

BUDGET SNAPSHOT, 26 MARCH 1980

This condensed summary gives some main points of the Chancellor's Budget proposals. Figures are rounded. Full-year figures are in brackets, those for 1980-81 are not. "COST" is shorthand for extra money taxpayers keep. "YIELD" for extra revenue expected. Not all tax costs and yields are given, so figures do not necessarily add to totals. Tax changes are proposals only, subject to Parliamentary approval. This year, some key points from today's public expenditure White Paper and Medium-Term Financial Strategy are included. This is a working document, designed to help journalists and others to get the main points quickly. It makes no claim to be comprehensive or definitive. For fuller details, see Red Book (PSER), Public Expenditure White Paper and press notices.

BROAD STRATEGIC AIMS

Budget is further step in new direction signposted by June 1979 Budget. Main purposes: secure eventual slowing of inflation by steady reduction of money growth; reduce public spending and borrowing; offer prospect of lower interest rates in future; continue restoring incentives, encourage enterprise and private effort; retrench now to bring forward day when sustainable economic growth is possible.

MEDIUM-TERM FINANCIAL STRATEGY (MIFS) (RED BOOK P17)

First Budget to set policy for short run in context of published financial strategy over four years (to 1983-84). Set in terms of things Government has power to control. Allows others - decision-makers etc - to work with grain of strategy, understand limits imposed, opportunities offered.

Key points: Growth of money stock slowed on broad lines: 7-11% in 1981-82 down to 4-8% in 1983-84. NOT by excessive use of high interest rates. Therefore progressive reduction of PSER as % of GDP. Plans for cuts in spending announced today. Revenue depends on growth of output. Cautious 1% annual growth of GDP assumed after 1980. Projections of future growth subject to wide margin of error - dependent on world trade, oil prices, productivity growth, inflation etc. No prediction now what detailed policies needed to keep money growth on beam. But projections show that, on cautious assumptions made, possible to achieve monetary objectives and

- reduce PSER to 1-2% of GDP by 1983-84
- at same time, leave some scope for tax cuts in later years of period (over and above indexation of direct and indirect taxes).

PUBLIC EXPENDITURE TO 1983-84 (see White Paper, Cmnd 7841, and Treasury Press Notices)

(See also "SOCIAL SECURITY" on page 4.)

Substantial change of direction. Central to curtailing growth of money supply and controlling Government borrowing, and so bringing down inflation and interest rates.

Previous Government's plans for 1982-83 cut by 11½% - nearly £9 billion (1979 survey prices), over £11 billion at today's prices. By 1983-84 planned spending lower by 4% than in 1979-80 (real terms).

UK's net contribution to European Community projected in these plans on basis of existing arrangements: the change under negotiation will increase savings shown.

Increases in services Government best fitted to provide. Cuts where state role not so essential.

Planned increases: defence, 3% annual real increase between 1979-80 and 1983-84; law and order, 2½% annual increase. Planned growth in spending on national health service maintained. Net spending is reduced by increases in charges, including an increase in the prescription charge to £1 from 1 December 1980. For social security see section on page 4.

BUDGET SECRET UNTILL END OF BUDGET SPEECH

Planned cuts. Assistance to industry, employment and training, housing (reflecting reduction in local authorities' building programmes and Government's commitment to reduce housing subsidies), education (reflecting fall in pupil numbers), and nationalised industries' borrowing.

Bureaucracy. Previous Government planned for civil service of 748,000 at 1 April 1980. By 1 April 1981 civil service will be smaller than that by at least 50,000.

Local authority manpower: expected to decline overall during next four years: this is consistent with projected decline in gross local authority current expenditure, 70% of which represents manpower costs.

MONETARY TARGET 1980-81

Target range for growth of £M3 (mid-February 1980 to mid-April 1981): 7-11% at annual rate. Objective: to bring £M3 down to centre of range. Monetary growth already slowing down. New target means further slowdown in underlying rate of growth.

Corset scrapped after mid-June. Has affected statistics more than underlying monetary conditions. Firm monetary policy. Essential response to inflation rate. In line with other countries.

PSER 1980-81 (BUDGET JUDGMENT)

Treasury forecast shows 2½% fall in output, 1980. Should be easier - consistently with given monetary target and maintenance of reasonable interest rates - to finance PSER in recession. BUT continuing high inflation makes PSER cut (both in money and as % of national income) imperative. Holding level as % of national income NOT compatible with money targets or MIFS.

Therefore BUDGET AIM: PSER less than 4% of national income - about £8½ billion (about 4½% or £9 billion in 1979-80). Necessary in order to achieve target slowdown in monetary growth without putting too much burden on interest rates.

Tax measures (net) make further £235m contribution to PSER cut next year (direct effect). Full indexation of taxes/benefits not compatible with Budget aim. Right to maintain price protection where most needed. But not possible maintain real value all incomes when national income falling. "Cost plus" mentality in price/pay fixing harmful to conquest of inflation.

Three influences on tax mix judgment:

- Pay settlements (all together) higher than justified by output.
- Large oil price increase (both have boosted inflation and interest rates).
- High £ exchange rate. (Partly due to NS oil.)

Balance has swung in favour of consumers, against companies (except oil companies and banks). Tax measures in accordance with above.

MAIN TAX TOTALS

INLAND REVENUE TAXES (net)  
CUSTOMS AND EXCISE TAXES (net)  
VEHICLE EXCISE DUTY (net)  
BUS FUEL GRANTS

	<u>fm forecast change in yield</u>	<u>Full year</u>
	<u>1980-81</u>	
	- 1,020	(- 1,680)
	+ 1,020	(+ 1,065)
	+ 238	(+ 238)
	- 3	(- 3)
	<u>+ 235</u>	<u>(- 380)</u>

TOTAL CHANGE

TOTAL IMPACT EFFECT ON RPI OF TAX CHANGES

+ 1.1%

INCOME TAX (changes from 6 April) (see also SOCIAL SECURITY)

PERSONAL ALLOWANCES All raised by about 18% - equivalent to RPI increase in 1979

People under 65

Married (and single-handed parent): UP £330 from £1,815 to £2,145

Single (and wife's earned income): UP £210 from £1,165 to £1,375

People over 65 (age allowance)

Married: UP £440 from £2,455 to £2,895. Single: UP £280 from £1,540 to £1,820.

BUDGET SECRET UNTIL END OF BUDGET SPEECH

Income ceiling (to qualify for age allowance) UP £900 from £5,000 to £5,900 (full benefit). Some benefit on incomes up to £7,025 (married man) and £6,567 (single).

New tax thresholds (for under-65s without other allowances): UP from £34.90 to £41.25 per week (married man). UP from £22.40 to £26.44 (single).

COST: £1,809m (£2,217m)

BASIC RATE (30%); NO CHANGE

LOWER RATE (25% on first £750); ABOLISHED. Staff saving: 1,300 YIELD: £748m (£901m)

Combined effect for basic rate taxpayers

Take-home pay per week UP £1.18 (married man) - 49p (single). Increase in take-home pay at £80 a week: 1.9% - £120 a week: 1.4% - £180 a week: 0.9%.

AIM: give as much price protection as country can afford. Safeguard position of very poorest taxpayers. Give rather more benefit to married and elderly (married or single) than younger single people.

HIGHER RATES

No change in rates, but all thresholds UP by about 11% on average - similar to net change in tax relief for married man on basic rate after allowing for loss of lower rate band.

% tax	Taxable Income		Threshold increase
	1980-81	1979-80	
40	11,251-13,250	10,001-12,000	1,250
45	13,251-16,750	12,001-15,000	1,250
50	16,751-22,250	15,001-20,000	1,750
55	22,251-27,750	20,001-25,000	2,250
60	Over 27,750	Over 25,000	2,750

COST: £98m (£192m)

AIM: give better-off same proportionate relief as married couple paying basic rate tax.

INVESTMENT INCOME SURCHARGE (IIS) (On top of other rates) No change in rate (15%). But threshold UP £500 from £5,000 to £5,500 (10%). Similar modified indexation.

COST: £40m (£86m)

Higher rate and IIS thresholds to be indexed in same way as personal allowances from 1981/82 onwards.

Effects of above changes

1.3m people kept out of all tax. 0.4m people out of higher rate tax. 60,000 out of IIS. Personal allowances kept well above pension levels (otherwise widows and single retired women under 65 liable to tax on pensions). Tax changes reach pay packets: first pay day after 1 June (backdated to 6 April).

OTHER INCOME TAX CHANGES

WIDOWS to receive extra tax allowance (equal to difference between married and single allowance) for rest of tax year after husband's death. AIM: help tide widows over worst period of bereavement.

COST: £2m (£2m)

GALLANTRY AWARDS - Pension addition paid to holders of GC, MC, DFC, DCM, CGM, DSM, MM and DFM and annuity and pension addition to holders of MSM to be EXEMPT from tax (as with VC). GC annuities already exempt.

COST: Negligible

LIFE ASSURANCE RELIEF - Tax relief DOWN from 17½% to 15% from 6 April 1981

(Back to half basic rate)

YIELD: (£77m in 1981-82)

Relief on certain short-term bond insurances withdrawn from today. AIM: Get rid of anomaly created when basic rate reduced and relief not altered. Prevent abuse of premium relief.

YIELD: £7m (£15m)

FRINGE BENEFITS

COMPANY CARS - From 1981-82. Scale for taxing benefits UP 20% (eg 1301-1800 cc car to count as £300 instead of £250 extra taxable income). ½ scale level (high business mileage) DOWN from 25,000 to 18,000 miles. Cars used less than 1,000 miles for business to pay 1½ times scale.

CHEAP LOANS - Tax to be payable on difference between rate of loan and 15% (instead of 9%) from 5 May 1980. But benefit ignored for tax RAISED to £200 from £50.

Other perks (provision of suits, TV sets, etc). Annual value for tax purposes raised from 10% to 20% or original market value. More effective charge if bought later for less than full value. Consultations on change in earnings threshold for perks tax (£8,500)

YIELD: NIL (£15m)

BUDGET SECRET UNTIL END OF BUDGET SPEECH

AIM: In light of last year's cuts in income tax rates, prevent further increase in tax advantage of having company car, cheap loan, instead of cash. Discourage other perks.

CHILD TAX ALLOWANCES (CTAs) - OVERSEAS CHILDREN

Reduced by £200 in 1981-82. Abolished in 1982-83. YIELD: (£4m in 1981-82 £7m in 1982-83)

TAXATION OF MARRIED COUPLES

Green Paper later this year.

TOTAL NET COST OF ABOVE: £1,156m (£1,427m)

SOCIAL SECURITY

Next uprating of benefits: 24 November. Full details from P Jenkin tomorrow.

PENSIONS Married couple: UP £6.15 from £37.50 to £43.45 a week

Single person: UP £3.85 from £23.30 to £27.15

Full estimated price protection since last uprating

Christmas bonus: £10 in early December

CHILD BENEFIT UP from £4 to £4.75 per child. Single parent premium UP from £2.50 to £3.00.

MOBILITY ALLOWANCE (for disabled) UP from £12 to £14.50 a week.

FAMILY INCOME SUPPLEMENT to be extended. SUPPLEMENTARY BENEFIT value maintained.

FUEL COSTS Extra help for poorer people. P Jenkin to give details.

OTHER (UNTAXED) BENEFITS

SICKNESS BENEFIT Employers expected to pay minimum level of taxable sick pay during first eight weeks from April 1982. Discussion paper soon. Brings bulk of sickness benefit into PAYE.

UNEMPLOYMENT BENEFIT To be taxed from 1 April 1982, when payments computerised. No deductions while on benefit. Tax refunds and deductions both, in general, payable after return to work. Tax also on supplementary benefit paid to unemployed, but not on additions for children, rent and rates.

Meanwhile: next uprating of (untaxed) unemployment, sickness, injury and invalidity benefit and maternity allowance to be 5 percentage points lower than estimated rise in prices.

EARNINGS RELATED SUPPLEMENT: REDUCED from January 1981. ABOLISHED from January 1982.

Social Security measures - overall AIM: Concentrate scarce resources where most needed: elderly, families, single parents, disabled, those on FIS and supplementary benefit. Bring short-term benefits into tax, as planned by Beveridge. Widen gap between in-work and out-of-work net income. (Those in work cannot necessarily expect pay to keep up with RPI). Planned spending in 1980-81 already nearly £20bn - 1/3 of all public spending.

STRIKERS Assessments of families' needs are to assume striker has £12 a week. First £4 of tax refund no longer to be disregarded. From 1982, benefits and refunds to be taxed/treated in the same way as unemployment benefit.

AIM: encourage responsibility. Adjust balance now unfairly tilted against employers and responsible union leaders.

SOCIAL SECURITY SAVING IN 1981-82: About £300m

INDEX-LINKED PENSIONS (public sector). Independent inquiry to be set up.

CHARITIES

7-point charities package includes reduction of covenant period from 7 years to 4. Higher rate tax relief on covenants. Exemption limit from CTT for bequests UP from £100,000 to £200,000.

COST £2m (£25m)

HERITAGE

National Heritage Memorial Fund to have tax status of charity. New help for maintenance funds for heritage property.



BUDGET SECRET UNTIL END OF BUDGET SPEECH

HOUSING

MORTGAGE INTEREST RELIEF CEILING (£25,000): NO CHANGE (rise would not help most home buyers).

STAMP DUTY (on property other than stocks and shares).

All thresholds raised by £5,000. Houses under £20,000 exempted. ½% up to £25,000, 1% up to £30,000, 1½% up to £35,000, 2% above £35,000.

Duty on new leases also eased.

AIM: Help first-time buyers, labour mobility.

COST £75m (£85m)

RESIDENT LANDLORDS

Relief doubled on Capital Gains Tax (CGT) payable on part of house let to tenants. (Up to £10,000 extra relief). (eg ½ of house let. Gain on sale £10,000. Present relief £2,500. New relief £5,000. £5,000 gain taxable not £7,500).

AIM: reduce deterrent to provision of rented accommodation. (For other CGT changes, see "ENTERPRISE PACKAGE".)

INDIRECT TAXES

OIL - CHANGES FROM 6.00pm TODAY

PETROL - UP about 10p a gallon (8½p duty, 1½p VAT).

YIELD £450m (£450m)

RPI IMPACT: 0.3%

DERV - UP about 4p a gallon (inc VAT). Duty back to same level as petrol.

DIRECT RPI IMPACT: NIL

INDIRECT: Negligible after one year

YIELD £55m (£55m)

100% grant to stage bus operators - no effect on bus fares.

INDUSTRIAL OIL - (for furnaces, aviation fuel etc) - UP ½p a gallon to 3½p.

RPI IMPACT: Negligible

YIELD £50m (£50m)

KEROSENE (paraffin and most central heating oil) NO CHANGE (1p a gallon)

TOTAL OIL YIELD: £555m (£555m)

VEHICLE EXCISE DUTY -

CHANGES FROM MIDNIGHT TONIGHT

CARS - Licence UP £10 from £50 to £60. Six-monthly licences to replace four-monthlies from 1 October. Stamp payment scheme to come in in August.

YIELD £240m (£240m)

Duty on electric vehicles ABOLISHED. (present duty: £40-£70).

COST: £2m (£2m)

LORRIES - Licences up about 20%. 30% on heaviest lorries.

RPI IMPACT: About 0.1%

NET YIELD £238m (£238m)

DRINK -

CHANGES FROM MIDNIGHT TONIGHT

BEER - UP about 2p a pint of average strength.

YIELD: £190m (£205m)

SPIRITS - UP 50p a bottle of whisky.

YIELD: £40m (£40m)

WINE - UP 8p a bottle (table wine). 9p (Sherry). 11p (Port)  
5½p to 8½p (made-wine) ½p a pint (cider).

YIELD: £43m (£43m)

All increases include VAT

RPI IMPACT: 0.4%

TOTAL YIELD: £273m (£288m).

BUDGET SECRET UNTIL END OF BUDGET SPEECH

TOBACCO - CHANGES FROM MIDNIGHT, 28 MARCH

CIGARETTES - UP 5p on packet of 20 king size.

CIGARS - UP 5p on 5 whiffs.

ROLL-YOUR-OWN - UP 7p on 25 gram tobacco pack.

PIPE TOBACCO - UP under 4p on 25 gram pack.

RPI IMPACT: 0.3%

YIELD: £180m (£195m)

VAT

NO CHANGE IN RATE (15%)

VAT registration threshold UP from £10,000 to £13,500. COST: £5m (£10m)

No withdrawal of monthly repayments

LATE PAYMENT. Maximum penalty raised to £100 plus £10 or 1% of tax due per day. (New percentage element will affect large companies only).

Lubricating oils. To pay 15% from 1 May. Previously zero rated. Anomaly.

YIELD: £12m (£17m)

BETTING AND GAMING

Racing etc and football pools: NO CHANGE

CASINOS: New tax system related to profits (% of stakes less winnings). Designed to bring in about 2½ times present yield.

YIELD: £5m in 1981-82 (£9m)

BINGO: Duty UP from 5% to 7½% from 29 September.

YIELD: £5m (£10m)

ONE-ARM BANDITS ETC: Duty changed to exempt penny machines (seaside arcades etc) and increase duty from jackpot machines.

YIELD: £1m)

AIMS: (indirect taxes): Help achieve PSBR figure. Prevent inflation eroding real yield of specific duties. Health(tobacco). Energy conservation (road fuel). Fairer share of burden (Casinos).

TOTAL NET INDIRECT TAX YIELD £1,255m (£1,300m)

TOTAL RPI IMPACT: 1.1%

ENTERPRISE ZONES AND ENTERPRISE PACKAGE

ENTERPRISE ZONES

About six Enterprise Zones to be set up in areas of economic decay. Sites up to about 500 acres. New and existing firms in Zones will benefit from: Exemption from DLT; 100% capital allowances on commercial and industrial buildings; abolition of general rates; simpler planning procedures; exemption from training levies by ITBs; no IDCs needed; minimal Government requests for statistics. Consultative paper today.

AIM: experiment in getting Government off backs of entrepreneurs. Revive industrial wastelands.

COST: (£30-£35m?)

ENTERPRISE PACKAGE

CAPITAL TAXES

CAPITAL GAINS TAX (CGT)

Individuals and Trusts

First £3,000 of individual's gains per year to be EXEMPT. Rest taxed at 30%. (Instead of first £1,000 exempt, next £4,000: 15%, next £4,500: 50%, then 30% on whole gain, if over £9,500.)

First £1,500 of trust's gains to be EXEMPT (instead of £500)

Staff saving: 300 (out of 1,050)

COST: 1981-82 £25m (£65m)

Will cut out half of all assessments on individuals and trusts.

Unit and Investment Trusts

Authorised unit trusts and approved investment trusts to be EXEMPT from corporation tax on chargeable gains (present charge 10%).  
COST: £2.3m (£10m)

Relief for Gifts (between individuals. Already applies to business assets)

Roll-over relief for donor's gain on gifts between individuals. Relieves double charge to CGT and CTT on gifts. (eg £500 gift including £100 gain to count as £400 acquisition. CGT liability transferred to recipient of gift. Donor's CTT payment to be set against any subsequent capital gain for recipient.  
COST: (£5m)

Traded Options

Change to CGT, not counting options as "wasting assets".

CAPITAL TRANSFER TAX (CTT)

Threshold for both lifetime and death transfer UP from £25,000 to £50,000. Rates of tax above that UNCHANGED (starting at 30% on death and 15% on lifetime transfers). Exemption for handing on small businesses, farms, UP from £50,000 to £100,000, if no other assets.

Small gift exemption (Christmas presents etc) UP from £100 to £250.

40,000 estates removed from tax. Staff saving: 400. COST: £60m (£125m)

AIMS: (CGT and CTT): changes of particular help to small business, aid investment, cut discouragement to building up and passing on business. Damage done by capital taxes out of proportion to yield. Big staff savings.

DEVELOPMENT LAND TAX

NO CHANGE in rate (60%) or exempt slice (£50,000).

But developer may apply for earlier tax assessment.

AIM: remove uncertainty about tax liability.

Also DLT loophole closed. And local authorities not to acquire land net of DLT after 5 August.

SMALL BUSINESS PACKAGE

VENTURE CAPITAL. Losses of capital invested in enterprising ventures to be offset against taxed income. (Encourages risk-taking.) Easier tax conditions for CLOSE COMPANIES. (More freedom to get on with business.) And greater ability for them to attract INVESTMENT FROM OUTSIDE.

"Small company" rate of CORPORATION TAX DOWN from 42% to 40%.

Profits limit for "small company" rate UP from £60,000 to £70,000. Higher limit (above which full 52% applies) UP from £100,000 to £130,000. STAMP DUTY on dealings in unlisted securities modified. (Helps financing). Limits on RETIREMENT ANNUITY RELIEF (for self-employed) raised and premium ceiling abolished. New SMALL WORKSHOPS SCHEME with earlier buildings allowances. Easier tax regime when large company splits into smaller units (DEMURGERS).

Also radical changes to remove harsher features of sub-contractors' tax deduction scheme.

TOTAL COST ENTERPRISE PACKAGE (INC. VAT REGISTRATION CHANGE): £124m (£363m)

OTHER BUSINESS TAXESPETROLEUM REVENUE TAX

Rate UP from 60% to 70% from six months ending 30 June 1980. 15% advance payment in March and September each year from March 1981 for each 6-month period starting with period ending 30 June 1981.

YIELD (Rate): £350m  
(Advance payments): £200m

AIM: to secure nation's fair share of profits due to much higher profits

(Less certain concessions relating to NS oil and gas - £15m)

BUDGET SECRET UNTIL END OF BUDGET SPEECH

BANK PROFITS

No hasty action to tax "windfall" profits caused by high interest rates.

CORPORATION TAX

Main rate (52%) UNCHANGED. ACT UNCHANGED. (Not right to reduce tax at expense of higher personal tax. Strategy for lower interest rates best way to help companies.)

Green Paper later in year on taxation of business profits, stock relief and inflation accounting.

Deferment for year of large part of recovery charge for temporary falls in stocks (eg due to steel strike). AIM: ease temporary pressure on company liquidity.

COST £210m (£125m 1981-82)

LEASING

From 1 June, 100% first-year capital allowance stays only for leased equipment where hirers would qualify had they bought. 25% annual allowance elsewhere (eg public bodies, overseas companies). Transitional provision for TV sets. (No rise for existing TV hire contracts. Small eventual rise for new set rentals.) Cars for disabled (Motability) not affected.

YIELD £90m in 1981-82 (£225m)

REDUNDANCY PAYMENTS

Tax relief for voluntary payments on top of statutory payments, when firms go out of business.

NATIONAL INSURANCE SURCHARGE: NO CHANGE

PROFIT SHARING

Present scheme improved. Annual share limit on allocation to employees raised from £500 to £1,000. Compulsorily held in trust for 2 years (now 5). Income tax charged: 75% (of full charge) in Year 5, 50% Year 6; 25% Year 7; NIL after 7 years (now 10).  
AIM: wider share ownership. Aid industrial relations.

COST: (possibly £100-£200)

Share option scheme through SAYE saving to be reintroduced.

PREMIUM SAVINGS BONDS (ERNIE)

ERNIE'S PRIZE FUND to be increased by over 20% from 1 July. (Interest rate up to 7% from 5½%).

NEW TOP PRIZE OF £250,000 EVERY MONTH

CEILING on holdings UP from £3,000 to £10,000 from 21 April.

NB. Bonds purchased in March 1980 or earlier eligible for 1 July draw for new top prize.

AIM: Add to ERNIE'S attractions. Help finance PSBR.