



HOUSE OF COMMONS
LONDON SW1A 0AA

CONFIDENTIAL

28th November, 1978

Don Magnus

AS

V.E.D.

I have, of course seen a copy of Adam Ridley's note of 23rd November on this subject and am now enclosing a copy of the note which Nigel Lawson has sent me to the same general effect.

As you will see, both Nigel and Adam are more inclined than I am to support the case for getting rid of VED, on the grounds that this will reduce the Swansea Civil Service by 800 out of 5,000 people. Not only am I doubtful whether this would actually happen (and certainly the public would notice no difference because they would still have to deal with the Licensing Centre in a virtually unchanged system of annual licences), but I am also doubtful whether it makes sense to lose £800 million annual revenue in order to save a very much smaller sum in Civil Service manpower. If we wanted to get rid of a manpower expensive tax, which now produces no net revenue at all, it would make much more sense to abolish dog licences!

However, my main concern is to echo as strongly as possible the warnings contained in both Adam's and Nigel's notes to the effect that we must avoid getting the Party into the position where we vote (in debates on next year's Finance Bill) against increases in petrol tax. I say this for two reasons:

- a. If we do so in the context of a parallel reduction in VED, we shall be totally defenceless against a charge of irresponsibility;
- b. Our plans for cutting income tax must imply a willingness to raise indirect taxes, including petrol tax, particularly in light of the fact that petrol now costs less in real terms than it did five years ago and less than in any other European country.

You may like to know that Arthur Cockfield (who takes a fairly neutral view about the intrinsic merits of scrapping VED for the sake of higher petrol tax) well remembers his experience when he and Tony Barber considered the same point in 1970. He writes as follows:

"We both took the view that our basic objective was to 'switch' taxation from direct to indirect and this had been made clear by Ian Macleod in his speeches at party conferences. It was

"broadly inconsistent with such a policy to start by getting rid of an old and trusty indirect tax yielding, as it then did, upwards of £400 million. True it was proposed to compensate by putting up another indirect tax, viz. that on petrol- but if you put up the petrol tax for that reason, you wouldn't be able to put it up for some other reason - for example as part of the 'switching' policy."

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From
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The Rt. Hon. Margaret Thatcher M.P.

cc Nigel Lawson Esq., M.P.
John MacGregor, Esq., M.P.
Peter Rees, Esq., Q.C., M.P.
Peter Cropper, Esq.,
Adam Ridley, Esq.