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PRIME MINISTER

THE BUDGET

Virtually all the pieces in the Budget jig-saw are now in place. The main features remain as described in our discussions last week (Scholar's letter of 25 February) on the basis of my minutes of 18 and 23 February.

Monetary policy

2. As I envisaged, the "Red Book" up-dated version of the Medium Term Financial Strategy will show ranges for the monetary aggregates of 8-12 per cent for 1982-83, declining in subsequent years.

Fiscal stance

3. The Red Book will also show a forecast PSBR in 1982-83 of about £9½ billion. This compares with the figure of around £10½ billion which we forecast, and which we are on track to hit, for the current year; and £9 billion shown in last year's Red Book for 1982-83. For 1983-84 I am looking for a PSBR of around £8½ billion, as compared with the figure of £6½ billion envisaged for that year in last year's Red Book.

4. The PSBR of £9½ billion for 1982-83 enables me, after making allowance for uncertainties, to propose tax reductions having a PSBR effect in 1982-83 of around £1.3 billion. This figure will appear in the Red Book. The Red Book will also show the revenue costs involved, which are of course considerably higher.



5. For 1983-84 the measures I now propose will have a PSBR effect of around £1.5 billion (though this figure will not be volunteered), however the Red Book will show a positive fiscal adjustment for that year - ie a possible scope for tax reductions next year - of around £½ billion.

6. The figures reflect an assumption that the oil price of $\$31$ a barrel will hold over the whole of 1982, and thereafter will increase only in line with inflation. My Speech, and the briefing, will emphasise that the fall in oil prices is tantamount to a substantial tax reduction for businesses and individuals, that it justifies a lower level of tax reductions than might otherwise be the case, and that further substantial falls might require compensating fiscal action. My judgement is that following your Speech to the EEF, and last week's Press reports, a PSBR of £9½ billion with reductions of £1.3 billion will not be seen as unduly tight.

Budget proposals

... 7. My detailed proposals on the fiscal front are shown in the attached Annexes. They are of course all familiar to you. We will be proposing something near full revalorisation (except for spirits), - the increases for petrol and Derv will be 9p and 7p per gallon respectively, on direct help to industry a 1 per cent cut in NIS made effective from the beginning of 1982-83, and on personal taxes an increase in income tax allowance and rate bands of about 2 percentage points over and above Rooker-Wise. There are also a number of additional measures which are shown in the Annexes.

8. The public expenditure planning total for 1982-83 is likely to emerge at a shade less than £115 billion, or very near to the figure in my 2 December announcement. The increases not charged to the contingency reserve which I shall propose are more than



offset by the expenditure consequences of other Budget measures and estimating reductions. The increases charged to the Reserve include the costs of restoring the 2% shortfall on the 1981 uprating of Social Security benefits. The Reserve is set at £2.25 billion next year, with £4 billion and £6 billion for 1983-84 and 1984-85 respectively.

9. Of the PSBR costs of £1.3 billion for the Budget measures, over two-thirds can be presented as directly helping businesses. This is of course as it should be in a Budget designed to help industry and unemployment, and this will be the main theme of my speech.

... 10. I attach a copy of the current draft of the Speech. Although it is still some way short of final form, you may like to see it as it stands. The proposed new employment scheme is set out in section 2. I shall have another session with Norman Tebbit on the language. The monetary and PSBR sections - 3 and 4 - have been discussed with Alan Walters, and the latter contains a fairly full treatment of the effect of oil price falls. Sections 15 and 16 on Capital Taxes and Fiscal Justice will I think evoke considerable interest: the measures proposed in the former should usefully stimulate the equity market, while those in the latter include a series which are designed to reduce the ways in which Banks, and others, reduce their liability for corporation tax.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)
3 March 1982

	<u>PSBR costs</u> (after "second round" effects) 1982-83 1983-84	<u>Tax effects in 1982-83</u> Indexed base non-indexed base	<u>Tax effects Full year</u> Indexed base non-indexed base
Specific Duties (cost of less than full revalorisation - effects include petrol +9p and Derv +7p)	65 45	65 (1145)	65 (1155)
NIS (1% effective cut from April 1982)	675 670	1000 1000	1195 1195
Personal taxes (about 2% over revalorisation on allowances and bands)	185 150	200 1840	260 2445
Other proposals (Annex B)	420 580	280 280	890 890
Total PSBR costs - tax and expenditure together	<u>1345 1445</u>		
Total revenue costs - tax only		<u>1545 1975</u>	<u>2440 3395</u>
Public expenditure not charged to the Reserve		<u>200 200</u>	

Note: "Tax effects in 1982-83" - "Tax effects in full year" columns will appear in the PSBR, not quite in the same form but with the same totals. "PSBR costs" columns will not, but the figure of "about £1.3 billion" for PSBR cost of measures in 1982-83 will be mentioned in the text.

	<u>£m</u>		<u>Full year</u> <u>(tax only)</u>
	<u>1982-83</u> <u>(tax and</u> <u>expenditure together)</u>	<u>1983-84</u>	
1. Enterprise (as Annex C)	28	75	78
2. Innovation (as Annex C)	20	50	15
3. Construction (as Annex D)	240	156	170
4. Energy (as Annex E)	164	200	100
5. Social (as Annex F)	93	244	16
6. Other items (as Annex G)	14	(16)	(38)
7. Unemployment (see note below)	?	?	?
8. Capital Taxes (net cost of changes)	35	144	351
9. North Sea (net cost of restructuring regime)	-	70	200
	—	—	—
	594	923	892
	—	—	—
Less public expenditure items included above but to be charged to Contingency Reserve	111	263	
	—	—	
	483	660	
Less PSBR offset for "second round" effects	60	80	
	—	—	
<u>PSBR costs in Annex A</u> (say 420)	423	580	
	—	—	
<u>Tax costs in Annex A</u>	280		890
	—		—

Note: Unemployment measures cannot be costed at this stage. Expenditure will be charged to the Contingency Reserve.

£m Revenue costs

ENTERPRISE PACKAGE

	<u>1982-83</u>	<u>1983-84</u>	<u>Full year</u> (tax only)
1. Revalorisation of "small companies" corporation tax limits	6	10	11
2. Revalorisation of VAT registration and deregistration limits	5	10	10
3. VAT relief for services supplied before registration	Neg	Neg	Neg
4. Relief for purchase of own shares by companies	2	5	5
5. Tax relief for contributions to enterprise agencies	Neg	Neg	Neg
6. Liberalisation of interest relief to cover full time worker and job ownership companies	2	5	5
7. Increase in retirement annuity relief for old self-employed	12	27	25
8. Pre-trading expenditure concessions	Neg	Neg	Neg
9. BSS [^] - carry forward unused 1981-82 allowances to 1982-83	Nil	8	20
- increase in limit £20,000	Nil	8	
10. Share schemes			
- revalorisation of limit on employee scheme	1	2	2
- rights issue technical amendments	Nil	Nil	Nil
- spreading of tax liability on exercise of options	Nil	Nil	Nil
	—	—	—
	28	75	78
	—	—	—

INNOVATION

£130m 3 year package (including Information Technology promotion)	Public expenditure*	20	35	not tax
	Tax reliefs	-	15	15
		—	—	—
		20	50	15
		—	—	—

* charge to Contingency Reserve

BUDGET SECRET

^ Business Start-up Scheme

£m revenue costs

CONSTRUCTION PACKAGE

	<u>1982-83</u>	<u>1983-84</u>	<u>Full year</u> <u>(tax only)</u>
1. Extension of Small Workshop Scheme and industrial buildings allowance to <u>cover warehouses</u> (other than wholesale and retail)	Neg	6	20
2. Capital allowances for new rented property under assured tenancy scheme	Neg	5	5
3. Stamp Duty on house purchase : increased thresholds	70	75	75
4. Additional public expenditure in form of grants to private sector house improvement	<u>100</u>	-	not tax
5. VAT: Maintenance of zero-rating of double-glazing insulation etc from 1 April 1982. (Mainly reversal of House of Lords ruling)	<u>70</u>	70	70
	—	—	—
	240	156	170
	—	—	—

£m revenue costs

ENERGY PACKAGE

	<u>1982-83</u>	<u>1983-84</u>	<u>Full year</u> <u>(tax only)</u>
1. Electricity prices	97	[100]	not tax
2. Continuation of Foundry Coke Scheme*	7	nil	not tax
3. Industrial gas freeze to 31.12.82	60	[100]	100
	<u>164</u>	<u>200</u>	<u>100</u>

* charge to Contingency Reserve

Note: No decision has been taken about continuation of Electricity or Gas price schemes beyond 1982-83. For the purpose only of looking at the 1983-84 PSBR effects it is assumed that the Electricity scheme continues and the Gas freeze is not unwound.

£m revenue costs

SOCIAL PACKAGE

	<u>1982-83</u>	<u>1983-84</u>	<u>Full year</u> <u>(tax only)</u>
1. Capital Transfer Tax - raise exemption on charitable gifts and bequests to £250,000	Nil	1	1
2. Minor extensions of existing VAT reliefs for charities	Neg	Neg	Neg
3. Development land tax - further relief for charities	Neg	Neg	Neg
4. Exemption of Mobility Allowance from tax	8	10	10
5. Stamp Duty relief for transfer to charities	4	5	5
6. Restoration of 2% shortfall on 1981 uprating of social security benefit and public service pensions*	78	218	not tax
7. Increase in capital disregard for supplementary benefit purposes*	3	10	not tax
	—	—	—
	93	244	16
	—	—	—

* charge to Contingency Reserve

£m revenue costs

OTHER ITEMS

	<u>1982-83</u>	<u>1983-84</u>	<u>Full year</u>
1. Minor PRT	5	(2)	(2)
2. Ring fence for CT	-	10	10
3. Company cars	-	(18)	(30)
4. Equity loans	-	(15)	(25)
5. Bus fuel grants	9	9	9
	—	—	—
Totals	14	(16)	(38)
	—	—	—