

- BUDGET SECRET
- ① Less on petrol
more on VED
- ② More on wine
especially spirits
not



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Treasury Chambers, Parliament Street, SW1P 3AG
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Prime Minister

✓ on the balance
No loss for
Mr. Hammond

19 February 1981

The Chancellor's
warning the
prospects. The
petrol increase is
going to cause
problems, but it
is hard to see how
else he can raise the
revenue. (Putting more
on tobacco, for example,
would have
a disproportionate
impact on the
RPI).

T.P. Lankester, Esq.,
No.10, Downing Street

Dear Tim,
INDIRECT TAX PACKAGE

I attach a table which shows the implications in detail of the "twice revalorisation" package the Chancellor mentioned to the Prime Minister.

On the RPI effects, the table reflects the fact that, for each 0.1 per cent on the RPI, petrol yields £150 million, beer £100 million and tobacco £70 million.

The duty changes on beer and wine reflect the need to minimise the risk of infraction proceedings initiated by the European Commission; our objective is to secure their assent to our moving gradually towards a wine/beer duty relativity of 3 : 1 from the present 5 : 1 ratio.

The balance between road fuel duty and VED increases could still be adjusted at the margin (e.g. £15 on VED, and 18p on road fuel duty) - but there would be very little impact on the revenue change, and the RPI change would be the same.

Yours
John

Prime Minister

A.J. WIGGINS

It hardly needs saying, I know, but the problems Tim refers to above will not only be on the general grounds of the effect on the RPI and the impact on indirect tax costs but also will also arise from the implications for the rural community (from which, of course, the Party draws a great deal of support).

John 19/2

B U D G E TS E C R E T

PACKAGE D (i)

2% on RPI, no VAT blocking

	Approx. price effects	Duty change %	Revenue change		Impact on indus- trial costs		RPI impact effect %
			1981-2 £m	full year £m	1981-2 £m	full year £m	
Beer	4p/pint	36.8	385	395			0.4
Spirits	60p/bottle	14.5	60 ^{*1}	60 ^{*1}			0.1
Table wine	12p/bottle	18.3	30	30			neg
Fortified wine	25p/bottle	33.0	50	50			neg
Tobacco	14p/pkt 20 [29.7* ²]		480	490			0.7
Petrol	20p/gallon	38.3	905	905	325	325	0.6
Derv	20p/gallon	38.3	265	265	265	265	nil
VED	£10	16.7	220	220	100	100	0.1
			<u>2395</u>	<u>2415</u>	<u>690</u>	<u>690</u>	<u>2.0^{*2}</u>

^{*1} Reflects the average of alternative views about the price elasticity of demand

NOTES: ^{*2} Total taxation on cigarettes since 1980 Budget