

**CONFIDENTIAL**

PRIME MINISTER

Meeting with the Chancellor

You have more or less agreed the strategy for the Budget, but not yet a number of details. I suggest that you go over with the Chancellor his proposals for:

- (i) Capital tax changes (Flag A), and see also David Wolfson's comments at Flag B;
- (ii) Taxation of fringe benefits (Flag C);
- (iii) Indirect tax increases: you have agreed that the Chancellor should raise approximately £1b., in addition to revalorisation, and that the maximum addition to the RPI should be 2%. A note should be coming in later tonight with detailed proposals (Flag D). From an RPI point of view, we ought to do more on beer than on tobacco and spirits, but the political and health arguments probably go the other way. The Chancellor will no doubt also propose increasing petrol tax and VED: these are relatively effective revenue raisers for a given RPI effect, but there are the obvious political difficulties and the adverse impact on industrial costs.

*Table  
being submitted  
by Dave G.  
at meeting*

You also want to have a word with the Chancellor about his proposed paper to Cabinet on the 1981 public expenditure survey (Flag E).

*SS Price  
buty Clark  
M TPL*

16 February 1981

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