



CHANCELLOR OF THE EXCHEQUER

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

1981 BUDGET

You asked for replies to the questionnaire circulated on 15 December,

- (1) In current circumstances, I think that we should aim for a PSBR which would be no lower, as a percentage of GDP, than the forecast for 1980/1.
- (2) (a) Excise duties (highest)
Car tax and VED
Income tax thresholds
VAT

It is inconceivable that we should raise NIS, business taxes, capital taxes or the basic rate of income tax.

- (b) I think that we can be brutal about raising duties on alcohol and tobacco (although we may acquire an EC constraint as regards wine duty). We will have to think very carefully about hydrocarbon oil duties because of the effect on business costs.
- (c) All thresholds should be treated uniformly. I would much prefer not to fall short of full indexation, but we may have to grit our teeth on this if really necessary.

(d) At some point we will want to consider a major incursion into the VAT exemptions and zero-rating (perhaps converting zero-rating into exemption) but I doubt whether this can be a starter for 1981.

(3) Stock relief and heavy duty oil are two areas in which we can help business. I would not rule out a cut in NIS despite its pernicious side effects.

(4) All direct taxes, including NIS - particularly capital taxes and the basic rate of income tax - but presumably not in 1981.

(a) There are a number of reliefs aimed at a variety of specific groups in the 1981 Finance Bill starters list.

(b) If we are really desperate, we should not rule out, say, another 2% on VAT (which could bring, perhaps, £1.5 billion and still leave us less heavily taxed in this field than most other EC countries) - it would mean eating a lot of words, but we have done that already, particularly over PRT, and will have to do so again.

Peter Rees

PETER REES
17 December, 1980

its not pernicious, its inefficient !