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10 DOWNING STREET

From the Private Secretary

13 March 1980

At their meeting this morning, the Prime Minister and the Chancellor discussed various Budget matters.

Income Tax

The Prime Minister said she was grateful for the note which the Chancellor had sent over last night. The figures in this note seemed to indicate that his preferred income tax package would be reasonably fair as between different income groups. In contrast to her earlier impression, those on relatively low incomes would not do too badly. Although care would need to be taken with the overall presentation, she was now content with the package.

Capital Tax

The Prime Minister said that she noted from the minute referred to above that the Chancellor was proposing to stick to the main changes in capital tax which he had proposed in his earlier minute of 7 March. She was still worried about the proposal to raise the exemption limit from Capital Gains Tax from £1,000 to £5,000. She would have no objection to an increase to £2,000, but she did not believe the increase proposed by the Chancellor would be politically acceptable. She was prepared to agree the Chancellor's other capital tax proposals provided they were presented as an adjunct to the "enterprise package".

The Chancellor said that he would look again at his Capital Gains Tax proposal, but he would probably want to increase the exemption limit to more than £2,000.

Fringe Benefits

The Prime Minister had read the Chancellor's minute of 12 March. On cars, she noted that the Chancellor was proposing to increase the scale of benefit charged to income tax by 20 per cent with effect from April 1981, and also to reduce the qualifying mileage. While she would have preferred not to have increased the tax on car benefits, she accepted the point that by April 1981 the benefits charged to tax would have remained unchanged for three years while the cost of motoring was rising fast. She was therefore prepared to accept the Chancellor's proposals.

/Of the other

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Of the other two proposals, the Prime Minister agreed with the proposal to increase from 10 to 20 per cent the annual value taken as the measure of the benefit of items such as suits and TV sets which are provided to employees by their employers. But she had doubts about the proposal to increase from 9 to 15 per cent the rate of interest by which the taxable benefit from an interest-free loan is measured. She was worried that the 15 per cent figure would give the impression that the Chancellor believed interest rates would stay as high as this; and if, as seemed likely, interest rates did begin to fall, a 15 per cent figure would seem inequitable. The Chancellor said that he would reconsider.

Stock Relief

The Prime Minister said that she had read the note explaining the "dips" scheme which the Chancellor enclosed with his minute of 12 March. She was still not entirely happy with the proposed scheme. In her view, it would be better to announce the end of the contingent liability and couple this with a smaller allowance for stock relief next year. The "dips" scheme would in effect involve double deferral, and it would be expensive in terms of staff time. The Chancellor responded that the question of contingent liability and the extent of the allowance for stock relief were being looked at as part of the review of Corporation Tax, and this would not be completed for some time. In addition the company sector needed the immediate liquidity relief which the "dips" scheme would provide. The Prime Minister's proposal would not provide a viable alternative.

The Prime Minister said that she would accept the Chancellor's judgment on this.

Charities Package

The Chancellor explained the main elements in his proposed charities package. The Prime Minister said she was well content with them.

Indirect Taxes

The Chancellor and the Prime Minister did not discuss indirect taxes this morning. However, the Prime Minister is aware that the Chancellor has now gone firm on his preferred package, which was designated b(vi) in his minute of 5 March. As you know, the Prime Minister commented on this package at their meeting last week; but she gave the Chancellor discretion to reach a final decision on this himself.

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