



CHANCELLOR

cc Chief Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Ridley  
Mr Cropper  
Mr Cardona

1981 BUDGET

My answers to the questionnaire circulated under cover of your Private Secretary's minute of 15 December are as follows:

1. PSBR

The PSBR should be as close as possible to the MTFS figure as adjusted to take account of the effects of the recession on it.

2. Revenue

(a) I would rank the possible sources of additional revenue as follows:

1. Bank profits
2. VAT on imports
- 3 equal. Specific duties increased over and above revalorisation
- 3 equal. Less than revalorisation of income tax thresholds, etc.
5. VAT blocking.

(b) I would be prepared to add a further 1% to the RPI (impact effect), but not 3%. I am unsure about 2%.

(c) I would be reluctant to raise more revenue by this route than by increasing the specific duties more than revalorisation. As for the second question, I think that all thresholds should be treated uniformly.

(d) In answer to part (a) I mentioned taxation of bank profits, which would widen the revenue base.

3. The "Burns-Middleton" analysis

Given the PSBR and other constraints, I think the Budget can only go a very small amount of the way to offset this transfer of resources, I am afraid. This would certainly have to be less than £1 billion.

4. Taxes to be reduced

I think that the Fuel Oil duty should be abolished.

(a) Other than the Fuel Oil and the (crucial) Stock Relief package (and leaving aside lollipops) cuts should be confined to a small business/start up/enterprise package.

(b) Further ideas, and indeed second thoughts about the preliminary observations vouchsafed above, will no doubt evolve in the light of our more systematic discussion of the Budget prospect.

*Roy Westwater*

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