

PRIME MINISTERMeeting with the Chancellor:

13 March

The Chancellor will be sending you a minute later tonight on his income tax package. I have seen this minute in draft, and the figures in it seem to show that people on low incomes won't do too badly. I suggest you should go over these carefully with the Chancellor before reaching a final view. By careful presentation, I believe the package can be presented as reasonably equitable. For example, someone on £50 a week will have a larger absolute reduction in tax than someone on £100 a week. And although at very high incomes, the reduction in tax in absolute terms is large, in percentage terms the extra burden of tax will be larger ^{than} at lower income levels. Nonetheless, you still might want to press the Chancellor to up-rate the top band by less than 11%.

The Chancellor may also come back to you on capital taxation. At present, he is still planning on the package he put to you last week; but in view of your remarks this evening, I suspect he will be having second-thoughts - particularly on CGT. It might be better to wait until he has firmed up some revised proposals before discussing this again.

At Flag A is a minute from the Chancellor on fringe benefits and the DIPS Scheme. I think the latter is reasonable enough; you will no doubt want to go through the fringe benefits proposals carefully. The Chancellor's basic argument is that he is simply moving to stop the present anomalies etc., from getting worse; and his proposed change on company cars will not take effect until April 1981. (John Hoskyns, who has written a general note at Flag B on the Budget, supports some move on fringe benefits.

There are two other things which the Chancellor may raise:-

(i) Issue of Shares by BP

You said today that, if BP were to issue additional shares, we should not allow the Government holding to fall below 25% - with the implication

/that we

that we would have to buy some additional shares. The Chancellor will dispute this on the grounds that: (a) it will cost money - perhaps £50 million if BP were to issue £200 million of new shares, and (b) it would look like intervention in their affairs. The expenditure point is well taken, but you will want to probe him on the alleged intervention point.

(ii) Public Expenditure on the British Council

Pressure is building up from the Foreign Office and other Backbenchers to exempt the British Council from its share of public expenditure cuts. Correspondence on this is at Flag C. The Chancellor wants your support against the Foreign Office. There are some separate papers in the box from Lord Carrington asking for exemption for the Foreign Office from the 2½% staff cuts. He is invoking the exception which Cabinet agreed for "very small departments". I do not think you ought to settle this - or the other Foreign Office bids - with the Chancellor bilaterally, i.e. without having Foreign Office Ministers in as well.

AJ for TL

12 March 1980