

BUDGET SECRET



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MCS 24/2

M.

PRIME MINISTER

### THE FORTHCOMING BUDGET - FISCAL PROPOSALS

I am now very close to decisions about the fiscal proposals in the forthcoming Budget, on which I minuted to you on 18 February.

#### Fiscal stance

2. After further reflection, I am reinforced in my view that we should look for a PSBR of £9½ billion for 1982-83. Taken with tax reductions having a PSBR effect in 1982-83 of around £1.5 billion, this should provide a small measure of security against the effects of a possible fall in oil prices. For 1983-84, where the uncertainties are of course very great indeed, I still intend to propose in the MTFS a PSBR of £8½ billion, which should enable us to show a small positive fiscal adjustment for that year.

#### Detailed proposals

3. These are summarised at Annexes A and B. On the specific duties, the die is already cast. On the tax changes, decisions are needed by Thursday.

4. So far as direct help to industry goes, the main element must be a reduction in National Insurance Surcharge (NIS). Between the two options described in paragraph 8 of my earlier minute I now believe that we should propose a 1½ per cent cut to take effect from August. After making allowance for some offset to public expenditure (by way of clawback from NIS paid by public bodies) the full year PSBR cost of this is estimated at £675 million in 1982-83 and £1000 million in 83-84. The economic and industrial arguments - as between 1½ per cent and 1 per cent - are as you know very finely balanced. But politically, in terms of what our backbenchers, the CBI etc are expecting, 1% would not cut much ice. Some move has already been discounted, and I judge that 1½ per cent is needed for consistency with what will be the declared aim of the Budget; help for business, and for jobs.



5. On personal taxes (paragraph 4 of my earlier minute) I now favour an increase in rates and thresholds of 15 per cent - that is, 3 percentage points above the minimum required by the "Rooker-Wise" legislation and more than enough to compensate, in cash terms, for the NIC increase which we announced in December. The additional costs over Rooker-Wise are some £350 million in 1982-83 and £300 million in 1983-84.

6. The miscellany of additional measures, largely for industry, is summarised at Annex B. You will see that the cost of the package has shrunk. There are two reasons. First, it no longer includes an element in respect of gas prices, whether industrial or domestic; on reflection, my judgement is that it would be a retrograde step to do anything on this front, and preferable to use the money either by way of direct help to industry or personal thresholds, as I propose. Secondly, I now think it should be feasible to fund from the Contingency Reserve the proposed £100 million concession on electricity prices for industry. The "construction" element contains £70 million as yet unallocated: This could be used for action on the mortgage interest relief ceiling or on stamp duty (about which I shall minute separately tomorrow). But I myself would see attraction in using all or part of it for additional special measures directly helping the construction industry and inner cities, on which Treasury officials are in touch with DOE.

7. The costs are shown at Annex A. Also set out there is an alternative package, at similar cost. It would entail a 1 per cent rather than 1½ per cent reduction in NIS, a 2 per cent reduction in the general level of corporation tax, with or without a corresponding reduction in the rate for small companies, and a 4 per cent rather than 3 per cent improvement on "Rooker-Wise" on personal allowances. I am now clear that this alternative is less attractive. As explained in paragraph 4 above, I see a strong political case for a 1½ cut in NIS; a reduction in corporation tax, while presentationally and possibly psychologically attractive, has little economic priority at this stage; and next year, rather than this year, would in my view be the right time for further progress on raising the personal thresholds. This year we benefit people most by helping industry most; and to do so will be seen as consistent with our strategy. It is also, of course, in line with what colleagues wanted, judging by the Cabinet discussion on 28 January.

8. I should emphasise that although the costs are now displayed in terms of the PSBR, (including second round effects, - and some of the figures are still under review) I shall on Budget day refer to the unindexed cash amounts, on a full year basis. Our proposals will be seen as tax reductions of some £4½ billion, offset by increases in specific duties of about £1 billion, leaving a net reduction of some £3½ billion in cash terms.



9. Perhaps we could discuss this tomorrow?

*hm*

23 (G.H.)  
February 1982

SUMMARY OF BUDGET PROPOSALS AT 23 FEBRUARY 1982

	<u>PSBR cost (including second round effects)</u>			
	<u>MAIN</u>		<u>ALTERNATIVE</u>	
	<u>1982-83</u>	<u>1983-84</u>	<u>1982-83</u>	<u>1983-84</u>
A. <u>Specific duties</u>	290	200		
Cost of less than full revalorisation			290	200
B. <u>Direct relief to industry</u>				
NIS: 1 % cut from August			450	670
1½ % " " "	675	1000		
Corporation tax 2% cut			90	190
C. <u>Personal Thresholds</u>				
3% real increase	350	300		
4% real increase			480	400
D. <u>Other proposals</u>				
As Annex B	260	320	260	320
	<u>1575</u>	<u>1820</u>	<u>1570</u>	<u>1780</u>

## BUDGET CONFIDENTIAL

## ANNEX B

<u>Subject</u>	<u>Revenue cost ranges (£m)</u>	
	1982-83	1983-84
1. Enterprise package	43	74
2. Industrial innovation	20	40
3. Construction package	170	72
4. Energy	113	114
5. Measures on social front	10	16
6. Capital taxes CTT	35	85
CGT	nil	nil *
7. North Sea regime	nil	70
	—	—
	391	471
Of which scored against existing Contingency Reserve (Item 2 and Item 4)	133	154
	—	—
	258	317
	—	—
Say	260	320
	—	—

Note. Any further construction/inner cities assumed charged to the Contingency Reserve.

\* formerly £100 million