



10 DOWNING STREET

THE PRIME MINISTER

21 June 1979

Original in Cap R.
cc H.T. T
D.H.S.
I. G.W.
P.R.S.
T.P.L.
From Pat.

Dear Mr. Feld.

Thank you for your letter of 6 June.

You raised first of all the question of indirect tax increases. You will now have heard the precise details of our Budget proposals. We have carried out our Election pledges to reduce substantially the burden of income tax: our cuts overall (in addition to those enacted by the 'caretaker' Finance Act in April) total £2½ billion in 1979/80, and take an additional ¼ million people out of the tax net.

To pay for these cuts, we have always made it clear that we would have to increase indirect taxation. We have concentrated these increases on VAT. VAT is not a regressive tax: it covers about one half of consumers' expenditure and does not apply to necessities like food, children's clothing, domestic heating and lighting, public transport and housing.

The other major indirect tax increase was in the duties on hydro-carbon oil. Clearly, in view of the current difficulties in oil supplies, we could not leave these duties unchanged, but we did exclude paraffin, which is widely used by the less well-off for domestic heating, from the increase. The duty on petrol is in any case not particularly regressive: the table attached (which is being published in the June Supplement to the Treasury's Economic Progress Report) shows that the petrol and VAT increases together will form a lower proportion of their expenditure for

/ those on lower incomes.

those on lower incomes. The specific duties on alcoholic drinks and tobacco, which, taken as a whole, are regressive, we have left unchanged, even though their real value is falling with inflation.

I hope you will agree that so far from renegeing on our Election pledges our tax changes will not only improve the incentive to work and extend consumer choice as we promised, but have been formulated with their distributional effects very much in mind.

On pensions, I am sure that you were pleased when we announced the new rates which proved your fears about our intentions unfounded. The rates of £23.30 for a single person and £37.30 for a married couple from next November are higher than the rates you proposed on the basis of your pre-Budget arithmetic and, as such, should be doubly welcome to you.

These new rates take account of the shortfall in last November's pension rates and the expected increase in prices over the twelve months to November 1979. We have therefore much more than fulfilled the statutory requirements.

Yours sincerely

Baroness Thatcher

Frank Field, Esq., M.P.

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