



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

*Primi Ministr*

*This is in line with what you agreed with the Chancellor last week. Are you content?*

*Yes - the 15th*

PRIME MINISTER

Following our discussion a week ago I have now more or less settled the main budget proposals and I thought it would be helpful to let you have a summary of them this weekend. For operational reasons it was necessary to settle the indirect tax changes by last night and, subject to the comments below, I hope it will not be necessary to make any further significant changes in the package.

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2. I have framed the proposals in the light of the updated National Income Forecast which became available this week. I am sending a copy of this to you under a separate covering note. The forecast will, however, need to be revised over the weekend to take account of the latest information both on the economy and on the package itself. If, as is possible, this leads to some upward revision to the forecast of the PSBR, I shall need to consider some adjustment to the income tax proposals. I hope this will not be necessary; but I shall want to settle this by Monday evening if we are to be able to meet the timetable for producing the necessary Budget documentation.

3. The main constituents of the package may be summarised as follows:-

Direct tax: I am planning to do a little more on the thresholds than was included in the "minimum" package in my minute to you of 23 May. This will give the package a better balance and in particular

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help those lower down the income scale. More specifically, the main income tax reductions proposed are:-

- a 3p cut in the basic rate to 30 per cent
- a cut in the top rate to 60 per cent on taxable income over £25,000, with a first higher rate band of £2,000 at 40 per cent starting at £10,000;
- increases in the single and married allowances of £180 and £280 respectively over the 1978-79 levels - double the increases under indexation provisions of the caretaker Finance Act.

The total cost of these changes in 1979-80, together with related increases in the age allowances and other less costly improvements (eg on investment incomes), is estimated at about £3.6 billion (£4.5 billion in a full year). I am also proposing some smaller changes in corporate taxation (eg on stock relief and to help small companies). The base rate and structure of corporation tax will, however, remain unchanged.

Indirect tax: As we agreed last week, VAT will be increased to a unified rate of 15 per cent and I am proposing increases in the duty on petrol and derv of 7p a gallon (a duty increase of about 23 per cent on petrol and 20 per cent on derv). The duties

Separate  
note on  
petrol VAT  
is attached

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on alcohol and tobacco will remain unchanged, as we also agreed. These increases will yield about £2.3 billion this year (£4.1 billion in a full year) and have an impact effect of about  $3\frac{3}{4}$  per cent to the RPI.

Public expenditure: Subject to the developments at E Committee this morning of which you are aware, the package will be as agreed by Cabinet, including the reductions in specific programmes and sales of assets that we discussed yesterday. The outlook for prices following the Budget will mean that the cash limits squeeze will be somewhat greater than colleagues have so far been led to expect: the Chief Secretary and I are considering the implications of this. The effect of the increase in prescription charges to 45p, and of additional price increases by the nationalised industries due to the package, will be to add about 0.3 per cent to the RPI by the middle of next year by which time it should once again be on a downward path. In my Budget statement I shall give some account of all the main expenditure cuts; I am sure the House will expect this.

4. There are two other tax measures I should mention. First, there is general agreement that the present rate of Development Land Tax is too high and is reducing the supply of development land and acting as a brake on the building and construction industries. I am therefore proposing to



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to reduce the rate to 60 per cent and to raise the exemption to £50,000. This should assist the release of development land and lighten the burden of tax. Second, we have inherited our predecessor's decision to increase petroleum revenue tax from 1st January. With some modifications I propose to implement this. It seems right in present circumstances, when we are seeking to reduce the burden of direct taxation, to look to the North Sea for a larger revenue contribution.

5. I hope that this combination of measures will enable me to publish in the Industry Act forecast, which will be contained in the Financial Statement and Budget Report, a PSBR forecast for this year of £8½ billion. This will be within our PSBR target. But if any substantial upward revision proves necessary, I shall, as indicated above, consider an offsetting revision to the income tax proposals. But even if this does prove necessary, the increases in the thresholds should still be very substantial.

G.H.

(G.H.)

1 June, 1979

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*From the Private Secretary*

4 June 1979

The Prime Minister was grateful for the Chancellor's minute of 1 June in which he set out his main Budget proposals. This is to confirm that she is content with them.

The Prime Minister has also considered the Chancellor's minute of 1 June concerning VAT on petrol. She is content to accept the Chancellor's judgement on this matter, though she has noted that he intends to instruct officials to give it more detailed consideration after the Budget for possible action either next year or, if the energy supply situation should seriously deteriorate, later this year.

The Prime Minister was also grateful for the Chancellor's note, and the accompanying papers by officials, on the forecast.

T. P. LANKESTER

Tony Battishill, Esq.,  
HM Treasury.

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