NATIONAL INSURANCE SURCHARGE, AND WHICH CUTS THE RATES AND SIMPLIFIES THE STRUCTURE OF CORPORATION TAX, IS A BUDGET FOR JOBS AND FOR ENTERPRISE. IT OFFERS BRITISH INDUSTRY AN OPPORTUNITY WHICH I AM CONFIDENT IT WILL SEIZE.

/HAVING ANNOUNCED

PERSONAL TAXATION: TAXES ON SPENDING

HAVING ANNOUNCED MAJOR REFORMS OF BOTH THE TAXATION OF SAVINGS AND INVESTMENT AND THE TAXATION OF BUSINESS, I TURN NOW TO THE THIRD AND FINAL AREA IN WHICH I PROPOSE TO MAKE PROGRESS ON TAX REFORM. THIS IS THE TAXATION OF PERSONAL INCOME AND SPENDING.

THE BROAD PRINCIPLE WAS CLEARLY SET OUT IN THE MANIFESTO ON WHICH WE WERE FIRST ELECTED IN 1979. THIS EMPHASISED THE NEED FOR A SWITCH FROM TAXES ON EARNINGS TO TAXES ON SPENDING. MY PREDECESSOR MADE AN IMPORTANT MOVE IN THIS DIRECTION IN HIS FIRST BUDGET, AND THE TIME HAS COME TO MAKE A FURTHER MOVE TODAY. TO REDUCE DIRECT TAXATION BY THIS MEANS IS IMPORTANT IN TWO WAYS. IT IMPROVES INCENTIVES AND MAKES IT MORE WORTHWHILE TO WORK, AND IT INCREASES THE FREEDOM OF CHOICE OF THE INDIVIDUAL.

/HAVING REGARD

HAVING REGARD TO THE REPRESENTATIONS I HAVE RECEIVED ON HEALTH GROUNDS, I THEREFORE PROPOSE AN INCREASE IN THE TOBACCO DUTY WHICH, INCLUDING VAT, WILL PUT 10P ON THE PRICE OF A PACKET OF CIGARETTES, WITH CORRESPONDING INCREASES FOR HAND-ROLLING TOBACCO AND CIGARS. THIS WILL DO NO MORE THAN RESTORE THE TAX ON TOBACCO TO ITS 1965 LEVEL IN REAL TERMS. THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT ON THURSDAY. I DO NOT, HOWEVER, PROPOSE ANY INCREASE IN THE DUTY ON PIPE TOBACCO.

I PROPOSE TO RAISE MOST OF THE OTHER EXCISE DUTIES BROADLY IN LINE WITH INFLATION, SO AS TO MAINTAIN THEIR REAL VALUE: NOT TO DO SO WOULD RUN COUNTER TO THE PHILOSOPHY I OUTLINED A MOMENT AGO. BUT WITH INFLATION AS LOW AS IT NOW IS, THE NECESSARY INCREASES ARE ON THE WHOLE MERCIFULLY MODEST.

/I PROPOSE TO

I PROPOSE TO INCREASE THE DUTIES ON PETROL AND DERV BY AMOUNTS WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY 4½P AND 3½P A GALLON RESPECTIVELY. THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. THE CHANGES WILL TAKE EFFECT FOR OIL DELIVERED FROM REFINERIES AND WAREHOUSES FROM SIX O'CLOCK THIS EVENING. I DO NOT PROPOSE TO INCREASE THE DUTY ON HEAVY FUEL OIL, WHICH IS OF PARTICULAR IMPORTANCE TO INDUSTRIAL COSTS.

THERE IS ONE EXCISE DUTY WHICH I PROPOSE TO DO AWAY WITH ALTOGETHER. MANY OF THOSE WHO FIND IT HARDEST TO MAKE ENDS MEET, INCLUDING IN PARTICULAR MANY PENSIONERS, USE PARAFFIN STOVES TO HEAT THEIR HOMES. IT IS WITH THEM IN MIND THAT I PROPOSE TO ABOLISH THE DUTY ON KEROSENE FROM SIX O'CLOCK TONIGHT. I AM SURE THAT THIS WILL BE WELCOMED ON ALL SIDES OF THE HOUSE.

/THE VARIOUS

THE VARIOUS RATES OF VEHICLE EXCISE DUTY WILL, ONCE AGAIN, GO UP ROUGHLY IN LINE WITH PRICES. THUS THE DUTY FOR CARS AND LIGHT VANS WILL BE INCREASED BY £5, FROM £85 TO £90 A YEAR. HOWEVER, IN THE LIGHT OF THE REASSESSMENT BY MY RT HON FRIEND THE SECRETARY OF STATE FOR TRANSPORT OF THE WEAR AND TEAR THAT VARIOUS TYPES OF VEHICLE CAUSE TO THE ROADS, THERE WILL BE REDUCTIONS IN DUTY FOR THE LIGHTEST LORRIES, OFFSET BY HIGHER INCREASES FOR SOME HEAVIER LORRIES. ALL THESE CHANGES IN VEHICLE EXCISE DUTY WILL TAKE EFFECT FROM TOMORROW.

HOWEVER, I PROPOSE TO EXEMPT FROM VEHICLE EXCISE DUTY ALL RECIPIENTS OF THE WAR PENSIONERS' MOBILITY SUPPLEMENT. IN ADDITION, THE EXISTING VAT RELIEF FOR MOTOR VEHICLES DESIGNED OR ADAPTED FOR USE BY THE HANDICAPPED WILL BE EXTENDED, AND MATCHED BY A NEW CAR TAX RELIEF. THE EFFECT WILL BE THAT NEITHER VAT NOR CAR TAX WILL APPLY TO FAMILY CARS DESIGNED FOR DISABLED PEOPLE OR SUBSTANTIALLY ADAPTED FOR THEIR USE.

/I NOW COME TO

I NOW COME TO THE MOST DIFFICULT DECISION I HAVE TO TAKE IN THE EXCISE DUTY FIELD. AS THE HOUSE WILL BE AWARE, THE RULES OF THE EUROPEAN COMMUNITY, SO FAR AS ALCOHOLIC DRINKS ARE CONCERNED, ARE DESIGNED TO PREVENT A MEMBER STATE FROM PROTECTING ITS OWN DOMESTIC PRODUCT BY IMPOSING A SIGNIFICANTLY HIGHER DUTY ON COMPETING IMPORTS. IN PURSUIT OF THIS, THE COMMISSION HAS TAKEN A NUMBER OF COUNTRIES TO THE EUROPEAN COURT OF JUSTICE.

IN OUR CASE, THE COMMISSION CONTENDED THAT WE WERE PROTECTING BEER BY UNDER-TAXING IT IN RELATION TO WINE. WE FOUGHT THE CASE, BUT LOST; AND I AM NOW IMPLEMENTING THE JUDGEMENT HANDED DOWN BY THE COURT LAST YEAR. ACCORDINGLY, I PROPOSE TO INCREASE THE DUTY ON BEER BY THE MINIMUM AMOUNT NEEDED TO COMPLY WITH THE JUDGEMENT AND MAINTAIN REVENUE: 2P ON A TYPICAL PINT OF BEER, INCLUDING VAT. AT THE SAME TIME, THE DUTY ON TABLE WINE WILL BE REDUCED BY THE EQUIVALENT OF ABOUT 18P A BOTTLE, AGAIN INCLUDING VAT.

/WE HAVE THUS

WE HAVE THUS COMPLIED WITH THE COURT'S JUDGEMENT. AND I AM HAPPY TO BE ABLE TO TELL THE HOUSE THAT THE ITALIAN GOVERNMENT HAVE, AFTER DISCUSSIONS, GIVEN US AN UNDERTAKING THAT THEY WILL COMPLY WITH EARLIER COURT RULINGS ON DISCRIMINATION AGAINST SCOTCH WHISKY.

AS FOR THE REST OF THE ALCOHOLIC DRINKS, CIDER, WHICH INCREASINGLY COMPETES WITH BEER BUT ATTRACTS A LOWER DUTY, WILL GO UP BY 3P A PINT. THE DUTIES ON MADE-WINE WILL BE ALIGNED WITH THOSE ON OTHER WINE. AND I PROPOSE TO INCREASE THE DUTY ON SPARKLING WINE, FORTIFIED WINE AND SPIRITS BY ABOUT 10P A BOTTLE, INCLUDING VAT. ALL THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT TONIGHT.

THESE CHANGES IN EXCISE DUTIES WILL, ALL TOLD, BRING IN SOME £840 MILLION IN 1984-85, SOME £200M MORE THAN IS REQUIRED TO KEEP PACE WITH INFLATION. THE ADDITION IS OF COURSE DUE TO THE INCREASE IN TOBACCO DUTY.

/THE REMAINDER

THE REMAINDER OF THE EXTRA REVENUE I NEED TO ENABLE ME TO MAKE A SUBSTANTIAL SWITCH THIS YEAR FROM TAXES ON EARNINGS TO TAXES ON SPENDING MUST COME FROM VAT. I PROPOSE NO CHANGE IN THE RATE OF VAT. INSTEAD, I INTEND TO BROADEN THE BASE OF THE TAX BY EXTENDING THE 15 PER CENT RATE TO TWO AREAS OF EXPENDITURE THAT HAVE HITHERTO BEEN ZERO-RATED.

FIRST, ALTERATIONS TO BUILDINGS. AT PRESENT REPAIRS AND MAINTENANCE ARE TAXED, BUT ALTERATIONS ARE NOT. THE BORDERLINE BETWEEN THESE TWO CATEGORIES IS THE MOST CONFUSED IN THE WHOLE FIELD OF VAT. I PROPOSE TO END THIS CONFUSION AND ILLOGICALITY BY BRINGING ALL ALTERATIONS INTO TAX.

I RECOGNISE THAT THIS WILL BE UNWELCOME NEWS FOR THE CONSTRUCTION INDUSTRY, BUT CONSTRUCTION WILL OF COURSE BENEFIT GREATLY FROM THE REDUCTION IN THE RATE OF STAMP DUTY WHICH I HAVE ALREADY ANNOUNCED. £290 MILLION OF THE COST OF THAT

/REDUCTION IN

REDUCTION IN 1984-85 RELATES TO TRANSFERS OF LAND AND BUILDINGS, AND OF THAT £290 MILLION SOME 90 PER CENT RELATES TO BUILDINGS AND BUILDING LAND. NEVERTHELESS, TO ALLOW A REASONABLE TIME FOR EXISTING COMMITMENTS TO BE COMPLETED OR ADJUSTED, THE VAT CHANGE WILL BE DEFERRED UNTIL 1 JUNE.

SECONDLY, FOOD. MOST FOOD IS ZERO-RATED. BUT FOOD SERVED IN RESTAURANTS IS TAXED, TOGETHER WITH A MISCELLANEOUS RANGE OF ITEMS INCLUDING ICE-CREAM, CONFECTIONERY, SOFT DRINKS AND CRISPS, WHICH WERE BROUGHT INTO TAX BY THE RT HON MEMBER FOR LEEDS EAST. TAKE-AWAY FOOD CLEARLY COMPETES WITH OTHER FORMS OF CATERING, AND I THEREFORE INTEND TO BRING INTO TAX HOT TAKE-AWAY FOOD AND DRINKS, WITH EFFECT FROM 1 MAY.

THE TOTAL EFFECT OF THE EXTENSIONS OF THE VAT COVERAGE WHICH I HAVE PROPOSED WILL BE TO INCREASE THE YIELD OF THE TAX BY £375 MILLION IN 1984-85 AND BY £650 MILLION IN A FULL YEAR.

/THE TOTAL IMPACT

THE TOTAL IMPACT EFFECT ON THE RETAIL PRICE INDEX OF THE VAT CHANGES AND EXCISE DUTY CHANGES TAKEN TOGETHER WILL BE LESS THAN THREE-QUARTERS OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST WHICH I HAVE GIVEN TO THE HOUSE OF A DECLINE IN INFLATION TO $4\frac{1}{2}$ PER CENT BY THE END OF THE YEAR.

THE EXTRA REVENUE RAISED IN THIS WAY WILL ENABLE ME, WITHIN THE OVERALL FRAMEWORK OF A NEUTRAL BUDGET, TO LIGHTEN THE BURDEN OF INCOME TAX.

/SINCE WE TOOK OFFICE

PERSONAL TAXATION: INCOME TAX

SINCE WE TOOK OFFICE IN 1979, WE HAVE CUT THE BASIC RATE OF INCOME TAX FROM 33 PER CENT TO 30 PER CENT AND SHARPLY REDUCED THE CONFISCATORY HIGHER RATES INHERITED FROM THE LAST LABOUR GOVERNMENT. WE HAVE INCREASED THE MAIN TAX ALLOWANCES NOT SIMPLY IN LINE WITH PRICES BUT BY AROUND 8 PER CENT IN REAL TERMS. IT IS A GOOD RECORD. BUT IT IS NOT ENOUGH. THE BURDEN OF INCOME TAX IS STILL TOO HEAVY.

DURING THE LIFETIME OF THIS PARLIAMENT, I INTEND TO CARRY FORWARD THE PROGRESS WE HAVE ALREADY MADE. FOR THE MOST PART, THIS WILL HAVE TO WAIT FOR FUTURE BUDGETS, PARTICULARLY SINCE I HAVE THOUGHT IT RIGHT THIS YEAR TO CONCENTRATE ON SETTING A NEW REGIME OF BUSINESS TAXATION FOR THE LIFETIME OF A PARLIAMENT - AND BEYOND. BUT AS A RESULT OF THE CHANGES TO TAXES ON SPENDING WHICH I HAVE JUST ANNOUNCED, I CAN TAKE A FURTHER STEP IN THIS BUDGET.

/I PROPOSE TO

I PROPOSE TO MAKE NO CHANGE THIS YEAR IN THE RATES OF INCOME TAX. SO FAR AS THE ALLOWANCES AND THRESHOLDS ARE CONCERNED, I MUST CLEARLY INCREASE THESE BY THE AMOUNTS SET OUT IN THE STATUTORY INDEXATION FORMULA, BASED ON THE 5.3 PER CENT INCREASE IN THE RETAIL PRICE INDEX TO DECEMBER. THE QUESTION IS HOW MUCH MORE I CAN DO, AND HOW TO DIRECT IT.

I HAVE DECIDED THAT, THIS YEAR, THE RIGHT COURSE IS TO USE EVERY PENNY I HAVE IN HAND, WITHIN THE FRAMEWORK OF A REVENUE NEUTRAL BUDGET, TO LIFT THE LEVEL OF THE BASIC TAX THRESHOLDS, FOR THE MARRIED AND SINGLE ALIKE. IT MAKES VERY LITTLE SENSE TO BE COLLECTING INCOME TAX FROM PEOPLE WHO ARE AT THE SAME TIME RECEIVING MEANS-TESTED BENEFITS. MOREOVER LOW TAX THRESHOLDS WORSEN THE POVERTY AND UNEMPLOYMENT TRAPS, SO THAT THERE IS LITTLE IF ANY FINANCIAL INCENTIVE TO FIND A BETTER JOB OR EVEN ANY JOB AT ALL. THERE IS, ALAS, NO

/QUICK OR CHEAP

QUICK OR CHEAP SOLUTION TO THESE PROBLEMS. BUT THAT IS ALL THE MORE REASON TO MAKE A FURTHER MOVE TOWARDS SOLVING THEM NOW.

I PROPOSE TO INCREASE THE OTHER THRESHOLDS IN LINE WITH THE STATUTORY INDEXATION REQUIREMENT, BUT BY NO MORE. THE FIRST HIGHER RATE OF 40 PER CENT WILL APPLY WHEN TAXABLE INCOME REACHES £15,400 A YEAR AND THE TOP RATE OF 60 PER CENT TO TAXABLE INCOME OVER £38,100. THE SINGLE AGE ALLOWANCE WILL RISE FROM £2,360 TO £2,490 AND THE MARRIED AGE ALLOWANCE FROM £3,755 TO £3,955.

FOR THE BASIC THRESHOLDS, STATUTORY INDEXATION WOULD MEAN PUTTING THE SINGLE AND MARRIED ALLOWANCES UP BY £100 AND £150 RESPECTIVELY. I AM GLAD TO SAY THAT I CAN DO CONSIDERABLY BETTER THAN THAT. I PROPOSE TO INCREASE THE BASIC THRESHOLDS BY WELL OVER DOUBLE WHAT IS REQUIRED BY INDEXATION. THE SINGLE PERSON'S ALLOWANCE WILL BE INCREASED BY £220,

/FROM £1,785 TO

FROM £1,785 TO £2,005; AND THE MARRIED MAN'S ALLOWANCE BY £360, FROM £2,795 TO £3,155.

THIS IS AN INCREASE OF AROUND 12½ PER CENT, OR SOME 7 PER CENT IN REAL TERMS. IT BRINGS THE MARRIED MAN'S TAX ALLOWANCE FOR 1984-85 TO ITS HIGHEST LEVEL IN REAL TERMS SINCE THE WAR. IT MEANS THAT THE GREAT MAJORITY OF MARRIED COUPLES WILL ENJOY AN INCOME TAX CUT OF AT LEAST £2 A WEEK. AND IT MEANS THAT A LARGE NUMBER OF PEOPLE, THOSE WITH THE SMALLEST INCOMES OF ALL, ARE TAKEN OUT OF INCOME TAX ALTOGETHER. SOME 850,000 PEOPLE - OVER 100,000 OF THEM WIDOWS - WHO WOULD HAVE PAID TAX IF THRESHOLDS HAD NOT BEEN INCREASED, WILL PAY NO TAX IN 1984-85. THAT IS 400,000 MORE TAKEN OUT OF TAX THAN IF THE ALLOWANCES HAD MERELY BEEN INDEXED.

ALL THESE CHANGES WILL TAKE EFFECT UNDER PAYE ON THE FIRST PAY DAY AFTER 10 MAY. THEIR COST IS CONSIDERABLE: SOME £1.8 BILLION IN 1984-85, OF

/WHICH ROUGHLY

WHICH ROUGHLY HALF REPRESENTS THE COST OF INDEXATION.

THIS IS AS FAR AS I CAN GO ON INCOME TAX THIS YEAR, WITHIN A BROADLY REVENUE-NEUTRAL BUDGET FOR 1984-85. BUT SO LONG AS WE HOLD TO OUR PUBLISHED PLANNED LEVELS OF PUBLIC SPENDING, THERE IS AN EXCELLENT PROSPECT OF FURTHER CUTS IN INCOME TAX IN NEXT YEAR'S BUDGET. THESE WOULD BE ON TOP OF THE MEASURES I HAVE ANNOUNCED IN THIS BUDGET WHICH, AS I HAVE ALREADY TOLD THE HOUSE, WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1¼ BILLION, WITH BUSINESS TAKING THE LION'S SHARE.

/I HAVE, MR DEPUTY SPEAKER,

CONCLUSION

I HAVE, MR DEPUTY SPEAKER, COMPLETED THE COURSE I CHARTED AT THE OUTSET THIS AFTERNOON. I HAVE DESCRIBED THE RECOVERY, AND HOW THE GOVERNMENT PLANS TO SUSTAIN IT, AND ASSIST THE CREATION OF NEW JOBS. I HAVE REAFFIRMED OUR COMMITMENT TO FURTHER REDUCTIONS IN INFLATION, BY MAINTAINING SOUND MONEY AND BY CURBING GOVERNMENT BORROWING. I HAVE EMBARKED ON A RADICAL PROGRAMME OF TAX REFORM, ABOLISHING OUTRIGHT TWO MAJOR TAXES - THE INVESTMENT INCOME SURCHARGE AND THE NATIONAL INSURANCE SURCHARGE. AND I HAVE BEEN ABLE TO PROPOSE MEASURES WHICH WILL SIGNIFICANTLY REDUCE THE BURDEN OF TAXATION OVER THE NEXT TWO YEARS. I COMMEND THIS BUDGET TO THE HOUSE.

Ended 59

BUDGET SECRET

2¹⁺ ✓



10 DOWNING STREET

From the Private Secretary

9 March 1984

Dear John

NISSAN

The Prime Minister has seen, and is content with, the way in which it is proposed to deal with the implications for Nissan of the changes in the Budget for Capital Allowances. She has noted also that the Chancellor no longer considers it necessary for her to write to the Company, but that the Ambassador in Tokyo should see the Company immediately after the Budget to assure them that the transitional arrangements will ensure that the tax changes will not affect the project in any way.

I am sending a copy of this letter to Callum McCarthy (Department of Trade and Industry).

Yours sincerely
Andrew

John Kerr, Esq.,
HM Treasury.

26

SUSPECTED LEAK

1. All concerned agree that it is right to invite the police to investigate.
2. The Director of Public Prosecutions will see an Assistant Commissioner at 5.30pm on Tuesday 13 March to ask him to mount an investigation, beginning with a visit to the Principal Establishment Officer at the Treasury.
3. If I am not asked about a suspected leak before or during the Budget speech, I will say nothing about it myself.
4. If I am asked, I will say as little as possible on the day itself - note attached.
5. If I have not referred on Budget Day itself to a police investigation, I will answer an arranged written question on Wednesday 14 March - notes attached.
6. The Attorney General has advised me not to say anything in the Budget Speech if I can avoid it that might prejudice the police inquiry before it is under way. In any case I don't want to disclose contents of Budget any further until House and country informed. Action with police therefore immediately after I have sat down.

What the Chancellor says on Budget Day, Tuesday 13th March

1. If no questions about leaks are raised:

Nothing.

2. If questioned in the House before or during the Budget speech:

"I hope the House will allow me to deal with this in its proper place";

and then at the end of the Budget speech -

"I can assure the hon Member that there will be a full investigation into the matter he has raised".

3. If pressed -

"I will of course keep the House informed."

4. If there is a major issue on the point -

"There is prima facie evidence of an unauthorised disclosure of secret information. Until now it has been impossible to pursue this without serious risk of compounding the problem. I can now say that I have referred the matter through the Attorney General to the Director of Public Prosecutions with a view to a possible police investigation."

On Wednesday, 14th March

N.B. The Question would have to be tabled by 10pm Tuesday 13 March.

1. If there has been no mention of leaks on Tuesday:

A. for Priority Written Reply:

To ask the Chancellor of the Exchequer what steps he will take to deal with the clear evidence of a leak of his Budget in the Guardian of 1 March?

A. Chancellor of the Exchequer:

In recent weeks there have been indications which give rise to a suspicion of unauthorised disclosure of Budget information. Until now it has not been possible to pursue this without serious risk of compounding the problem. My Right Hon. and Learned Friend the Attorney General has now arranged with the Director of Public Prosecutions for a police investigation, which is under way.

2. If the Chancellor has referred on Tuesday to an investigation but not a police investigation -

BUDGET - SECRET

Q. What form of investigation will be undertaken into the suspected Budget leak about which he told the House in the course of his Budget speech?

A. Until now it has not been possible to pursue this prima facie disclosure of secret information without serious risk of compounding the problem. My Right Hon. and Learned Friend the Attorney General has now arranged with the Director of Public Prosecutions for a police investigation, which is under way.

3. If the Chancellor has referred on Tuesday to a police investigation, no PQ on Wednesday.

SPEAKING NOTE

Before the Chancellor informs us of his proposals, I should tell the Cabinet that he has had to prepare its presentation against the background of a comprehensive and ^{largely} accurate report of his proposals in The Guardian newspaper ten days ago.

This is at first sight a more serious leak of Budget information than has ever occurred previously, and it is being treated correspondingly seriously. It has been referred to the Attorney General and the Director of Public Prosecutions with a view to a possible police investigation.

I must ask the Cabinet to treat the information about this apparent leak with as much secrecy as the Chancellor's proposals. The likelihood that this leak has taken place has so far not attracted much attention. // If it became known before the Budget Speech has been delivered it would make far more difficult the Chancellor's task in presenting the Budget. Unless it becomes necessary, the likelihood of a police investigation will not be announced until tomorrow lest it should overshadow the first impact of the Chancellor's exciting and imaginative Budget.

PRIME MINISTER ⁽²⁾

c.c. Mr. Redwood

RESIDUAL SHAREHOLDERS

Following objections from Mr. Tebbit and Mr. Walker, the Chancellor of the Exchequer has modified his proposals on residual shareholdings. He will make the statement in a lower key i.e. during the Budget Debate and not in the speech; and he will not identify any shareholdings as candidates for sale in 1984-85.

The sentence at X is meant to give Parliamentary cover, so that the Chancellor can bring a share sale to market without a further Parliamentary announcement other than on the day of issue. The aim is to give the Government maximum flexibility while avoiding another BP row. But if the latter is to be avoided I think he will have to be more specific than the phrase "at the time individual sales are made". Some MPs might not realise that this means no further announcement.

Agree? *Yes*

Finally, the Chancellor has rightly picked up Mr. Tebbit's contention that BAe have been told that no further disposals of its shares are scheduled. DTI claim that this was meant to be no more than a statement of fact and was given orally; it was not meant to represent any kind of commitment to the company.

Agree I minute endorsing the view that the Government's hands should not be tied, and that if BAe are under any misapprehension about this, they should be disabused?

9 March 1984

PRIME MINISTER

Enclosed in the envelope is a copy of the Budget speech. The Chancellor is coming to see you tomorrow for about 15 minutes to obtain your reactions and to talk about the response to the reports in the Guardian.

I have read an earlier draft of the speech (though this did not contain the sections on personal and business taxation). It is a very economical speech - no lengthy descriptions of the world or domestic economies; no list of special measures for this or that group. All very commendable.

I have only one significant reservation (apart from a few drafting comments). The Budget is described in the first section as having two themes:-

- i) Reduction of inflation in order to promote jobs.
- ii) Creation of a simpler and fairer tax system.

This section could be beefed up by having four themes which would allow the promotion of jobs to be identified separately rather than being simply a by-product of lower inflation:-

- i) Continued pursuit of sound money to reduce inflation.
- ii) Creation of a more efficient economy (e.g. cutting stamp duty) and measures to encourage the promotion of more jobs (e.g. abolition of NIS and restructuring of corporation tax to reduce the incentive to substitute capital for labour).
- iii) Creation of a fairer and simpler tax system (e.g. composite rate).
- iv) Leaving more of your money in your pocket to spend, or save, as you wish (e.g. wider base for indirect taxes, higher thresholds, abolition of investment income surcharge and removal of life assurance premium relief).

BUDGET SECRET

-2-

I expect Bernard's reaction will be that there is not enough good news early on. I can see the force of this but it is not easy to identify what could be brought forward to the early part of the speech without doing damage to its structure.

8 March 1984

AT

BUDGET SECRET



Ch/Ex Ref No B(84)544

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

PRIME MINISTER

NISSAN

You asked Norman Tebbit and me to discuss how to deal with the implications for Nissan of the Budget capital allowances changes. We have done so, and I can now report our agreed conclusion. As you suggested, our proposed solution is modelled closely on the transitional arrangements for Regional Development Grants.

2. The arrangement, which will be presented in the context of regional policy, will allow companies to keep the current rate of capital allowances if:

- i. The company in question has received an offer of selective financial assistance under Sections 7 and 8 of the Industrial Development Act 1982 (and equivalent legislation in Northern Ireland) after April 1980. (Since selective assistance can only be given to UK companies, an offer will be defined for this purpose as including notifications to a foreign parent company that the Government was prepared to make an offer to a UK subsidiary. This is Nissan's current position.) The concession stretches back to April 1980 because it would be difficult to justify excluding companies where the investment is far advanced, while providing the concession to companies which have received offers very recently.



- ii. The expenditure which attracts the selective financial assistance must also be eligible for Regional Development Grants. This will exclude projects in Intermediate Areas (where RDGs are not available) and will restrict the concession to largely manufacturing projects.
3. Nissan will certainly qualify. Although they will not decide on location until the end of this month, all the sites which they are considering are in Development or Special Development Areas, and it is a condition of the selective assistance offer that they go to such an area. The concession will cover over 2,000 other projects. There is a significant loss of tax revenue, estimated at some £130 million over the next eight years, of which £60 million relates to Nissan.
4. We will obviously be criticised by companies who have committed themselves to capital expenditure without any selective assistance or RDGs and will now be getting lower capital allowances. But our defence is obvious: we want to project the regions. It will be essential to hold this line, and to resist pressure for any extensions of the concession.
5. We clearly want to handle the presentation of the changes to Nissan in a low key. I suggest that arrangements be made for our Ambassador in Tokyo to see the company immediately after the Budget to assure them - on instructions from you - that the transitional arrangements will ensure that the tax changes will not affect the project in any way.
6. A copy of this minute goes to Norman Tebbit.

Margaret O'Hara

N.L.
8 March 1984

*(approved by the Chancellor and
Signed in his absence)*

BUDGET SECRET



Ch/Exch Ref. No.
B(84)546

20

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

8 March 1984

Andrew Turnbull Esq
10 Downing Street

*Must be with
in London. Later today*

See Andrew.

... The Chancellor undertook to show the Prime Minister today the latest version of the Budget text. I attach a copy of the text, on which he is still, of course, working. He would be happy to discuss at their meeting tomorrow any points which the Prime Minister might have.

*Yours ever,
J O Kerr*
J O KERR

BUDGET SECRET

INTRODUCTION

This Budget will set the Government's course for this Parliament. It is founded on the policies which we have consistently followed since 1979.

2. Consistency of purpose is the hallmark of this Government. It is the only way to improve economic performance and lay the foundations for future prosperity, more jobs and lower taxation. Above all, it is the only way to defeat inflation and achieve our ultimate objective of stable prices.

3. The results of the Medium Term Financial Strategy introduced in 1980 can be seen in four years of falling inflation, down now to the lowest levels since the sixties. And that in turn has brought a steady recovery of output, rising living standards and, more recently, rising employment.

4. The facts speak for themselves. They are a tribute to the courage and foresight of the five Budgets presented from this Despatch Box by my distinguished predecessor, the present Foreign Secretary, whose duties sadly keep him in Brussels today.

5. Today's Budget has two themes: first, the further reduction of inflation, which will further improve the prospects

not a good enough plan and feasible
impossible
the only way we are hoping to improve employment is by reducing inflation

BUDGET SECRET

for jobs; and second, the reform and simplification of the tax system, ~~which will make it fairer for all.~~

6. I shall begin by reviewing the economic background to the Budget. I shall then deal with the medium term financial strategy; with monetary policy and the monetary targets for next year; and with public borrowing and the appropriate PSBR for the coming year. I shall then turn to public expenditure, including the prospects for the longer term. Finally I shall deal with taxation, and the changes in the structure of taxation which will pave the way for cuts in taxes in subsequent years. Some of these cuts ^{for persons or business} I shall announce today, for this is in a sense a Budget for two years. In a wider sense it is a tax reform Budget, setting out a tax strategy for this Parliament.

7. As usual, a number of press releases will be issued today, filling out the details of my tax proposals.

Put in Libs copy.

BUDGET SECRET

THE ECONOMIC BACKGROUND

8. But I start with the economic background, and the convincing evidence of recovery: a recovery that springs from the monetary and fiscal policies to which we shall hold.

9. Since 1980, inflation has fallen steadily from a peak of over 20 per cent. Last year it was down to about ^{an average} 4½ per cent, the lowest figure since the sixties. And with lower inflation have come lower interest rates. *still too high*

10. The underlying strength of the recovery is clear. Whereas in some previous cycles recovery has come from a self-defeating stimulus to monetary demand, this time its roots are in our commitment to sound finance and honest money. Lower inflation and lower interest rates benefit industry, business, and consumer confidence. Falling inflation has made room for real growth, as we always said it would.

8-3-5
11. Across the economy, total money incomes grew in 1983 by about 8 per cent, of which 3 per cent represented real growth in output. Although there is still room for improvement, this **clearly** is a very much healthier division between inflation and real growth than the nation experienced in the 1970s. Output in the second half of 1983 is now reckoned to have exceeded the previous peak, before the world recession set in, and is still rising strongly.

12. Productivity too has continued to improve rapidly. Just as over the past year many have wrongly predicted an end to the recovery, so some have tried to dismiss the sharp rise in productivity as a flash in the pan. Yet during 1983 manufacturing productivity grew by 6 per cent with no sign of slowing down. Unit labour costs across the whole economy are likely to show the smallest annual increase since the 1960s. This has allowed a welcome and necessary recovery in real levels of profitability.

13. Higher profits lead to more jobs. The number of people in employment increased by about 85,000 between March and September last year. The loss of jobs in manufacturing has slowed down sharply, while jobs in services increased by getting on for 200,000 in the first nine months of last year. This is encouraging news for the unemployed and those who will be leaving school this summer.

14. But further progress ~~on productivity~~ is needed: although our unit wage costs in manufacturing rose by under 3 per cent last year, such costs actually fell in the US, Japan and Germany, our three biggest competitors. The employment prospect would be significantly improved if a bigger contribution to improved ^{COMPENSATION} ~~productivity~~ were to come from lower pay rises. Good sense about pay remains vital.

15. Demand, output, profits and employment all rose last year. Home demand has played the major part in the recovery so far. Lower inflation reduced people's need to save and real

incomes rose. Personal consumption increased by over 3½ per cent compared with 1982. Fixed investment rose rather faster than consumption, with investment in housing and services particularly strong.

16. Imports rose a little faster than home demand last year, as the UK emerged from recession ahead of our main trading partners - our rate of economic growth last year was the highest in the European Community. For much of 1983 our export performance reflected the weakness in many of our overseas markets. But by the end of last year world trade was clearly moving ahead again, and in the three months to January manufacturing exports increased very substantially. The balance of payments on current account last year is estimated to have been in surplus by about £2 billion.

17. Our critics have been confounded by the combination of recovery and low inflation. Even the pessimists have been forced to acknowledge the strength of the recovery. It is set to continue throughout this year at an annual rate of 3 per cent. Inflation is expected to remain low, edging back down to 4½ per cent by the end of this year. With rising incomes and low inflation, personal consumption will continue to grow. And the recovery is already becoming more broadly based. Encouraged by improved profitability and better long-term growth prospects, investment is expected to rise by 6 per cent this year.

18. Looking abroad, economic prospects are also more favourable than for some time. Output in the United States should continue to grow strongly this year. And recovery is spreading to the rest of the world.

19. Of course, there are inevitable risks and uncertainties. The size and continued growth of the United States budget deficit causes widespread concern, not least among Americans, and keeps American, and hence international, interest rates high. This acts as a brake on world recovery and worsens the problems of the debtor countries. Another consequence is a massive and still growing deficit in the US current balance of payments, financed by inflows of foreign capital, and leading to mounting pressures for protectionism within the United States, and sharp exchange rate movements. It is an unstable situation, creating worrying uncertainties.

handwritten: *handwritten?*

20. A second potential risk is disruption in the oil market. The immediate prospects are less obviously volatile than they were a year ago. But uncertainties remain, and the United Kingdom, and indeed the world economy, inevitably remains vulnerable to any major disturbances.

21. But despite these risks there is a growing sense throughout the industrialised world that the recovery this time is not merely cyclical, but one which can be sustained. The essential requirement is the continued pursuit of prudent monetary and fiscal policies.

THE MTFS

22. For the United Kingdom, the Medium Term Financial Strategy has been the cornerstone of such policies. It will continue to play that role; to provide a framework and discipline for Government and to set out clearly, to industry and the financial markets, the guidelines of policy. Too often in the past Governments have abandoned financial discipline whenever the going got rough, and been driven to stagger from one short-term policy expedient to another. The temptation to accommodate inflationary pressures proved irresistible, and the nation's longer-term economic performance was progressively undermined.

X 23. The discipline of the MTFS was designed to ensure consistency between monetary and fiscal policies, and a proper balance in the economy. It is so designed to ensure that the more inflation and inflationary expectations come down, the more room is available for output and employment to grow.

24. People now know that the Government intends to stick to its medium term objectives. They understand that the faster inflation comes down, the faster output and employment can recover. Increasing realism, and flexibility in the economy, owes much to the pursuit of firm and consistent policies within the MTFS framework.

25. Originally the MTFFS covered four years. In this first Budget of a new Parliament we have thought it is appropriate to carry it forward for five years. So the MTFFS published today in the Financial Statement and Budget Report -the Red Book - shows a continuing downward path for the monetary target ranges over the next five years, and a path for public borrowing consistent with that reduction. It takes full account of important influences such as the pattern of North Sea oil revenues, and the level of asset sales arising from the privatisation programme. For the last two years of the new MTFFS, which lie beyond the period covered in last years Public Expenditure Survey and last month's White Paper, the Government has not yet made firm plans for public spending. But the MTFFS assumption - and it is no more than an assumption - is that the level of public spending in 1987-88 and 1988-89 will be the same in real terms as that currently planned for 1986-87.

26. The precise figures set out in the MTFFS are not of course a rigid framework, lacking all flexibility. As in the past, there may well need to be adjustments to take account of changing circumstances. But such changes will be made only when they will not jeopardise the consistent pursuit of the Government's objectives.

BUDGET SECRET

MONETARY POLICY

27. Monetary policy will continue to play a central role. For further reductions in monetary growth are needed to achieve still lower inflation.

28. Over the twelve months to mid-February the growth of £M3 has been well within the 7-11 per cent target range, with M1 and PSL2 at or a little above the top of it. While in the early months of the target period most measures of money showed signs of accelerating, growth in all the target aggregates has since the summer been comfortably within the range.

29. Other evidence confirms that monetary conditions are satisfactory. The effective exchange rate has remained fairly stable, despite the international uncertainties and instability which I have described. And nominal interest rates have continued to decline in line with falling inflation.

30. To maintain sound monetary conditions in the years ahead the monetary targets must reflect changes in the financial system and in the significance of different measures of money. There is nothing new in this. Over the years we have altered the target ranges and aggregates to take account of such changes. But the thrust of the strategy has been maintained.

31. One important development has been the attempt to give a more explicit role to the narrow measures of money. Even when targets were set solely in terms of £M3, we recognised the significance of their behaviour. £M3 and the other broad aggregates give a good indication of the growth of liquidity. But a large proportion of this money is deposited in ways which earn interest. In defining policy it is therefore helpful also to make specific reference to measures of money which bear very little interest, and provide a good guide to the immediate potential for spending.

32. M1 was for this reason introduced as a target aggregate, but it has not proved entirely satisfactory for that purpose. Its behaviour has been dominated by changes in its large interest-bearing component, which has grown rapidly, and now accounts for ^{over} 25 per cent of the total. With the introduction of new, interest bearing chequing accounts, the signs are that this will continue.

33. Other measures of narrow money have not been distorted to the same extent. In particular, M0, which consists mainly of currency, has not been subject to this development. It has been affected by other innovations that have reduced people's need for cash, but the pace of change has not diminished its value as an indicator of financial conditions. There is also the new aggregate M2, which was specifically devised to provide a comprehensive measure of transactions balances and which may in time prove a useful guide, but still needs to be interpreted with particular care.

BUDGET SECRET

34. In the past two years, it has been possible to set a single target range for both broad and narrow measures of money. But this will not normally be the case; for narrow monetary aggregates tend to grow more slowly than broader measures. And this year's Red Book sets out two separate ranges.

35. The target range for broad money will continue to apply to £M3, and for the coming year will be set at 6-10 per cent, as indicated in last year's MTFS. The target range for narrow money will apply to MO and for next year will be set at 4-8 per cent. To avoid any possible misunderstanding, I stress that the use of MO as a target aggregate will not involve any change in methods of monetary control.

36. Both target ranges will have equal importance in formulating policy. And we shall continue to take into account other measures of money, especially M2 and PSL2, as well as wider evidence of financial conditions, including the exchange rate. As in the past, we shall seek to influence monetary conditions by an appropriate combination of funding and operations in the money market.

37. So far as funding is concerned, the role of the National Savings movement will remain important. This year's target of £3 billion is likely to be achieved: the target for the coming year will again be £3 billion.

38. Precise monetary targets for the later years will be decided nearer the time. But to give a broad indication of the

BUDGET SECRET

objectives of monetary policy, the new MTFs, like previous versions, shows monetary ranges for a number of years ahead. These ranges are consistent with a continuing downward trend in inflation: they demonstrate the Government's intention to make further progress towards stable prices.

BUDGET SECRET

PUBLIC SECTOR BORROWING ETC

39. I turn now to public borrowing, for just as the classical formula for financial discipline - the gold standard and the balanced budget - had both a monetary and a fiscal component, so does the medium term financial strategy.

40. The MTFSS has always envisaged that the Public Sector Borrowing Requirement would fall as a percentage of Gross Domestic Product over the medium term. And it has, notably as a result of the courageous Budget introduced by my predecessor in 1981, which brought the PSBR down to 3½ per cent of GDP in 1981-82.

41. Since then there has been little further fall. The latest estimate of the PSBR for the current year, 1983-84, remains what it was in November: around £10 billion, equivalent to 3¼ per cent of GDP. This is significantly above what was intended at the time of last year's Budget, and would of course have been higher still had it not been for the measures taken last July.

42. We now need a further substantial reduction in borrowing, in order to help bring interest rates down further as monetary growth slows down. Sterling interest rates are, of course, also influenced by dollar interest rates and so by the US situation which I have already described: but that makes it all the more

BUDGET SECRET

important to curb domestic pressures. In contrast to virtually the whole of the post-war period, UK longer-term rates are now lower than American rates. As long as American rates remain near their current level, it is highly desirable that this advantage be maintained.

43. The higher level of asset sales planned as the privatisation programme gathers pace is a further reason for reducing the PSBR significantly in the coming year. Asset sales reduce the Government's need to borrow. But their effect on interest rates is less than the effect of direct ~~cuts~~^{reductions} in Government spending programmes.

44. Last year's MTF5 showed an illustrative PSBR for 1984-85 of 2½ per cent of GDP, equivalent to around £8 billion. But ~~for~~^{the reasons I have outlined I believe} believe that it is possible, and indeed prudent, to aim for a somewhat lower figure. I have therefore decided to provide for a PSBR next year of 2¼ per cent of GDP, or roughly £7 billion.

45. The House will recall that in November I warned that on conventional assumptions, including the 1983 Red Book's PSBR figure of £8 billion for next year, I might have to increase taxes slightly in the Budget. I am glad to report that the latest, and more buoyant, forecasts of tax revenue in the coming year, [coupled with the decisions taken in the Public Expenditure Survey and the continuing effects of the July measures,] have changed the picture. Bringing the PSBR down to £7 billion will not

BUDGET SECRET

require such an increase in taxation. In fact it will require no overall net increase at all. So the measures I shall shortly announce will, after indexation, be broadly neutral in their effects on revenue in 1984-85.

46. Better still, they will reduce taxation in 1985-86 by some £1¼ billion. And the MTFs published today shows that there should be room ^{for} further tax cuts not only in 1985-86, but ~~throughout~~ the remainder of this Parliament, provided ~~if~~ ~~that~~ that we stick firmly to our published plans for public expenditure to 1986-87, and maintain an equally firm control of public spending thereafter.

BUDGET SECRET

PUBLIC EXPENDITURE

47. The Public Expenditure White Paper setting out our spending plans for the next three years was approved by the House last week. Today I want to consider the critically important issue of government spending in a rather wider perspective.

48. For far too long, spending has grown faster than has the economy as a whole. The trend has seemed inexorable, and the result has been that the great mass of the population have had to pay more and more in tax. To take just one example: as recently as 1963-64 no married man had to pay a penny of income tax unless his taxable income was at least 45 per cent of the average earnings level. Today the tax threshold is down to ~~little more than~~ under a third of average earnings. Over the years more and more people on lower and lower incomes have been brought into income tax.

*Change in child
tax allowances*



49. We have seen a steady enlargement in the role of the State, at the expense of the individual, and ^{an} a steady increase in the ~~dead~~ weight of taxation dragging down our economic performance as a nation.

50. Clearly this ~~dangerous~~ process has to stop. Of course, much public spending is directed to eminently desirable ends. But there is an important choice to be made; and it is not

BUDGET SECRET

enough simply to make marginal changes in spending programmes from year to year. The choice needs more fundamental national consideration and debate; and it needs to be set within a longer time horizon.

51. I am therefore publishing today, in addition to the customary Budget documents, a Green Paper on the prospects for public spending and taxation in the next ten years. It examines past trends; discusses pressures for still higher spending; and examines the rewards for the individual if these pressures can be contained.

52. The Green Paper concludes that, without firm control over public spending, there can be no prospect of bringing the burden of tax back to more reasonable levels. On the assumptions made in the Green Paper, the burden of taxation will be reduced to the levels of the early 1970s only if public spending does not rise in real terms over the next ten years. If, on the other hand, spending grows by 1 per cent a year in real terms after 1988-89, the tax burden would by 1993 be only just below the 1978-79 level, and still well above its level in the 1960s, even if the economy grows by about 2 per cent a year over the ten years. And of course excessive taxation slows the whole economy.

53. The Government believes that the issues discussed in the Green Paper merit the attention of the House and the country.

BUDGET SECRET

It is a discussion document - descriptive not prescriptive - and we shall welcome the fullest possible discussion.

54. I can at once inform the House of a further innovation. In contrast to previous years, I have no specific public expenditure measures to announce in this Budget. The White Paper plans stand.

55. But lest the innovation seems too sweeping, I can make one small announcement, which I think the House will welcome. Within the plans we have been able to provide the National Heritage Memorial Fund with additional resources which will enable them among other things to secure the future of Calke Abbey. My Rt Hon Friend the Secretary of State for the Environment is providing £6.3 million from his planned expenditure for this year and next, and I have accepted a claim on the Reserve of £2 million for next year.

56. The House will recall that the proposals for the new rates of social security benefit to come into force in November are not now made on Budget day. Following last year's legislation to return to the historic method of uprating, price protection is measured by reference to the Retail Price Index for May. Accordingly, my Rt Hon Friend the Secretary of State for Social Services will be announcing the new rates of social security benefits, including Child Benefit, in June.

BUDGET SECRET

57. Before turning from Government spending to Government revenue, I should add a word on public sector manpower. At the beginning of the last Parliament, the Government set itself the target of reducing the size of the Civil Service from 732,000 in April 1979 to 630,000 by April of this year. That target has been achieved. We have now set ourselves the further target of 593,000 by April 1988, and I am confident that it too will be achieved, and that a leaner Civil Service will continue to operate with increasing efficiency. Speaking for my own Departments, the tax changes I shall be announcing today will reduce manpower requirements by at least 1000 which will help towards meeting the 1988 target.

TAX REFORM

58. I mentioned at the outset that this will be a radical, tax-reforming, Budget. It will also significantly reduce the overall burden of tax over the next two years taken together [and indeed over the whole MTFs period -] and I hope to have scope for further reductions in tax in subsequent Budgets.

59. My proposals for reform are guided by two basic principles. First, the need to make changes that will improve our economic performance over the longer term. Second, the desire to make life a little simpler for the taxpayer.

60. But I am well aware that the tax reformer's path is a stony one. Any change in the system is bound, at least in the short term, to bring benefits to some and disadvantages to others. And, if I may borrow a phrase from the Rt Hon member for Leeds East, the howls of anguish from the latter group tend to be rather more audible than the murmurings of satisfaction from the former.

61. ~~Reform must succeed, but need not be, in this sense, a howling success.~~ So I have rejected the extreme suggestion, popular in some quarters, that I should scrap our income-based tax system and replace it with a brand new expenditure-based system. A reform of this kind would produce, ~~in the real world,~~ an upheaval of mind-boggling dimensions.

62. But I don't believe we can afford to opt for the quiet life and do nothing. So I have chosen the middle way: to work for improvements, some I believe very substantial, but within the framework of our existing income-based system. I shall also be proposing transitional arrangements where I believe it fair and appropriate to do so.

63. The changes I shall be proposing today fall into three broad categories. These are the taxation of savings and investment, business taxation, and the taxation of personal income and spending.

SAVINGS AND INVESTMENT

64. First, the taxation of savings and investment. The proposals I am about to make should improve both the direction and quality of both. And they will contribute further to the creation of a property-owning and share-owning democracy, in which more decisions are made by individuals rather than by intermediary institutions.

65. First, stamp duty. This was doubled from its long-standing 1 per cent by the post-war Labour Government in 1947, reduced by the Macmillan Government in 1963, and once again doubled to 2 per cent in the first Budget presented by the Rt Hon member for Leeds East in 1974. At its present level it is an impediment to mobility and incompatible with the welcome movement to greater competition in the City, following the withdrawal of the Stock Exchange case from the Restrictive Practices Court.

66. I therefore propose to halve the rate of stamp duty to 1 per cent. [Transactions from today will benefit from the new rate, unless documents have to be stamped before 20 March, which is the earliest date on which the change will have legal effect.]

67. For the home buyer, the new flat rate 1 per cent stamp duty will start at £30,000. ^(an increase threshold of) Below this level no duty will in future be payable, and 90 per cent of first time home buyers will therefore not be liable for stamp duty at all.

68. Reducing the rate of duty on share transfers will remove an important disincentive to [direct] investment in equities and increase the international competitiveness of our stock market. It should also help British companies to raise equity finance.

X
X
69. In addition, I have three proposals to encourage the issue of corporate bonds. I shall go ahead with the new arrangements for deep discount stock and the reliefs for companies issuing Eurobonds and convertible loan stock which were announced but not enacted last year. And I propose to exempt from Capital Gains Tax certain corporate fixed interest securities provided they are held for more than a year. Since such securities are already exempt from stamp duty ~~an exemption I can confirm also extends to certain convertible loan stocks~~ this means that the tax concessions for Government borrowing in the gilt-edged market will now be virtually the same as for private sector borrowing in the corporate bond market.

70. The reductions in stamp duty will cost £450 million in 1984-85, of which £160 million is the cost of the relief on share transfers, and £290 million the cost of the relief on transfers of houses and other real estate.

71. Next, life assurance. I have concluded that there is no longer any justification for Premium Relief on Life Assurance,

BUDGET SECRET

which is now only one of a number of savings channels for ordinary people. The main effect of the relief today is to encourage institutional rather than ^{personal} direct investment, and to spawn a multiplicity of well-advertised tax management schemes. I propose to withdraw the relief on all new policies made after today. I stress that this change will apply only to new (or newly enhanced) policies, taken out or increased after today. Existing policies will not be affected at all. The change is estimated to yield £90 million in 1984-85.

72. We must also review unjustified penalties on direct personal investment. The Investment Income Surcharge is an unfair and anomalous tax on savings and on the rewards of successful enterprise. It hits the small businessman who reaches retirement without the cushion of a company pension scheme, and impedes the creation of farm tenancies. In the vast majority of cases it is a tax on savings made in the first place out of hard-earned and fully-taxed income. More than half of those who pay the investment income surcharge are over 65, and of these more than half would otherwise be liable to tax at only the basic rate.

73. I have therefore decided that the investment income surcharge should be abolished. The cost in 1984-85 will be some £25 million, and in a full year around £350 million.

74. Finally, I propose to draw more closely together the tax treatment of depositors in banks and building societies.

These institutions compete in the same market for personal deposits. I believe that they should be able to do so on more equal terms as far as tax is concerned.

75. One inequality has already been removed, with the recent change made on legal advice in the tax treatment of building societies' profits from gilt-edged securities. They are now treated in the same way as those of the banks have always been.

76. But the major inequality of treatment, against which the banks in particular have frequently complained, lies with the special arrangement for interest paid by building societies, under which the societies pay tax at a special rate - the "composite rate" - on the interest paid to the depositor who receives credit for income tax at the full basic rate.

77. This system, which has worked well for the past 90 years, has both an advantage and a disadvantage. The disadvantage is that a minority of depositors, who are below the income tax threshold, still suffer the deduction of tax at the composite rate. However, it is always open to such depositors to put their savings elsewhere, such as National Savings. The advantage of the scheme is its extreme simplicity, particularly for the taxpayer; most taxpayers are spared the bother of paying tax on interest through PAYE or individual assessment, while the Revenue are spared the need to recruit an additional 2000 staff to collect the tax due on interest paid without deduction.

78. In common with my predecessors of all Parties over the past 90 years, I am satisfied that the advantage of the composite rate arrangement outweighs the disadvantage. It follows that equal treatment of building societies and banks should be achieved, not by removing the composite rate from the societies, but by extending it to the banks and other licensed deposit takers.

79. Non-taxpayers would ~~of course~~ continue to be able to receive interest gross, should they wish to do so, by putting their money into appropriate National Savings facilities. But the purpose of the move is not, of course, to attract savings into Government hands: as I have already announced, next year's target for National Savings will be the same as this year's and last year's, and the total Government appetite for savings, which is measured by the size of the Public Sector Borrowing Requirement, is being significantly reduced. Moreover I have decided to reduce substantially the permitted maximum size of future holdings in the National Savings Investment Account and in Income Bonds.

80. The true purpose of the move is simple: simplicity itself. Unless they are higher rate taxpayers, individual bank customers will, when it comes to tax, be able to forget about bank interest altogether, for all the tax due on it will be deducted at source. The Inland Revenue will be able to make staff savings of up to an extra 1000 civil servants. Moreover, this figure takes no account of the extra numbers that would have

been required to operate the present system as the trend towards the payment of interest on current accounts develops.

81. Accordingly, I propose to extend the composite rate arrangements to interest received by UK resident individuals from banks and other licensed deposit takers with effect from 1985-86. The composite rate will not apply either to non-residents or to the corporate sector. Arrangements will also be made to exclude from the scheme Certificates of Deposit and Time Deposits of £50,000 or more.

82. Taken together, the major proposals I have just announced on stamp duty, life assurance relief, the investment income surcharge and the composite rate, coupled with other minor proposals, will provide a simpler and more straightforward tax system for savings and investment. They will remove biases which have discouraged the individual saver from investing directly in industry. And they will reinforce the Government's policy of encouraging competition in the financial sector, as in the economy as a whole.

BUSINESS TAXATION

83. I now turn to company taxation.

84. In this area, Government has two responsibilities towards British business and industry. The first is to ensure that they do not have to bear an excessive burden of taxation. The second is to ensure that, given a particular burden, it is structured in the way that does least damage to the nation's economic performance.

85. The measures I am announcing today will, taking the next two years together, result in a ~~very~~ substantial reduction in the burden of taxation on British industry. And in addition I shall be proposing a far-reaching reform of the structure of company taxation.

86. The current rates of Corporation Tax are far too high, penalising profit and success, and blunting the cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied and of diminishing relevance to the conditions of today. Some of these reliefs reflect economic priorities or circumstances which have long vanished, and now serve only to distort investment decisions and choices about finance. Others were introduced to meet short-term pressures, notably the upward surge of inflation. With inflation down to 5 per cent and set to go lower, this is clearly the time to take a fresh look. And with unemployment as high as it is today, it is particularly difficult to justify

a tax system which encourages low-yielding or even unprofitable investment at the expense of jobs.

87. My purpose therefore is to phase out some unnecessary reliefs, in order to bring about, over time, a markedly lower rate of tax on company profits.

88. First, capital allowances. Over virtually the whole of the post-war period there have been incentives for investment in both plant and machinery and industrial (though not commercial) buildings. But there is little evidence that these incentives have strengthened the economy or improved the quality of investment. Quite the contrary: the evidence suggests that businesses have invested substantially in assets yielding a lower rate of return than the investments made by our principal competitors. Too much of British investment has been made because the tax allowances make it look profitable, rather than because it would be truly productive.

89. The nation needs more investment, and the 6 per cent increase forecast for this year is encouraging. But the greatest benefits flow from investment decisions based on analysis of future market assessments, not future tax assessments.

90. I propose to restructure the capital allowances in three annual stages. In the case of plant and machinery, and assets whose allowances are linked with them, the first

year allowance will be reduced from 100 per cent to 75 per cent for all such expenditure incurred after today, and to 50 per cent for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances, and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent reducing balance basis.

91. In addition, from next year annual allowances will be given as soon as the expenditure is incurred, and not, as they are today, when the asset comes into use. This will bring forward the entitlement to annual allowances for those assets, such as ships and oil rigs, for which some payment is normally made well in advance of their being brought into use.

92. For industrial buildings, I propose that the initial allowance should fall from 75 per cent to 50 per cent from tonight, and be further reduced to 25 per cent from 31 March next year. After 31 March 1986 the initial allowance will be abolished, and expenditure will be written off on an annual 4 per cent straight line basis. I should add that, when these changes have all taken place, in respect of both plant and machinery and industrial buildings, tax allowances will still on average be rather more generous than would be provided by a strict system of economic depreciation.

93. The changes in the rates of allowances will not apply to payments under binding contracts entered into on or before today, provided that the expenditure is incurred within the

next three years.

94. After consulting my Rt Hon Friend the Secretary of State for Trade and Industry, I have decided to make transitional tax arrangements for certain investment projects in the regions. Existing capital allowances will continue to apply to expenditure on projects in Development Areas and special Development Areas for which regional development grants are available and offers of selective assistance have already been made between 1 April 1980 and today. Similar arrangements were announced for regional development grants in my Rt Hon Friend's White Paper on Regional Industrial Development last December.

95. Over the same period to 31 March 1986 most other capital allowances will be brought into line with the main changes I have announced. The Inland Revenue will be issuing a press notice tonight giving full details of these proposals.

96. Next, stock relief. As the House will recall, this ~~was introduced by the last Labour Government as a rough and ready form of emergency help to businesses facing the ravages of high inflation.~~ These days are past; and relief is no longer necessary; for company liquidity has improved and, above all, inflation has fallen sharply, ~~and will be falling further during this Parliament.~~ Accordingly, I propose to abolish stock relief from this month.

97. The changes I have just announced, in capital allowances and stock relief, enable me to embark on a major programme of progressive reductions in the main rate of Corporation Tax. For profits earned in the year just ending, on which tax is generally payable in 1984-85, the rate will be cut from 52 per cent to 50 per cent. For profits earned in 1984-85 the rate will be further cut to 45 per cent. Looking further ahead, to profits earned in 1985-86, the rate will go down to 40 per cent; and for profits earned in 1986-87 the main rate of Corporation Tax will be 35 per cent.

98. All these rates for the years ahead will be included in this year's Finance Bill.

99. And they will bring a further benefit. Responses to the Corporation Tax Green Paper published in 1982 revealed a strong and general desire to retain our imputation system of Corporation Tax. This allows a company to offset in full all interest paid. But only a partial deduction for dividends is allowed. Companies thus have an unhealthy incentive to finance themselves through borrowing, in particular bank borrowing, rather than by raising equity capital. The closer the Corporation Tax rate comes to the basic rate of income tax, the smaller this undesirable distortion becomes.

100. Of course, the majority of companies are not liable to pay the main rate of Corporation Tax at all. For them it is the small companies' rate, at present 38 per cent, which applies.

I propose to reduce this rate forthwith to 30 per cent, for profits earned in 1983-84 and thereafter.

101. The Corporation Tax measures I have just announced will cost £280 million in 1984-85. In 1985-86 the cost will be £600 million - made up of £1,150 million by way of reductions in the rates, only partially offset by a £550 million reduction in the value of the reliefs. The estimated costs for later years, which have been provided for in the MTFs figures contained in the Budget Red Book, have been drawn up on a cautious basis. Thus business and industry can go ahead confidently on the basis of the Corporation Tax rates I have announced today, and which set the framework of company taxation for the rest of this Parliament.

102. I expect these changes to have both a somewhat different impact in the short and long term. In the short term, some investment should be brought forward over the next two years, to take advantage of high first year capital allowances while they last - a prospect made all the more alluring for business by virtue of the fact that profits earned will be taxed at the new lower, rates. But the more important and durable effect will be to encourage the search for investment projects with a genuinely worthwhile return, and to discourage uneconomic investment.

103. It is doubtful if it was ever really sensible to subsidise capital irrespective of the true rate of return. Certainly,

with over three million unemployed it cannot make sense to do so.

104. These changes hold out an exciting opportunity for British industry as a whole: an opportunity further to improve its profitability, and to expand, building on the recovery that is already well under way. Higher net profits should encourage and reward enterprise and stimulate ~~higher current expenditure and~~ innovation in all its forms - research and development and work on new products, processes and markets. They are the centre-piece, for business, of this Budget and the tax strategy for this Parliament.

105. But I have further measures to announce that are relevant to business.

106. First, the Business Expansion Scheme, introduced last year as a successor to the Business Start Up Scheme, has been widely welcomed as a highly imaginative scheme for encouraging individuals to invest in small companies. It is already proving a considerable success. It now needs time to settle down, and I have only one change to propose this year.

107. The scheme was designed to offer generous incentives for investment in high risk areas by new or expanding companies. Farming is clearly not an area which falls within this category, and I therefore propose that from today farming should cease to be treated as a qualifying trade under the scheme. I am

also ready to consider tightening the scheme further, if it becomes clear at any time in the future that it is being used for purposes for which it was clearly not designed.

108. Secondly, as a measure of help to small firms, I propose to raise the VAT registration threshold with effect from midnight tonight from £18,000 to £18,700.

109. Thirdly, in keeping with what I have said about removing distortions, I propose to abolish two reliefs in the personal tax field which were introduced at a time when this country suffered from excessively high rates of income tax. As we have reduced those rates, the reliefs are no longer justified.

110. The first distortion is the 50 per cent ^{tax} deduction (falling after 9 years to 25 per cent) ^{applies to} ~~given from~~ the emoluments of foreign employees working here for foreign employers. Foreign employees are often paying much less tax here than they would either at home or in most other European countries. At present income tax rates, the need for the relief has clearly disappeared. Moreover it is open to widespread abuse. It is, for example, possible for the son of an immigrant, working here for a foreign company, to pay tax on only 75 per cent of his salary, even if he himself has lived in this country all his life. I therefore propose to withdraw the relief entirely for all new cases from today, and to withdraw the 25 per cent deduction from existing beneficiaries from 6 April next. The 50 per cent deduction will be phased out over the

£9,000?

5 years to 5 April 1989.

111. I also propose to withdraw the so-called foreign earnings relief for United Kingdom residents who perform their duties both here and overseas and who spend at least 30 days abroad in a tax year. This relief too has lost its rationale, which harks back to the days of penalty high income tax rates. It too has been exploited, in particular by those who prolong their overseas visits purely in order to gain a tax advantage. For the same reason, I propose to withdraw the matching relief for the self-employed who spend 30 days abroad, and for resident employees and self-employed who have separate employments or separate trades carried on wholly abroad. The relief will be halved to 12½ per cent in 1984-85 and removed entirely from 6 April 1985. However, I have also authorised the Inland Revenue to consult interested parties about a possible relaxation in the rules governing the taxation of expenses reimbursed to employees for travel overseas. I am not making any change to the 100 per cent deduction given for absences abroad of 365 days or more.

112. The abolition of these reliefs will eventually yield revenue savings of over £150 million; and represents another useful step in the removal of complexity and distortions.

113. I need to set the car benefit scales for 1985-86 for those provided with the use of a car by their employer.

Despite the increases over recent years, the levels still fall short of any realistic measure of the true benefit. I am accordingly proposing an increase of 10 per cent in both the car and car fuel scales with effect from April 1985.

114. Unnecessarily high rates of tax discourage enterprise and risk taking. This is true of the capital taxes, just as it is of the corporation and income taxes. It is a matter of particular concern to those involved in running unquoted family businesses. The highest rates of capital transfer tax are way out of line with comparable rates abroad, and with the top rates of other taxes in this country. I propose therefore to reduce the highest rate of capital transfer tax from 75 per cent to 60 per cent and to raise the threshold to £64,000 in line with ^{inflation} indexation. [For lifetime gifts I further propose to make the rate one-half of that on death over the whole scale.]

Misleading

115. For capital gains tax I will, as promised, bring forward in the Finance Bill proposals to double the limit for retirement relief to a figure of £100,000, backdated to April 1983. A consultative document on other possible changes in this relief is being issued next week. I am proposing no other changes this year in capital gains tax beyond the statutory indexation of the exempt amount from £5,300 to £5,600. However, the tax continues to attract criticism - not least for its complexity - and that is a matter to which I hope to return in a later year.

116. We have done much to improve the Development Land Tax. Early in the last Parliament, my predecessor increased the threshold from £10,000 to £50,000. I now propose a further increase to £75,000, which will reduce the numbers affected by the tax by more than one-third.

117. Next share options. The measures introduced in the last Parliament to improve employee involvement through profit sharing and savings related share option schemes have been a notable success. The numbers of all these employee schemes have increased from about 30 in 1979 to over 670 now, benefiting some half a million employees. To maintain and build on this progress I propose to increase the monthly limit on contributions to savings related share option schemes from £50 to £100. I have also authorised the Inland Revenue to double the tax-free limits under the concession on long service awards and to include the gift of shares in the employee's company.

118. But beyond this, I am convinced that we need to do more to attract top calibre company management and to increase the incentives and motivation of existing executives and key personnel by linking their rewards to performance. I propose therefore that, subject to certain necessary limits and conditions, share options generally will be taken out of income tax, leaving any gain to be charged to capital gains tax on ultimate disposal of the shares. The new rules will

apply to options meeting the conditions which are granted from 6 April, ~~1988~~.

119. I am sure that all these changes will be welcomed as measures to encourage the commitment of employees to the success of their companies and to improve the performance, competitiveness and profitability of British industry.

120. Before turning to North Sea taxation, I should like to remind the House of the Government's concern at the threat which the spread of unitary taxation in certain US states has posed to the US subsidiaries of British firms. With our European partners we are monitoring the situation closely, and await with keen interest the imminent report of a Working Group under my US counterpart. It is very important that a satisfactory solution be speedily implemented.

121. This issue is not wholly irrelevant to the North Sea, for US firms operating there, or elsewhere in this country, are not of course taxed on a unitary basis, taking account of world-wide profits.

122. Last year's North Sea tax changes were well received, and there has been encouraging progress in the number of development projects coming forward, as well as in exploration and appraisal. The Government is already committed to a study of the economics of investment in incremental development in existing fields. This is of increasing importance and in consultation with ^{my vt hon friend} the Secretary of State for Energy I

therefore propose to review this area with the industry, and to legislate as appropriate next year to improve the position. To prevent projects being deferred pending this review, any changes will apply to all projects which receive development consent after today.

123. Meanwhile, I am taking two measures to prevent an unjustified loss of tax in the North Sea. First, in addition to the PRT measures on farmouts which I announced last September, I am limiting the potential Corporation Tax cost of such deals. Second, I propose to repeal the provision which allows Advance Corporation Tax to be repaid where Corporation Tax is reduced by PRT. I have concluded that this can no longer be justified. I have also reviewed the case for extending last year's future field concessions to the Southern Basin, but have concluded that additional incentives here are not needed.

124. I have just two further changes affecting business to propose, both of which will come into force on 1 October.

125. Ever since VAT was introduced in this country, we have treated imports differently from the way in which they are treated by our main European Community competitors. In a nutshell, they require VAT on imported goods to be paid in the same way as customs duties. We do not. Under our system an importer does not have to account for VAT on his

imports until he makes his normal VAT return, on average some 11 weeks later. During this time the importer enjoys free credit at the taxpayer's expense. This is an advantage not enjoyed by the home-produced equivalent of the import, since businesses buying from UK suppliers have to pay VAT when they pay their suppliers.

126. The UK system does indeed have many advantages, which is why the European Commission has for some years now been seeking to get it adopted throughout the Community, with the full support of both my predecessor and myself. But the plain fact is that in all that time the Commission has made no progress whatever.

127. I must tell the House that I am not prepared to put British industry at a competitive disadvantage in the home market any longer. Should our European partners at any time undergo a Damascene conversion, and ~~we~~ agree that the Commission's proposal should be accepted after all, then of course we would ~~gladly~~ revert to the present system. But in the meantime I propose to move to the system used by our major competitors and charge VAT straight away on imports, providing the same facilities for deferring payment as apply to customs duties. That means that most importers will be able to defer payment of VAT by on average one month from the date of importation. But that is all.

128. As I have said, this change will apply from 1 October. By bringing forward VAT receipts, it will bring in an extra £1.2 billion in 1984-85, some of which will of course be ~~borne~~ ^{borne} by foreign producers and manufacturers. There will naturally be no increased revenue in subsequent years.

129. The second change I propose to make on 1 October concerns the National Insurance Surcharge. This, once again, was a ^{the unhappy} brainchild of the Rt Hon member for Leeds East. Having introduced it in 1977 at the rate of 2 per cent, he then raised it in 1978 to 3½ per cent. During the last Parliament, my predecessor succeeded in reducing it to 1 per cent, and we are pledged to abolish it during the lifetime of this Parliament.

130. Given the impact that this tax has, not only on industrial costs but also - at a time of high unemployment - on jobs, I have decided to take the opportunity of this my first Budget to fulfil that pledge. Abolition of the National Insurance Surcharge from October will reduce private sector employers' costs by almost £350 million in 1984-85, and over £850 million in a full year.

131. Thus my proposals offer British business the abolition of the tax on jobs and the reduction of the rate of taxation on profits. They also sweep away a number of out-dated reliefs, reduce distortions, and assist enterprise.

BUDGET SECRET

INDIRECT TAXES

131. Having announced major reforms of both the taxation of savings and investment and the taxation of business, I turn now to the third and final area in which I propose to make progress on tax reform. This is the taxation of personal income and spending.

132. The broad principle was clearly set out in the Manifesto on which we were first elected in 1979 and which emphasised the need for a switch from taxes on earnings to taxes on spending. My predecessor made an important move in this direction in his first budget, and the time has come to make a further move today. To reduce direct taxation by this means is important in two ways. It improves incentives and makes it more worthwhile to work, and it increases the freedom of choice of the individual.

133. I do not however see the excise duties - with certain exceptions - as an area for major change. I shall of course need to raise most of the duties broadly in line with inflation, so as to maintain their real value: not to do so would run counter to the philosophy I outlined a moment ago. But with inflation now as low as it is, the necessary increases are on the whole mercifully modest. Only for a few particular duties do I envisage steeper rises.

check
modification

BUDGET SECRET

134. One significant exception is tobacco, where I ~~am~~ ^{believe it is right} convinced of the need to raise the duty in real terms, ^{given} ~~to help~~ ~~cut smoking and thus reduce~~ the potential danger to health. I therefore propose an increase in the tobacco duty which, including VAT, will put 10p on the price of a packet of cigarettes, with corresponding increases for hand-rolling tobacco and cigars. This will do no more than restore the tax on tobacco to its 1965 level. I do not propose to increase the duty in pipe tobacco, which is important for a great many pensioners. These changes will take effect from midnight on Thursday.

135. For the duties on petrol and derv I propose simply broad revalorisation, which means increases which, again including VAT, will ^{raise} ~~increase~~ the price at the pumps by 4½p and 3½p a gallon respectively. I do not propose to increase the duty on heavy fuel oil, which is of particular importance to industrial costs. These changes will take effect for oil delivered from refineries and warehouses from six o'clock this evening.

136. There is one excise duty which I propose to do away with altogether. Many of those who find it hardest to make ends meet, including in particular many pensioners, use paraffin stoves to heat their homes, and it is with them in mind that I propose to abolish the duty on kerosene from six o'clock tonight. I am sure that this will be welcomed on all sides of the House.

BUDGET SECRET

137. The various rates of Vehicle Excise Duty will, once again, go up roughly in line with prices. Thus the duty for cars and light vans will be increased by £5, from £85 to £90 a year. However, given the further evidence my Rt Hon Friend the Secretary of State has now received on the wear and tear that various types of vehicle cause to the roads, there will be reductions in duty for the lightest lorries, offset by higher increases for some heavier lorries. All these changes in Vehicle Excise Duty will take effect from tomorrow.

138. However, I propose to exempt from Vehicle Excise Duty all recipients of the War Pensioners' Mobility Supplement.

139. And I have decided to widen the specific VAT reliefs for the disabled in the important area of transport. The existing VAT relief for motor vehicles designed or adapted for use by the handicapped will be extended, and matched by a new Car Tax relief. The effect will be that neither VAT nor car tax will apply to family cars designed for disabled people or substantially adapted for their use.

140. I now come to the most difficult decision I have to take in the excise duty field. As the House will be aware, the rules of the European Community, so far as alcoholic drinks are concerned, are designed to prevent a Member state from protecting its own domestic product by imposing a significantly higher duty on competing imports. In pursuit of this, the Commission has taken a number of countries to the European Court of Justice.

BUDGET SECRET

141. In our case, the Commission contended that we were protecting beer by under-taxing it in relation to wine. We fought the case, but lost; and I am now implementing the judgement handed down by the Court last year. Accordingly, I propose to increase the duty on beer, not by the 7p a pint which has been widely ^{forecast} ~~rumoured in the press~~, but by the minimum amount needed to comply with the judgement and maintain revenue: 2p on a typical pint of beer, including VAT. At the same time, the duty on table wine will be reduced by the equivalent of about 18p a bottle, again including VAT.

142. I cannot, however, ignore the fact that while we comply with the judgement of the European Court, one of our partners appears determined not to do so. I refer to Italy, which has been ordered by the Court to remove forthwith its discrimination against Scotch whisky, but as yet shows no sign whatever of complying. I have therefore decided to introduce a temporary duty surcharge on vermouth of some 20p a bottle on top of the basic increase, to which I shall come in a moment. This surcharge will come into operation on 1 September unless the Italian Government has - as I very much hope it will - implemented the Court's judgement by that date, and it will lapse as soon as I am satisfied that it has complied.

143. As for the rest of the alcoholic drinks, cider, which increasingly competes with beer but attracts a lower duty, will go up by 3p a pint. The duties on made-wine will be aligned with those on other wine. And I propose to increase the duty on sparkling wine, fortified wine and spirits by about 10p a

bottle, including VAT. All these changes, except the vermouth surcharge, will take effect from midnight tonight.

144. These changes in excise duties will, all told, bring in some £840 million in 1984-85, some £200m more than is required to keep pace with inflation. The addition is of course ~~largely~~ due to the increase in tobacco duty.

145. But much of the extra revenue I need to make a substantial switch this year from taxes on earnings to taxes on spending will come from VAT. I propose no change in the rate of VAT. Instead, I intend to broaden the base of the tax by extending the 15 per cent rate to two areas of expenditure that have hitherto been zero-rated.

146. First, alterations to buildings. At present repairs and maintenance are taxed, but alterations are not. The borderline between these two categories is the most confused in the whole field of VAT. I propose to end this confusion and illogicality by bringing all alterations into tax. However, to allow a reasonable time for existing commitments to be completed or adjusted, the change will be deferred until 1 June.

147. Secondly, food. Most food is zero-rated. But food served in restaurants is taxed, together with a miscellaneous range of items including ice-cream, confectionery, soft drinks and crisps, which were brought into tax by the Rt Hon Member for Leeds East. Take-away food clearly competes with other

forms of catering, and I therefore intend to bring into tax hot take-away food and drinks, with effect from 1 May.

148. The total effect of the extensions of the VAT coverage which I have proposed will be to increase the yield of the tax by £375 million in 1984-85 and by almost £650 million in 1985-86.

149. The total impact effect on the Retail Price Index of the VAT changes and excise duty changes taken together will be less than three-quarters of one per cent. This has already been taken into account in the forecast which I have given to the House of a decline in inflation to $4\frac{1}{2}$ per cent by the end of the year.

150. The extra revenue raised in this way will enable me within the overall framework of a neutral Budget to lighten the burden of income tax.

BUDGET SECRET

PERSONAL TAXATION

151. Since we took office in 1979, we have cut the basic rate of income tax from 33 per cent to 30 per cent and sharply reduced the confiscatory higher rates inherited from the last Labour Government. We have increased the main tax allowances not simply in line with prices but by around 8 per cent in real terms. It is a good record. But it is not enough. The burden of income tax is still too heavy.

152. During the lifetime of this Parliament, I intend to carry much further the progress we have already made. For the most part, this will have to wait for future Budgets, particularly since I have thought it right this year to concentrate on setting a new regime of business taxation for the lifetime of a Parliament - and beyond. But as a result of the changes to taxes on spending which I have just announced, I can make a start now.

153. I propose to make no change this year in the rates of income tax. So far as the allowances and thresholds are concerned, I must clearly increase these by the amounts set out in the statutory indexation formula, based on the 5.3 per cent increase in the Retail Price Index to December. The question is how much more I can do, and how to direct it.

154. I have decided that, this year, the right course is to use every penny I have in hand, within the framework of a revenue neutral Budget, to lift the level of the basic tax thresholds, for the married and single alike. ^{makes no sense} It is fundamentally wrong that we collect income tax from people whose incomes are so low that they are entitled to social security benefits on grounds of need. Moreover low tax thresholds make the poverty and unemployment traps much worse, so that the financial incentive to find a better job or even any job may decline almost to zero. There is, alas, no quick or cheap solution to these problems. But that is all the more reason to make a start on solving them now.

155. I propose to increase most thresholds in line with the statutory requirement, and by no more. The first higher rate of 40 per cent will apply when taxable income reaches £15,400 a year and the top rate of 60 per cent to taxable income of £38,100 or more. The single age allowance will rise from £2,360 to £2,490 and the married age allowance from £3,755 to £3,955.

156. For the basic thresholds, statutory indexation would mean putting the single and married allowances up by £100 and £150 respectively. I am glad to say that I can do considerably better than that. I propose to increase the basic thresholds by well over double what is required by indexation. The single person's threshold will be increased by £220, from £1,785 to £2,005; and the married threshold by £360, from £2,795 to £3,155. ~~The special allowances for widows, and for single parents, will as a consequence go up by some 14 per cent.~~

157. This is an increase of around 12½ per cent, or some 7 per cent in real terms. It brings the married man's tax threshold for 1984-85 to its highest level in real terms since the war. It means that every tax-paying married couple in the land will enjoy an income tax cut of at least £2 a week. And it means that a large number of people, those with the smallest incomes of all, are taken out of income tax altogether. ~~And~~ Some 850,000 people - over 100,000 of them widows - will not pay tax in 1984-85 who would have paid if thresholds had not been increased. And 400,000 fewer than if the allowances had merely been indexed.

158. All these changes will take effect under PAYE on the first pay day after 10 May. Their cost is considerable: some £1.8 billion in 1984-85, of which roughly half represents the cost of indexation.

159. This is as far as I can go on income tax this year, within a broadly revenue-neutral Budget for 1984-85. But as I have already said, so long as we hold to our published planned levels of public spending, there is an excellent prospect consistent with the necessary downward path of public borrowing of further tax cuts in next year's Budget. These would be on top of the measures I have announced in this Budget which, as I have already told the House, will reduce taxation in 1985-86 by some £1½ billion, with business taking the lion's share. So for next year I would hope to be concentrating on further help to individuals, and principally on income tax.

CONCLUSION

160. I have, Mr Deputy Speaker, completed the course I charted at the outset this afternoon. I have described the recovery, and how the Government plans to sustain it, by working for further reductions in inflation, by maintaining sound money and by curbing borrowing. I have described a three part reform strategy for a fairer, simpler tax system. And I have been able to propose substantial tax reductions over two years in a Budget that is revenue-neutral for 1984-85. It is a Budget for responsibility and reform; and I commend it to the House.

W-10

CONFIDENTIAL



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

8 March 1984

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South

John Peter

RESIDUAL SHAREHOLDINGS

Thank you for your letter of 2 March in reply to mine of 15 February. You will since have seen Norman Tebbit's letter on the same subject and the Prime Minister's response.

I note the concern which you and Norman share that naming specific companies might provoke an adverse reaction in the market. My own view is that any effect of this kind would be short-lived. But I certainly do not want to complicate the programme of sales planned for the first half of 1984-85.

Nonetheless, I still think it would be worthwhile to make a statement about our treatment of residual shareholdings. However, on reflection I think this would come better in the Budget Debate than in the Budget Speech itself. I enclose a revised text with which I hope you and Norman will be content.

Although Norman's comments on BAe are now no longer directly relevant, I cannot let them pass unanswered. As you will both recall, E(A) asked for a study to be made of the possibility of a further sale of BAe shares at an appropriate time. While it is true that no further sale is currently scheduled, I do not think we can regard anything the company may have been told in the discussions on the A320 as tying our hands over a future share sale. Nor should the Government be open to accusations of selling on the basis of inside knowledge. Its position as an important customer will always give it more knowledge of BAe than other shareholders. Indeed, were we to pursue that argument to its logical conclusion, we should never be able to make any further sale! But I certainly accept that we shall need to cover the question of

CONFIDENTIAL

CONFIDENTIAL



Government knowledge about the company in the prospectus accompanying the Offer for Sale, as we did when BAe was first privatised.

Copies of this letter go to the Prime Minister, George Younger, Norman Tebbit, Nick Ridley and Sir Robert Armstrong.

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

NIGEL LAWSON

CONFIDENTIAL

STATEMENT

Mainly as a result of its privatisation programme, the Government holds minority shareholdings in a number of quoted companies. Questions have been asked about the Government's intentions towards these shareholdings. It has been suggested that they represent a continuing and deliberate means of exerting Government influence over the privatised companies. This is not so: indeed, it would defeat the main purpose of privatisation were it so.

Let me put the matter beyond doubt by making it clear that the Government's policy is to sell such shareholdings from its portfolio as the circumstances of the individual companies, prospectus undertakings and market conditions permit. A full announcement will be made to Parliament at the time individual sales are made. The mechanism of a Special Share can be used to safeguard national interests as has already been done in the case of Britoil, Amersham and Cable & Wireless. In line with this approach minority shareholdings have already been transferred from sponsor Departments to the Treasury and this policy will continue.



a MASTER SET

2A

file
da

10 DOWNING STREET

From the Private Secretary

7 March 1984

At their meeting yesterday and again this morning the Prime Minister and the Chancellor discussed his minute of 6 March. It was agreed that the detailed tables should show a PSBR in 1984-85 of £7.2 billion, rounded down to £7 billion in the summary tables, around 2½% of GDP.

The Chancellor explained that, as a result of changes in the terms of building society deposits, the behaviour of M2 was now less predictable. It was less likely that it could be accommodated within the same range as M0. He therefore proposed to apply the two target ranges to M0 and sterling M3, with M2 and PSL2 being mentioned in the text as further indicators of monetary conditions. This was agreed.

Andrew Turnbull

John Kerr, Esq.,
HM Treasury.

FILE
de

2A

BUDGET - SECRET

a MATTER SET



10 DOWNING STREET

From the Private Secretary

7 March 1984

Yesterday and again briefly this morning, the Chancellor discussed with the Prime Minister the final composition of his Budget. They agreed that the Budget should not be "politically overloaded". Consequently they agreed that it would be better to drop the proposal to impose VAT on newspapers, magazines etc. and to increase the duty on cigarettes by 10p per packet rather than 4p.

Andrew Turnbull

John Kerr, Esq.,
HM Treasury.

BUDGET - SECRET

SECRET

PT.P SERIAL NO - 1264

Copy NO 2 of 5



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

2

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

7 March 1984

Dear Nigel

I was grateful to have advance notice of the Budget changes in Corporation Tax, and to have the opportunity to consider their impact on merchant shipping.

I am strongly in sympathy with your general aim of getting rid of distortions which encourage the substitution of capital for labour for its own sake, and whose price is a high rate of tax which hits the most profitable firms and industries hardest. And I accept of course that such a change must produce losers as well as winners. But I am very concerned, as you expected, that the effect on merchant shipping would be one which, in the present state of the industry, will expose us to attack.

Shipping has been in chronic recession worldwide ever since the mid 1970s: the recession has been deepening and no upturn is in sight. The British merchant fleet has halved in tonnage terms, and now seems in aggregate to be making losses for its owners. We are already being attacked

SECRET

SECRET

for failing to help it, and these criticisms gain weight from the importance of shipping for defence. The Budget changes will cost our merchant shipping the "free depreciation" regime which it greatly values as an investment incentive, with little or no compensating benefit from the reduction in the rate of tax. We shall be charged with gratuitously damaging an industry which is vital to our defence and to our maritime trade. And instead of being attacked merely for our failure to help the industry, we shall find ourselves held directly responsible for its condition. It will also be argued that as shipping has always had somewhat different tax treatment from other industries, its special position ought to have been reflected in the new regime.

I have considered whether to press you for a longer transitional period while free depreciation is phased out or for a slightly higher rate of annual allowance for ships at the end of the transitional period. But I recognise your wish to avoid exceptions. I fear however that we may be forced to consider concessions to shipping in some form: we shall have to take a view on that when we can gauge the strength of the reaction to the changes.

In the meantime, I have already written to John Moore about the position of shipping under the Business Expansion Scheme, arguing that certain short-term chartering should be permissible under the Scheme, which at present is seen by the shipping industry as discriminating against it. I hope you will be able to announce on Budget Day that you can make these minor changes. It will help my position if we show that shipping has not been forgotten.

SECRET

SECRET

I am sending a copy of this letter to the Prime
Minister.

*Yours
Nicholas*

NICHOLAS RIDLEY

SECRET

| I



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

PRIME MINISTER

In our Budget discussion on 22 February I undertook to let you know my eventual proposal on the 1984-85 PSBR.

2. At that time I had in mind publishing a figure in the range £7-7½ billion, consistent with a revenue-neutral Budget. I have now concluded that it would be possible to publish a figure towards the bottom of that range, probably £7.2 billion, (which will be rounded down, in the summary tables in the Red Book, to £7 billion), while keeping a margin in hand, as we both think sensible.

3. £7.2 billion will be £1 billion below the target for this year, and a more substantial reduction of this year's expected outturn, which we are still putting at around £10 billion. As a proportion of GDP the PSBR would fall from 3¼ per cent to 2¼ per cent. This should have favourable market consequences.

4. For the years further ahead I still plan to chart a more gently declining path, with the PSBR ratio falling to about 1¼ per cent by 1988-89. This would, on the expenditure totals and GDP growth rate of 2¼ per cent assumed, imply substantial room for tax cuts in subsequent budgets.

5. I should mention one further change to the presentation of the MTFs. Our initial plan, as you know, was to include M2 and PSL2 as monetary targets, subsidiary to the main targets, MO and £M3. However, M2 has recently been affected by some substantial data revisions because of changes in the terms of building society deposits. This makes its future behaviour more uncertain, and I have concluded that it would be best to confine the target ranges to MO and £M3. M2 and PSL2 will still be mentioned in the text, as aggregates to which we shall pay particular attention in interpreting the performance of the targetted aggregates, but their significance will clearly be lower than if they were target



aggregates. I myself preferred from the outset the idea of only 2 target aggregates - one broad and one narrow: I was prepared to settle for the previous formulation because it seemed likely to ensure the co-operation of the Bank. The Bank now share our increased concern about M2, and the Governor has confirmed that he is entirely content with the new formulation. I shed no tears over the change.

A handwritten signature in black ink, appearing to be 'N.L.' with a small flourish at the end.

N.L.

6 March 1984

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

Subjects to be discussed are:

- i. The final PSBR figure. A note on this will come over in the afternoon following the meeting in the morning with the Chancellor's Budget group.
- ii. M2. The original agreement reached with the Bank was that there should be two ranges with sterling M3, supported by PSL2 in one, and MO, supported by M2 in the other. It now seems possible that M2 will grow too fast to be accommodated in the same range as MO. The new proposal is that the ranges should apply only to sterling M3 and MO with PSL2 and M2 being referred to in the commentary as other indicators of monetary conditions.
- iii. The Chancellor will want to report on action taken on the Budget leak.
- iv. VAT on newspapers. I expect the Chancellor will want to argue for this proposal - there is around £340 million at stake. The proposal would include newspaper advertisements which means that the free newspapers will be hit even harder than local and regional papers. This reduces but does not eliminate the force of the point made in Bernard's note.
- v. There may be one or two points raised by colleagues on the long-term public expenditure Green Paper to be resolved although I have identified none as yet.

A draft of the speech is likely to be sent over on Thursday.

AT

5 March 1984BUDGET - SECRET

16

PRIME MINISTER

LORD MacALPINE

In addition to an Honours question and Party finances, Lord MacAlpine wishes to raise a construction industry issue. He will probably suggest that he organises another lunch-time Reception at which you could meet members of the construction industry. You attended such a function in April last year.

There is no great advantage for you in this, and one possible difficulty. The industry will be pressing you for more ATP and ECGD help abroad and more Government expenditure on construction at home. On the latter, the White Paper shows that there has been a fall in Government capital expenditure on the construction in real terms in the last five years. But there is no reason for the Government to be too defensive. These figures ignore repair and maintenance expenditure, which added about 30% in the 1970s and now add about 50%. More fundamentally, however, with the completion of the basic motorway network, with little building needed in education, and with the emphasis on house-building by the private sector, it is far from clear that the Government financed construction should be increasing.

See attached table

The difficulty relates to the proposal to impose VAT on alterations and additions. In April or May, the Government could find itself in dispute with the industry, although the impact may be limited for the kind of company represented on Lord MacAlpine's group.

For these reasons you may want to decline or postpone such a meeting.

It might help if this issue and the Honours question were taken first. Robin will attend and then withdraw when you get on to Party finance.

AT

4.5 Capital expenditure on construction work

Table 4.5

£ million cash

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 estimated outturn	1984-85 plans
Direct public expenditure on new construction							
Housing—new dwellings and improvements	2,138	2,454	2,362	2,007	2,328	2,345	2,331
Other environmental services	572	720	888	828	929	943	966
Transport	900	1,113	1,266	1,368	1,661	1,547	1,698
Education and Science, Arts and Libraries	399	452	550	493	450	440	366
Health and personal social services	328	398	536	642	642	657	735
Other ⁽¹⁾	298	393	414	427	436	484	556
Total direct public expenditure on new construction	4,635	5,530	6,016	5,765	6,446	6,416	6,652
Grants and loans to housing associations and improvement grants	659	725	733	992	1,517	1,888	1,621
Expenditure on new construction identified within the planning total ⁽²⁾	5,294	6,255	6,749	6,757	7,963	8,304	8,273
Nationalised industries							
Electricity	186	227	284	316	426	348	294
Gas	162	202	304	263	630	768	683
Railways	200	146	155	143	104	132	163
Coal	165	221	324	346	358	319	340
Water authorities	534	589	673	666	687	733	732
Other ⁽³⁾	226	165	201	235	218	350	380
Total expenditure on construction by nationalised industries	1,473	1,550	1,941	1,969	2,423	2,650	2,592
Grand total	6,767	7,805	8,690	8,726	10,386	10,954	10,865

⁽¹⁾Defence; agriculture; industry, trade, energy and employment; law, order and protective services; office and general accommodation; some expenditure on new construction for military purposes is classified as current expenditure.

⁽²⁾See Table 4.4 for details of all capital expenditure within the planning total.

⁽³⁾Certain capital expenditure by the British National Oil Corporation and Enterprise Oil which is classified in the accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry. The "nationalised industry" figure for 1984-85 includes planned spending on construction by British Telecom.

GDP deflator

61.5 71.9 85.3 93.8 100.0 105.0 110.0

Table 4.5 shows all capital expenditure by the public sector on new construction. As decisions have not yet been taken in all cases on allocations within the main programmes, it is not possible to extend this analysis into the later years.

The figures cover capital construction only and do not include repair and maintenance. At the beginning of the 1970's repair and maintenance work accounted for about 30 per cent of the work supplied to the construction industry by the public sector. Since then it has been steadily increasing to the point that it is estimated that in 1982 the public sector spent more than £5 billion on repair and maintenance. It now probably accounts for about 50 per cent of the work supplied to the construction industry by the public sector. The exclusion of public sector repair and maintenance—expenditure on which has increased as buildings have become older—should not be overlooked in interpreting the figures for capital construction shown in the table. Also excluded is some defence expenditure on construction (amounting to up to about £400 million a year recently) which is also classified as current expenditure.

The figures consequently understate the implications of public expenditure for the construction industry, but they also include small amounts of expenditure which is not on work done by the construction industry, for example, on the acquisition of land and existing buildings.

The figures cover the following types of expenditure:

- direct spending on new construction;
- capital grants and loans to housing associations and improvement grants: these go to finance construction work, except that the figures for housing associations also include finance for their expenditure on the acquisition of land and existing dwellings;
- the estimated amount of new construction in the nationalised industries' investment programme.

The first two items are included in the planning total, the last is financed by nationalised industries' internal as well as external resources and thus not included as such in the planning total.

78-79	79-80	80-81	81-82	82-83	83-84	84-85
11,003	10,855	10,188	9,303	10,386	10,432	9,877

Grand total
at 1982-83 prices



1F

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

5 March 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

Thank you for your letter of 1. March about the Midland Bank's failure to respect the confidential terms on which consultations on the composite rate had taken place.

Since the Prime Minister and the Chancellor spoke about this matter, the Chancellor has written to Sir Timothy Bevan, who as Chairman of the BBA was in the lead for the banks during the consultative process. The Governor has also made clear to him our dissatisfaction with the breach of confidence by Mr Greenwell of the Midland Bank - and also with Sir Timothy's own comments to the Conservative Finance Committee at the House on 27 February. Sir T Bevan's reply was that his engagement to talk to the Committee was a longstanding one, and that he had only referred to the composite rate in response to questions, but he fully accepted the strictures on Greenwell, agreed to pass them on, and undertook to try to ensure that the confidentiality of the consultations was respected from now on.

In view of this, the Chancellor sees no need for a letter from the Prime Minister to Sir D Barron, inexcusable though Greenwell's remarks were.

Yours ever,

J O Kerr

J O KERR

Agreed at meeting with Chancellor
on 6 March that no further
action was required.

AG
713



10 DOWNING STREET

From the Private Secretary

5 March 1984

NORTH SEA FISCAL REGIME

The Prime Minister has seen, and is content with, the proposals contained in the Chancellor's minute of 2 March.

I am sending a copy of this letter to Michael Reidy (Department of Energy).

Andrew Turnbull

John Kerr, Esq.,
H.M. Treasury.



Prime Minister ^② / D

This looks acceptable. The undertaking on incremental projects will be welcomed - last year's Budget tackled smaller separate fields.

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

AT 2/3

PRIME MINISTER

MT

NORTH SEA FISCAL REGIME

I promised last week that I would let you have details of my Budget proposals for the North Sea fiscal regime, once I had discussed them with Peter Walker.

2. As in previous years, officials of the Treasury, Inland Revenue and Department of Energy have carried out a detailed analysis of UKCS oil and gas projects. In the light of this, I have concluded that, overall, the present fiscal regime is about right. The renewed interest shown in North Sea projects since the last Budget seems to bear out this judgement. In a later year we may need to look again at the taxation of Southern Basin gas fields but I propose no change in this area now.

3. I do intend to announce certain changes directed at reducing the tax incentives for the sale of licence interests (so called "farmouts") of which BP's disposal of part of its interest in the Forties field provides a recent example. My proposals are quite modest and should have no adverse impact on deals that have a genuine commercial motivation rather than tax avoidance. The measures I propose are:

- (i) removing a loophole which lets out of charge to capital gains tax gains by non-residents on tangible assets used in the North Sea. This is a clear anomaly;
- (ii) bringing capital gains tax on farmouts within the corporation tax ring-fence; and
- (iii) limiting the buyer's capital allowances for plant and machinery in a farmout to the seller's original cost.



4. I have also examined the implications for North Sea developments of my wider proposals on corporation tax. North Sea companies will gain substantially from these, particularly the existing fields. As I see no reason to relax the present fiscal regime in the North Sea, this implies that these gains should be at least partially offset. I do not want to raise the rate of PRT. Instead I intend to stop the repayment of ACT which is presently allowed when corporation tax liabilities are reduced as a result of PRT deductions. This measure should not affect development. It goes a considerable way to offsetting the gains in the North Sea from the wider corporation tax package, but a net benefit will remain.

5. Taken together these proposals will, on our latest forecasts, reduce Exchequer revenue from the North Sea by on average about £55 million a year over the next five years. The marginal rate of take on existing fields will fall from 89.5 per cent to 85.8 per cent, and on future fields (which are not liable to royalty) from 88 per cent to 83.75 per cent.

6. This leaves the problem of incremental projects in existing fields which have an important role to play in the full exploitation of the UKCS. The industry has expressed concern for some time about the impact of the present fiscal regime on such projects and the general corporation tax package will exacerbate their relative disadvantage. I believe we must give some concessions in this area, but we shall need to consult with the industry in order to identify the best options. We cannot open discussions before the Budget and so have no hope of completing consultation in time for this year's Finance Bill.

7. However, I shall be announcing in the Budget my plans for consultation with the industry and shall give an undertaking to legislate next year to improve the position of incrementals. To guard against the risk that this approach could lead to projects being deferred, I will make plain that concessions will be backdated to this year.

8. I have discussed my proposals with Peter Walker, to whom I am sending a copy of this minute. He is content.

A handwritten signature in blue ink, appearing to be 'N.L.' with a flourish.

(N.L.)

2 March 1984



JC

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

2 March 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

CONSUMER CREDIT DUTY

In your letter of 23 February about the Prime Minister's talk with the Chancellor about his proposals for the taxation of savings and investment you mentioned that he had said that he was thinking further about the proposal to introduce a credit licence duty.

I ought now to let you know that it was agreed, at a meeting of Ministers and officials on 28 February, that the proposal should be dropped from this year's Budget. The cumulative effect on the financial sector of the capital allowance measures, the composite rate, the LAPR change, the building society gilts decision, and the imposition of the duty from 1985-86 would be substantial, and the duty was clearly the marginal item. The issue was further discussed with the Governor on 29 February: he accepted the decision to shelve the proposed measure for the present.

Yours ever,
John Kerr
J O KERR

CONFIDENTIAL

2 March 1984

MR TURNBULL

RESIDUAL SHAREHOLDINGS

In the next 2 or 3 months, some residual shareholdings should be sold: it will not jeopardise the BT issue in the autumn. The UK equity market is currently very strong, and would welcome more equity issues. Because companies are so liquid, there are very few rights issues available.

The case of British Aerospace is the most important. It would be desirable to follow up the grant of launch-aid with a further sale of equity. It would help fund the launch-aid given and would signal that the Government does not wish to bear undue risk on this project.

It is difficult to see that insider trading allegations would stick now that the Airbus financing package has been publicly announced. If there are concerns about other information, then that too could be made generally available before or at the time of any share placing.

You could agree with Norman and with Peter Walker in not making a general statement on the sale of residual holdings. This would alarm the market for no good reason.



JOHN REDWOOD

CONFIDENTIAL

'X' - is ^{File} new to me.



My recollection
is the same as
yours and as the

10 DOWNING STREET minutes.

Prime Minister (2) mt

Both Mr Tebbit and
Mr Walker have
reservations about the
Chancellor's passage on
residual shareholdings.

I was not aware that
X in Mr Tebbit's letter
had been agreed with
colleagues. According to
E(A) minutes, he was
supposed, after consulting
Treasury, to report on
possibilities for disposing of
Govt's holding in BAE.
To await Chancellor's response

AA
2/3

E.R.

SECRET

Copied to Mr. Kew

FEB

5.3.

1B

PRIME MINISTER

VAT ON NEWSPAPERS

You may have seen the attached leader in today's Mail reacting adversely to the idea, canvassed in The Guardian, that VAT is to be imposed on newspapers.

This is only a foretaste of things to come if VAT is indeed extended to the press.

It is not simply that this will set Fleet Street against you - and this will aggrieve Murdoch, Harmsworth and Matthews (who account for 10 on the whole well-disposed newspapers). But it will make critics of the local and regional press who are almost entirely on your side.

It may be objected that Fleet Street could afford to pay VAT if only it would sort itself out. That is no doubt true and I have very little sympathy or patience left with Fleet Street.

But that is still not a good reason for setting Fleet Street against you. Look what happened to Mr Macmillan.

I have much more sympathy for the local and regional press who have done far more to break down union opposition to new technology. They remain, however, in difficulty partly because of the activities of free newspapers who are creaming off the advertising cake.

I am profoundly concerned lest you set potential or actual supporters against you or give them a grievance and I hope you will reflect on the damage it could cause you.

Robin - please show to N.L.

B. INGHAM
2 March 1984

SECRET

Daily Mail COMMENT

Whitehall talk of a new tax on knowledge

2 March 1984

A LAUGHABLE suggestion is emerging from Whitehall that the Chancellor is contemplating imposing 15 per cent. VAT on newspapers.

Clearly we must declare an interest in this. However, it is not only the interest of ourselves, but of all newspaper readers and all who believe in a free Press.

All governments of modern times have acknowledged that it is wrong to tax knowledge. And that is precisely what this would do.

Apart from the matter of principle, there are many technical reasons why this would be a particularly difficult and expensive tax both to collect and to administer. It seems barely credible that Nigel Lawson (himself a former Fleet Street City Editor) should make such a radical departure from accepted practice without full consultation with those concerned.

Of course, this could be just another pre-Budget trial balloon—launched to see which way the wind is blowing.

Stories like this don't emerge from nowhere. Increasingly, the Treasury is using news management techniques to leak Budget proposals—both real and imaginary.

The technique is damaging to confidence and causes unnecessary upsets in the market.

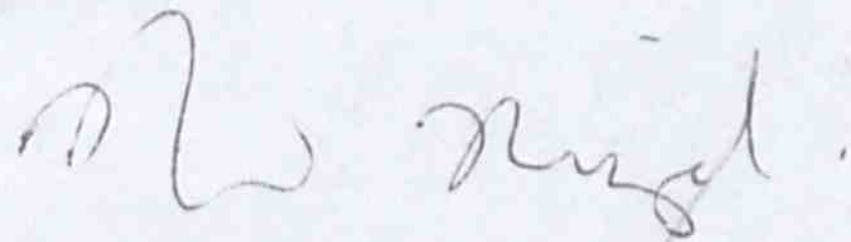
It is time for the Chancellor and his cohorts to return to the old tradition of Budget Day and stop putting out silly rumours.

u x

01 211 6402

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

2 March 1984



You wrote to me on 15 February enclosing a draft passage for the Budget speech about the Government's attitude to residual shareholdings.

I suggest some slight redrafting of the second paragraph of the passage you sent me, as on the attached sheet. I think it would be better not to say flatly that the mechanism of the special share can look after every form of national interest. In the particular cases mentioned it is mainly if not wholly directed to preventing a change of control, which is only one form of possible national interest. On the last sentence, it seems wrong to imply that the policy is a completely new one. The Britoil residual shareholding is already, and is known to be, in Treasury hands: so is the Special Share.

I have however a more serious concern about the third paragraph of your draft. This would certainly be read as an intention to dispose of further Britoil etc shares in 1984-5. Indeed, the likelihood is that, in the revenue-raising context of the Budget speech, the real purpose of this passage would be seen as foreshadowing these further share sales, not as making the rather subtle point about Departmental responsibility for residual shareholdings. My concern is that these remarks about further share sales would affect some sections of the market and might in particular have an adverse impact on the flotation in the coming months of Enterprise Oil.

My concern is reinforced by advice we have received from Kleinworts, who have been anxious about whether there was likely to be any announcement relating to further sales of Britoil Shares during the period before sale of Enterprise Oil. Indeed, they have expressed worries about any indication of a considerable number of privatisation issues during the year because they think that, although this would not be entirely logical, the prospect of a series of issues would have a negative influence on the attitude of large investors towards privatisation issues in general.

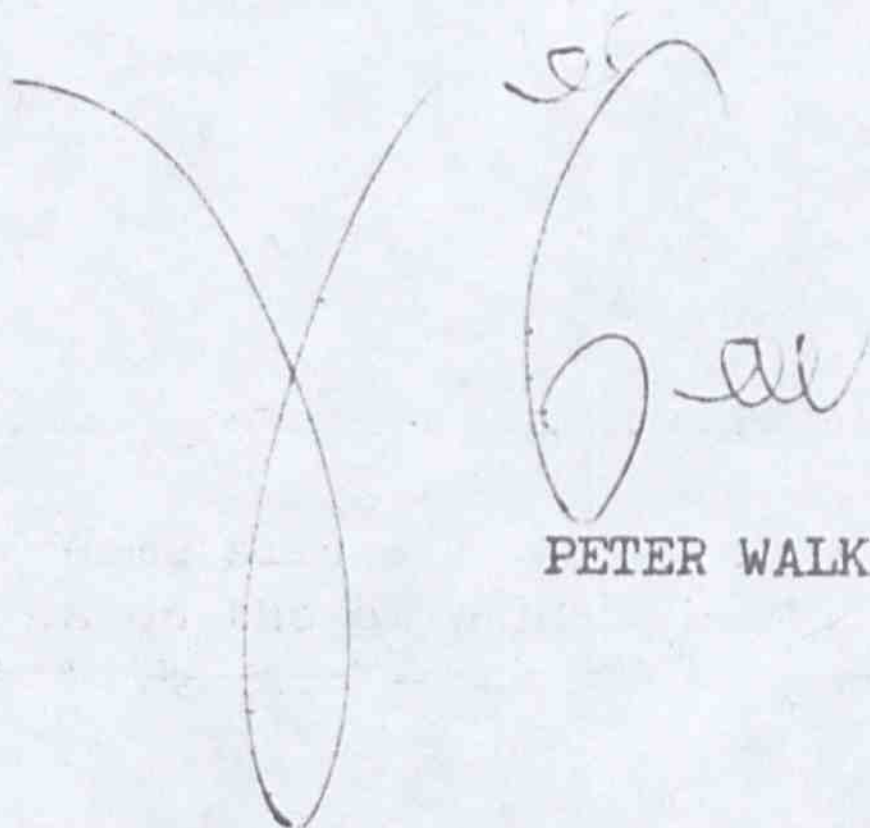
Whether we wholly share this view or not, there seems no point in flying in the face of it unless we have a very good reason indeed for doing so. Of

/course.....

CONFIDENTIAL

course an overall target for proceeds from asset sales has already been published but I think that is rather different from specifying particular shareholdings. The better course seems to be to announce privatisation issues as and when we are ready, and in terms and in a context which give them the best chance of success. I would therefore strongly urge that you drop the third paragraph of the passage you sent me. Indeed, I cannot help wondering whether there is much gain in including the passage as a whole.

I am copying this letter to the recipients of yours.

A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by 'Walker' in a cursive script.

PETER WALKER

CONFIDENTIAL

CONFIDENTIAL

REVISED SECOND PARAGRAPH

Let me put the matter beyond doubt by making it clear that the Government's policy is progressively to sell such shareholdings from its portfolio as the circumstances of the individual companies and market conditions permit. The mechanism of a Special Share can be used to safeguard national interests as already been done in the case of Britoil, Amersham and Cable and Wireless. In line with this approach minority shareholdings in two of these companies have already been transferred from former sponsor Departments to the Treasury and it is intended that this policy will be continued in future.

CONFIDENTIAL

Elon PA
Budget
1/11

6 - MAR 1984

12 1 2 3
4 5
6 7 8 9 10 11

PRIME MINISTER

THE PSBR

In my memorandum from Washington I suggested £6 billion as PSBR target and I thought that it would be wrong to exceed £7 billion. I now believe there are more cogent and pressing reasons to aim for the £6 billion.

The overriding reason is the deterioration, both economically and politically in the United States. I always suspected that the deterioration would occur fairly rapidly this year, but now I believe it is more likely since the political circumstances have changed against Reagan over the past few weeks. This will make markets more nervous and liable to panic.

If we plan for a £6 billion PSBR now, we shall be in a position for dealing with any such deterioration in the American economy. And, on the other hand, if the US rides out this year without a substantial run-down, there will be no harm and I believe some good done in having the extra billion in hand.

Within the framework of the existing budget proposals this could be done most easily by foregoing the increase in the thresholds above the 5½% for inflation. As you know, I have always regarded the threshold changes as a very high priority. Nevertheless, both politically and economically it may be a good idea to delay the threshold increase this year. We can represent the whole budget package this year as a reform of business taxation. We can express our intention to deal with the reform of personal taxation in subsequent budgets. It will not be bad politically to have quite considerable reductions in personal tax to have ready as a precursor to the next election.

CONSUMER CREDIT TAX

I believe this is a very important tax which we should implement as soon as possible. It effectively imposes a VAT of about 4% on credit services. This goes quite a long way towards widening the base of our tax system and VAT in particular. Thus it makes progress towards possible progress towards lower rates.

No I believe that such a tax is already widely expected by the banks and has been discounted in the fall of bank shares already. If we do not implement the tax then there will be a capital gain as the shares bounce back.

No In any case it is important to establish the principle that our main tax reform is towards widening the base and reducing the rates. The policy is to eliminate multiple boxes on savings and to switch from income to spending taxes. This tax on credit is consistent with that strategy.

Medium Term Tax-Benefits Strategy?

It would be useful to consider whether we should set out the policy in a major statement - a Medium Term Tax/Benefits Strategy (from 1984-1989). The main elements would be:

- (a) a change in the incidence of taxation from earning to spending;
- (b) a widening of the tax base and a reduction in rates;
- (c) a reduction, heading towards virtual elimination, of distortions particularly in business taxes/subsidies;
- (d) a reform of the benefits/tax system (in 1987/8) to reduce the disincentives to work, simplify the system of poverty-relief, to eliminate the benefit-induced distortions of normal family life, and to reduce the bureaucratic involvement in our lives.

The timetable of such a strategy must be rather flexible, but on some of the main items we can reasonably promise definite progress. But, of course, we should promise only what we can be reasonably certain to deliver. This will provide an external promise and an internal discipline.

/Given the containment

Given the containment of public expenditure, and the additional incentives to control spending that the MTT/BS will induce, this will provide the frame of reference for the next five years. The sine qua non of the MTT/BS is of course continued progress towards stability of the price level. We must have an inflation-free economy by 1988/9.



ALAN WALTERS
1 March 1984

BUDGET SECRET



1A

10 DOWNING STREET



From the Private Secretary

Prime Minister ⁽²⁾

To note Alain's views. He would prefer to devote the money being devoted to extra increases in thresholds to reducing the PSBR. But what effect does this have on the political balance of the package

He strongly endorses the consumer credit tax. Even if the Chancellor does not proceed with it this year, it could be kept in reserve for next.

On the Medium Term Tax (Benefits Strategy) the Budget makes good progress on (a), (b) and (c). Raising thresholds would help (d) but much of the work is subject to Norman Fowler's reviews. The Central Council speed is a forum for reporting progress.

AT

1/3

BUDGET SECRET

✓ B
1
ANDREW
a MARKER SET



10 DOWNING STREET

From the Private Secretary

1 March 1984

COMPOSITE RATE FOR BANKS

During the course of their bilateral yesterday, the Chancellor mentioned that a senior member of the Midland Bank had appeared on the radio on the Financial World Tonight programme, discussing the proposal to introduce a composite rate. Although there had earlier been a leak of this proposal, the Chancellor considered that the Midland Bank had failed to respect the terms on which confidential consultations had taken place. The Prime Minister suggested that she might write to Sir Donald Barron about this. I should be grateful if you would consider whether this would be helpful, or whether you think it would be better to leave the Governor of the Bank of England to make representations. If such a letter would be helpful, please could you provide a draft.

ANDREW TURNBULL

John Kerr, Esq.,
H.M. Treasury.

BUDGET SECRET



JU862

Secretary of State for Trade and Industry

cc ~~NO~~
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

/ March 1984

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

D Nigel

RESIDUAL SHAREHOLDINGS

Thank you for copying to me your letter of 15 February to Peter Walker.

2 I am most anxious that you should avoid giving the impression that any particular residual holdings are to be sold in 1984/85. It would be wrong to do so before we have reached collective decisions on disposal, yet an announcement that the Government will be considering the possibility would give a clear signal to the markets that this is our intention.

3 Our primary aim in privatisation is to improve economic efficiency, and we have publicly acknowledged that short term benefits for the PSBR are secondary. It is the initial act of privatisation which secures the wider efficiency benefits and selling residual holdings make no significant further contribution to this. Given that the capacity of the market to absorb Government sales is limited, it must surely be right to accord priority in our timetable to initial privatisations, postponing the sale of residual holdings until the market is better able to absorb them. This should also secure us a better price.

4 I am particularly concerned about the possible impact of an announcement of the kind you envisage on the BT flotation. Our advisers on this, Kleinwort Benson, know from their discussions with the institutions that they are concerned at the amount of stock the Government's privatisation programme is asking them to absorb. On the basis of their advice, I too am concerned that the announcement of a prospect of sales of residual Government shareholdings, on top of the initial privatisations scheduled for 1984/85, could disturb the institutions on whom we depend for executing the exceptionally large BT sale.



X | 5 I have an additional concern, relating to British Aerospace. Throughout our discussions with BAe on the financing of the A320 a cardinal point has been BAe's need (which we have accepted in principle) to keep its balance sheet in a condition where the company could raise additional capital (possibly via a rights issue) within the next few years on reasonable terms. The possibility of a further disposal of shares by the Government has been raised in these discussions and the company have been told, in accordance with the Government's position up to now, that no further disposals are scheduled. To raise in your Budget speech the possibility of a disposal in 1984/85 so soon after a deal on the A320 has been reached with BAe would upset all the assumptions on which that deal has been struck. It would certainly lead BAe to accuse the Government of a major breach of faith.

6 Moreover there would be a further prospect of allegations of inside knowledge against the Government. During the A320 discussions we have had made available to us detailed information on BAe's financial situation and forecasts going far beyond what would normally be available to a shareholder. In addition, the support deal on the A320 may of course itself be an important factor influencing BAe's share price in 1984/85.

7 For all these reasons I strongly urge that you make no reference to residual shareholdings in your Budget Speech. Instead you might like to make a low key announcement perhaps by way of an arranged Parliamentary Question, based on the first two paragraphs of your draft but making no reference to the possibility of sales in 1984/85.

8 I am copying this to the Prime Minister and to the other recipients of your letter.

NORMAN TEBBIT

PART 11 ends:-

Bingham to Lfc 28.2.84

PART 12 begins:-

SS/DTI to Ch/exch 1.3.84.