4A.

NOTE FOR THE RECORD

cc Sir Robert Armstrong
No copy for Mark Sct.

The Chancellor called on the Prime Minister at 0900 hours today.

They first discussed the specific duties package in the Budget. (They had before them the Chancellor's note of last night.) The Chancellor said that he had decided not to proceed with VAT blocking as this would have an undesirable impact on business costs. Of the three packages set out in his minute, he intended to go for the package entitled B(vi). This would raise £250 million more in 1980/81 than package A(iii), and the total RPI effect would be no more than 1.1% - which ought to be manageable.

The Prime Minister said she was concerned about the large increase in the price of petrol which would follow from this package, and she suggested that it would be worth considering doing rather less on petrol and more on beer. She was worried about the effect of the proposed 10p increase on petrol on rural motorists in particular. The Chancellor said that he would certainly look at this, but pointed out that petrol duty was less "RPI heavy" than the duty on beer. A switch on the lines proposed by the Prime Minister would mean a bigger RPI impact in total for the same revenue. The Prime Minister said that the Chancellor had discretion to take a final decision on this without coming back to her.

The Chancellor made the following further points on the Budget:

(i) He intended to raise the higher rate thresholds by a uniform 11 per cent. In this way, the abolition of the lower rate band would be distributionally about neutral. The Prime Minister wondered whether it was necessary to raise the thresholds at the top at all in view of the very large reductions in tax for higher income earners in the last Budget. The Chancellor replied that it would be inconsistent with the Government's strategy to deny this group any relief this year: he thought an 11 per cent up-rating,

/which

√ ? which could be presented as considerably less than full indexation, would strike about the right balance. The Prime Minister agreed.

(ii) In reply to a question from the Prime Minister on where he was looking for extra revenue, the Chancellor said that the PRT increase to 70 per cent would yield £330 million and he hoped for more from advancing PRT payments again; he also intended to raise £10 million, albeit a small sum, from increased taxes on casinos. He also was proposing to tighten up tax arrangements on leasing, but this would only yield revenue (about £90 million) in 1981/82.

The Chancellor then raised the question of disposals. This and other matters are recorded separately.

PL.

6 March 1980

SECRET

CC EconPol (Disposals) Pt 2
" " (Domestic Monetary) Pt 3 4
(both copies to item 1 blanked out)

Gen Pol

PRIME MINISTER

MEETING WITH THE CHANCELLOR

THURSDAY 6 MARCH 1980

The Chancellor would like to cover the following at the meeting tomorrow:

Flag B

(i) The indirect tax package in the budget. He told you last week that he was planning on raising about £1 billion from indirect taxes (which would put about 1% on the RPI). But he did not have any specific proposals. There will be a note from him on this later tonight. If possible, we want to minimise the RPI impact for any given revenue increase. Unfortunately those duties which push up the RPI least, such as on DERV, fall most heavily on businesses. So it may not be possible to increase the duties differentially. There is of course a good social argument for putting up the duties on the "RPI heavy" items - drink and tobacco.

(ii) The disposals programme in 1980/81. Papers on this are at Flag A. The short point is that the Chancellor is looking for £500 million, and he has identified about £400 million which is fairly firm. The other main possibilities lie with Mr. Howell's responsibilities, but he so far has been unco-operative. The best option here would be for BGC to sell off its interest in the Wytch farm oilfield - this would raise £100 million. BGC will resist because the field has been developed almost entirely through their own efforts, and because it would be hard to get an accurate evaluation - the size of the recently discovered oil reservoir below the existing reservoir has not been determined yet. You will of course want to support the Chancellor in general terms, but I wonder whether it would be right to support him on any particular scheme of disposals in the energy field without hearing Mr. Howell's case.

The Chancellor will also probably bring you up-to-date on where he has got to on the medium-term financial strategy. The paper which you saw last week has been revised to take on board some of the Governor's worries; the Chancellor is awaiting his further comments before putting it back to you.

5 March 1980

SECRET

R.