

SUBJECT.

NOTE FOR THE RECORD

The Prime Minister and the Chancellor had a further discussion about the Budget this afternoon. The following points came up:

- I The Chancellor said he was having doubts about the shape of the Budget. It had been pointed out to him that, if personal allowances were raised by only 7½%, people on below average earnings would be hit disproportionately. By contrast, if the basic rate were to be raised by 1%, the extra burden would be shared more equally. Provided the Prime Minister was prepared to contemplate it, he was thinking of the possibility of raising the basic rate by 1% and personal allowances by about 10%. This would not only be a fairer arrangement, but it would raise additional revenue which - with the present arithmetic for the PSBR coming out at about £11½ billion - would be very useful. The Prime Minister said that provided it was additional to less than full indexation of the threshold, she was prepared to contemplate a basic rate increase. She was veering towards the view that a PSBR of less than £11 billion was essential.
- II The Chancellor said that he was going ahead with the bank levy; he had yet to decide on the rate of the levy, though it would be pointless to do it for less than £300 million.
- III Capital taxes. The Chancellor said he would minute the Prime Minister with details of what he proposed. Despite the criticisms that any further improvements would be helping the rich, it was essential - in his view - to make some minor changes as part of the

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enterprise package and to fulfil the Government's election promises. The Prime Minister said she agreed.

- IV Benefits in kind. The Chancellor referred to his minute of 3 February. The Prime Minister commented that she had doubts about one of the proposals contained therein: namely, the proposal that in future the value of season tickets provided by employers and of goods and services purchased with company credit cards should be taxed for all ~~the~~ employees - not just the better paid employees. The Prime Minister said she doubted whether it would be wise to bring the value of season tickets into tax when commuter fares were going up fast. It might not be possible to carry this through the House.

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