



CH/EX. REF. NO. B(80) 18  
 COPY NO. 1 OF 21 COPIES

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

*Prime Minister*

PRIME MINISTER

*Of the 3 packages, I  
 would suggest the second.  
 It is better balanced as  
 between beer and spirits/wine/*

BUDGET: THE SPECIFIC DUTIES

*has more than the other  
 two; the RPI effect (1.1%)*

At our meeting on 29th February I promised you a note on the specific duty options which I am at present considering.

*is just about  
 manageable.  
 The petrol  
 increases in all  
 the packages  
 could cause  
 trouble.*

VAT blocking

2. I should first tell you that I have after all decided against proceeding with blocking the deduction of VAT input tax by registered traders on their purchases of road fuel. The scheme is undoubtedly attractive in the sense of securing substantial additional revenue for no impact effect on the RPI and of dealing with the abuse of VAT deduction of petrol which is subsequently handed out as a "perk". However, further analysis has satisfied me that, given the pressures on company liquidity this year, the measure would bear too heavily on sensitive areas of manufacturing and distribution, particularly in the food sector. It would therefore be too high a price to pay in the short term even if the revenue could be used to help the company sector in other ways, e.g. by reducing the national insurance surcharge later in the year. Nevertheless, I think there is a good case in principle for this change and I propose, therefore, to keep this possibility clearly in mind for future Budgets.

*Th.  
 5/3*

The specific duties

3. In deciding the level of the increases I need to make in the specific duties I have been looking for additional revenue of at least £1 billion, and preferably

/somewhat



.....

somewhat more, and have been examining ways of achieving this at an RPI impact cost of about 1 per cent. I have narrowed the options to three packages (as shown in the attached tables) which are designed to produce as much additional revenue as possible for the stated RPI effect without unduly adding to business costs or resulting in serious imbalance within any of the packages. In general, they show relatively large increases, of the order of 20 per cent upwards, on petrol, VED and beer, all of which are buoyant revenue-raisers and relatively efficient in RPI terms. For petrol I have had in mind the case urged on me by David Howell for at least a 10p a gallon increase on energy conservation grounds, and have met this in the 1.1 per cent and 1.3 per cent packages. In the 0.9 per cent package the increase is held to 9p.

4. There are somewhat smaller increases in wines, spirits, tobacco, rebated oil and derv. For wines, spirits and tobacco this reflects the limited potential for raising additional revenue given in particular the high weighting of spirits and tobacco in the RPI. Because the rebated oil duty is borne mainly by industry, I do not think it would be right to increase it by more than the rate of price inflation over the past year. The scale of the duty increase on derv has been determined by the need, on energy conservation grounds, to remove the anomalous 5p a gallon duty differential (5.75p including VAT) in favour of petrol which has existed for the last three years. The case for parity has been strongly urged by Keith Joseph, David Howell and Norman Fowler and I am fully satisfied that it is the right step to take this year. Since, however, it results in a relatively small increase in the taxation of diesel-engined heavy lorries, I also

/propose



propose to accept the argument advanced by Norman Fowler on transport policy grounds for a larger increase in VED in this narrow area. The VED on heavy lorries is therefore increased by 30 per cent in each package, as compared to the 20 per cent increase for cars and vans.

5. I shall need to reach a decision on these options, together with other important facets of my Budget, before the weekend. As you will see the shape of each option is broadly similar. If there are any points you would like to discuss perhaps we could do this tomorrow morning.

*Andigine*

(24 (G.H.)  
RS March, 1980

(Approved by the Chancellor & signed  
in his absence)

BUDGET - SECRET

A (iii) RPI IMPACT 0.9% NO VAT BLOCKING

|             | Price<br>per unit | Duty<br>Increase<br>% | Revenue   |           | Business<br>Costs<br>1980-81<br>£ million | RPI<br>Impact<br>% |
|-------------|-------------------|-----------------------|-----------|-----------|---|--------------------|
|             |                   |                       | 1980-81   | Full year |   |                    |
|             |                   |                       | £ million |           |   |                    |
| Petrol      | 9p/gallon         | 21.5                  | 405       | 405       | 145                                       | 0.3                |
| Derv        | 325p/gallon       | 7.5                   | 45        | 45        | 45  | nil                |
| VED         | £10 (car)         | 20 (car), 30 (mot)    | 240       | 240       | 95  | 0.1                |
| Beer        | 2p/pint           | 23                    | 195       | 215       | -   | 0.2                |
| Wine        | 6p/bottle         | 10                    | 25        | 25        | -   | negligible         |
| Spirits     | 36p/bottle        | 10                    | 30        | 30        | -   | 0.1                |
| Tobacco     | 3p/20king size    | 9                     | 105       | 115       | -   | 0.2                |
| Hebated Oil | 1/2p/gallon       | 17.5                  | 50        | 50        | 50  | negligible         |
| TOTAL       |                   |                       | 1095      | 1125      | 335                                       | 0.9                |
| Petrol      |                   |                       |           |           |   |                    |
| Derv        |                   |                       |           |           |   |                    |
| VED         |                   |                       |           |           |   |                    |
| Beer        |                   |                       |           |           |   |                    |
| Wine        |                   |                       |           |           |   |                    |
| Spirits     |                   |                       |           |           |   |                    |
| Tobacco     |                   |                       |           |           |   |                    |
| Hebated Oil |                   |                       |           |           |   |                    |
| TOTAL       |                   |                       |           |           |   |                    |

BUDGET - SECRET

B(vi) RPI IMPACT 1-1 % - NO VAT BLOCKING

|                            | <u>Price Increase</u> | <u>Duty Increase</u><br>% | <u>Revenue</u>       |           | <u>Business Costs</u><br>1980-81<br>£ million | <u>RPI Impact</u><br>% |
|----------------------------|-----------------------|---------------------------|----------------------|-----------|---|------------------------|
|                            |                       |                           | 1980-81<br>£ million | Full year |   |                        |
| VAT blocking               | —                     | —                         | —                    | —         | —   | —                      |
| Petrol                     | 10p/gallon            | 24                        | 450                  | 450       | 160   | 0.3                    |
| Derv                       | 4.25p/gallon          | 10                        | 55                   | 55        | 55  | nil                    |
| VED                        | £10 (car)             | 20 (cars), 30 (vans)      | 240                  | 240       | 95  | 0.1                    |
| Beer                       | 2p/pint               | 23                        | 195                  | 215       | —   | 0.2                    |
| Wine                       | 8p/bottle             | 14                        | 35                   | 35        | —   | negligible             |
| Spirits                    | 50p/bottle            | 14                        | 40                   | 40        | —   | 0.1                    |
| Tobacco                    | 5p/20king size        | 14                        | 175                  | 140       | —   | 0.3                    |
| Rebated Oil                | ½p/gallon             | 17.5                      | 50                   | 50        | 50  | negligible             |
| TOTAL                      |                       |                           | 1240                 | 1275      | 360   | 1.1*                   |
| * Sum of unrounded figures |                       |                           |                      |           |   |                        |
| VAT blocking               |                       |                           |                      |           |   |                        |
| Petrol                     |                       |                           |                      |           |   |                        |
| Derv                       |                       |                           |                      |           |   |                        |
| VED                        |                       |                           |                      |           |   |                        |
| Beer                       |                       |                           |                      |           |   |                        |
| Wine                       |                       |                           |                      |           |   |                        |
| Spirits                    |                       |                           |                      |           |   |                        |
| Tobacco                    |                       |                           |                      |           |   |                        |
| Rebated Oil                |                       |                           |                      |           |   |                        |
| TOTAL                      |                       |                           |                      |           |   |                        |

BUDGET - SECRET

Div) RPI IMPACT EFFECT 1.3%

NO VAT BLOCKING

|                            | <u>Price Increase</u> | <u>Duty Increase</u><br>% | <u>Revenue</u> |                  | <u>Business Costs</u> | <u>RPI Impact</u> |
|----------------------------|-----------------------|---------------------------|----------------|------------------|-----------------------|-------------------|
|                            |                       |                           | <u>1980-81</u> | <u>Full year</u> | <u>1980-81</u>        |                   |
|                            |                       |                           | £ million      |                  | £ million             | %                 |
| VAT blocking               | —                     | —                         | —              | —                | —                     | —                 |
| Petrol                     | 10p/gallon            | 24                        | 450            | 450              | 160                   | 0.3               |
| Derv                       | 4.25p/gallon          | 10                        | 55             | 55               | 55                    | nil               |
| VED                        | £10 (car)             | 20(car), 30(mtr)          | 240            | 240              | 95                    | 0.1               |
| Beer                       | 3p/pint               | 34                        | 295            | 320              | —                     | 0.4               |
| Wine                       | 10p/bottle            | 17.5                      | 45             | 45               | —                     | negligible        |
| Spirits                    | 50p/bottle            | 14                        | 40             | 40               | —                     | 0.1               |
| Tobacco                    | 5p/20cigs size        | 14                        | 175            | 190              | —                     | 0.3               |
| Rebated Oil                | 1/2p/gallon           | 17.5                      | 50             | 50               | 50                    | negligible        |
| TOTAL                      |                       |                           | 1350           | 1390             | 360                   | 1.3*              |
| * Sum of unrounded figures |                       |                           |                |                  |                       |                   |
| VAT blocking               |                       |                           |                |                  |                       |                   |
| Petrol                     |                       |                           |                |                  |                       |                   |
| Derv                       |                       |                           |                |                  |                       |                   |
| VED                        |                       |                           |                |                  |                       |                   |
| Beer                       |                       |                           |                |                  |                       |                   |
| Wine                       |                       |                           |                |                  |                       |                   |
| Spirits                    |                       |                           |                |                  |                       |                   |
| Tobacco                    |                       |                           |                |                  |                       |                   |
| Rebated Oil                |                       |                           |                |                  |                       |                   |
| TOTAL                      |                       |                           |                |                  |                       |                   |



L-5 (MAY 1921)

