NOTE OF A MEETING HELD IN THE TREASURY AT 2.45 pm ON THURSDAY 22 JANUARY 1981

Present:	Chancellor of the Exchequer	
	Chief Secretary	
	Financial Secretary	
	Minister of State (C)	
	Minister of State (L)	
	Sir Douglas Wass	
	Mr Burns	
	Sir Kenneth Couzens	
	Mr Ryrie	
	Mr Middleton	
	Mr Battishill	
	Mr Britton	
	Mr Cassell	
	Mr Kemp	
	Mr Unwin	
	Mr Gordon	
	Mr Wiggins	
	Mr Folger	
	Mr Ridley	
	Mr Cropper	
	Sir Douglas Lovelock	HM Customs & Excise
	Mr Phelps	HM Customs & Excise
	Sir Lawrence Airey	Inland Revenue
	Mr Dalton	Inland Revenue
	Mr Green	Inland Revenue

THE BUSINESS AND PERSONAL SECTORS: FISCAL OPTIONS FOR THE BUDGET

The meeting had before it Mr Ryrie's minute of 16 January, to which was attached a paper "The Business Sector: Fiscal Options for the Budget"; Mr Battishill's submission of 19 January "Personal Taxation: Background to the Budget"; and a minute of 21 January by Sir Douglas Wass.

I General Issues

1. The Chancellor acknowledged the risks there would be - eg for the level of pay settlements - in undue generosity to the company sector. But as the room for manoeuvre to help companies was so limited that seemed unlikely to be a problem in practice.

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Sir Douglas Wass agreed with this assessment if the overall scale of relief were limited to hundreds of £ millions. The Chancellor suggested it would be difficult to select particular means of relief on economic grounds - each had advantages and disadvantages when assessed against economic criteria. Considerable political judgement would be required in making the choice.

2. In discussion the following points were made:-

(i) given the difficulty of choosing particular means of relief on economic criteria, it might be appropriate to give considerable weight to the views of industry. It was noted that the CBI were seeking a major cut in NIS and abolition of the heavy fuel oil duty (HFO).

(ii) the fact that many companies had adapted quickly to weather current difficulties was encouraging.

(iii) in the preliminary stages of identifying a package it would be simplest to take account of individual revenue costs. The PSBR effects could be left to be assessed for the measures taken together.

II Particular tax measures to help industry

Stock Relief

3. The Revenue would be putting a paper to Ministers shortly inviting various decisions, on aspects such as the credit restriction, that could affect the annual revenue cost by around £50m or so. It was noted that final decisions were not needed immediately and that there was a case for delaying them, if possible, until the overall Budget package was clearer. The Chancellor said that, pending completion of the consultative process, the Revenue would need to dispel some of the wilder criticisms in the media of the stock relief proposals.

Corporation Tax

4. It was noted that there was no great external pressure for a change in the rate. But each 1% point reduction was quite cheap and a reduction to 50%, say, could have an important

psychological impact as part of a small overall package to help companies. A further cut in the small companies rate would be cheap and politically attractive. However raising the profit limits to £80,000 and £150,000 and reducing the marginal rate to 60% might merit priority. The Chancellor commented that there seemed little case for changing ACT.

5. The general view was that there was no very strong case for the Lord scheme or for raising the rates of capital allowances.

Measures to encourage corporate bond issues

6. The Minister of State (L) and the Financial Secretary favoured tax concessions for deep discounted low coupon bonds. Mr Middleton said a submission would come forward shortly.

Industrial Rates

7. The Chancellor said this issue was acquiring considerable political steam. But there could be a danger that industrial derating would lessen one constraint on local authority rate demands and spending: some authorities seemed at present to be inhibited by fears of job losses in local industry consequent upon excessive rates increases. The Secretary of State thought this was happening in Wales. In discussion the following points were made:-

(i) industrial derating would be targeted selectively to help manufacturing rather than commerce, which might be a desired objective. But many of those most vocal in the small business sector were not manufacturers.

(ii) there would be major difficulties in unravelling the 1981-82 RSG settlement to compensate local authorities for the cost of derating.

(iii) in the view of the Minister of State (L), the enormous trouble caused by previous experience with derating, which led to its abolition, necessitated the most careful consideration before following that course again.

(iv) Mr Battishill said the latest view was that the Finance Bill would not be a suitable vehicle for the necessary legislation. This aspect would be treated fully in reporting shortly the further interdepartmental work that was under way.

(v) given the sharp upward trend in rates a concession to industry would be of increasing value to them through the years.

(vi) an alternative to derating might be direct central government grants to offset part of business rate bills. But they would score as public spending.

8. The Chancellor felt derating, by whatever means, was not likely to be feasible for 1981-82. But the whole issue would need consideration for 1982-83 and it might be possible, say, to announce in autumn 1981 an intention to legislate to help industry as part of wider changes in local authority finance. Meanwhile he wanted work to continue on the possibility of selective or general help for business with rates in 1981-82, whether by derating, direct grants or even some ceiling on increases.

NIS

9. It was noted that arguments about the inappropriately wide spread of benefits from a general NIS cut could be exaggerated, given that other tax measures were under consideration for banks and the oil sector. In any event a selective NIS did not seem practicable for 1981-82. Mr Middleton favoured a fairly big cut in NIS given the need to relieve the effects of the high exchange rate on the financial position of companies (not just those in manufacturing). In his view NIS amounted to a tax on employment, non-rebateable on exports, of a kind incompatible with broader medium-term objectives. Mr Burns and Sir Kenneth Couzens agreed. A NIS reduction would reduce industrial costs and bring some offsetting helpful benefit to the PSBR by easing the pressure on company finances.

10. It was suggested that only a reduction of 1% point or more would have a significant effect on the underlying problems of the company sector. Mr Burns said that if only limited resources were available then a small NIS reduction would still be a good use of them. Mr Middleton said if a cut of only, say, a ½% point looked feasible there might be better ways of spending the money.

11. It was noted that there could be a presentational awkwardness. The government had insisted that employers NIC contributions should increase in the usual way for 1981-82, despite industry's protests. A NIS cut might be represented as a reversal of that stand. Other points made were:-

(i) the paper submitted by Mr Ryrie suggested a NIS cut might leak into wages much more than would other forms of relief,

(ii) the full year costs of a cut would be roughly twice the 1981-82 cost, so storing potential trouble for the future.

(iii) the Social Services Secretary would not welcome a mid-year NIS change, which caused administrative difficulties for DHSS.

12. The Chancellor did not challenge the arguments in favour of a NIS cut but doubted whether, in view of the shortage of resources, and the other claims on what could be afforded for companies, there would be room to reduce NIS. Nevertheless it should be retained as an option for the time being. Following the meeting Parliamentary Counsel ~~was~~ advised that there is no objection to changing the NIS by means of a Finance Bill.

HFO

13. It was noted that unless the problem of the Frigg contract could be overcome (which seemed unlikely as Energy advised that a BGC request to renegotiate would result in worse overall terms for the UK) the PSBR costs of abolition would be disproportionate. And they would increase threefold over a period of 5 years.

The Chancellor said that but for this complication abolition of HFO ranked very high and he hoped the problem could be overcome. The Financial Secretary agreed. Mr Battishill promised a full report shortly.

Small Firms

14. It was noted that consultations with outside interests on the "Aunt Agatha" scheme were not yet complete. For various reasons, changing the tax treatment of purchase of own shares did not seem a likely starter for 1981-82. The proposed change in VAT registration limits to £15,500 and £14,500 was agreed.

Industrial Energy Pricing

15. Mr Middleton said the micro-economic costs of action now seemed a major disadvantage and, subject to the outcome of the work of the NEDC taskforce, general reductions in planned prices seemed inadvisable. The Financial Secretary suggested that rebate of HFO on fuel used by the CEGB might be a worthwhile option. The Chancellor asked that the Financial Secretary's idea be examined. Other action in this area could be eliminated as an option for the Budget.

VAT Blocking

16. It was agreed that VAT blocking on petrol only be retained as an option for the time being. It would be easier to do if there were accompanying major tax reliefs for industry.

VAT on construction

17. The Financial Secretary suggested that abolition of zero rating for alterations would be inappropriate given the hard-hit state of the construction industry. It was noted that the Minister of State (C) had the matter under review.

VAT on imports

18. It was agreed that, in view of the Prime Minister's interest, this option could not yet be regarded as closed, despite the strong arguments against it. It was however "on the back burner".

III Additional Revenue from Persons

Enforced Saving

19. The Chancellor invited views on this idea, floated in a recent article in The Banker. After a brief discussion it was agreed that the idea had little to commend it. It would in the Revenue view be administratively unworkable and there would be pressures to index the amounts "saved".

Income tax rates and thresholds

20. Sir Lawrence Airey suggested that a change in the rate of income tax could be ruled out. If the personal allowances could not be revalorised fully then there would be a case for applying the same measure of rough justice across the board by adjusting the higher rate bands etc by the same percentage. It was important to note that if there were not a full revalorisation some income taxpayers would pay more than they would have paid had the previous Government's tax rates and allowances continued unchanged. Sir Douglas Wass suggested that given the need to take account of the combined effect of the employee NIC change due in April and the Budget tax changes it would be premature to reach a firm view now on a uniform approach to personal allowances - eg as between single and married.

21. The Chancellor said his disposition was towards a fairly uniform approach although obviously decisions on particular allowances would have to be taken in the light of an analysis of the effects of the NIC increase. In public presentation it would be important nevertheless to maintain the position that NIC was not a tax.

Revalorisation of specific duties

22. The Chancellor said he considered there could be a very strong case for increasing these in aggregate by an amount going beyond overall revalorisation. But careful commodity-by-commodity consideration would be needed. One possibility on which he would welcome advice was the possibility of, in effect, using the PSBR benefits of going beyond revalorisation

to ease up on domestic fuel price increases. The general public saw it as odd that the duty on cigarettes, for example, had risen much less rapidly than gas prices. Mr Ryrie said there could be a danger of undermining sensible nationalised industry pricing policy. He would arrange for the Chancellor to have a note.

Extension of VAT to books, newspapers etc

23. The Chancellor saw great difficulties in this.

23 January 1981.

Distribution

Those present
Sir Anthony Rawlinson
Mr Bailey
Mr Kitcatt
Mr Evans
Mr Kelly
Mr Wren-Lewis
Mr Cardona