

4 MAR 1981

→ *ff float*

- MR BATTISHILL
- MR BRIDGEMAN
- MISS BROWN
- MR BURGNER
- MR CHRISTIE
- MR DIXON
- MR KEMP
- MR KITCATT
- MR LOVELL
- MR UNWIN

cc. Mrs Gilmore \_\_\_\_\_  
 Mr Page \_\_\_\_\_  
 DF/POF \_\_\_\_\_

20 FEBRUARY UPDATE

MARCH 1981 BUDGET : JOURNALISTS' EXPECTATIONS

Divisions may wish to be kept informed of journalists' Budget predictions.

Annex B is a chronological listing of articles published in the national press, prior to Friday 20 February, where the authors have claimed to be informed.

Annex A reclassifies under issue headings the information in annex B.

Cuttings are available from ext. 4081.

*Richard Stutely*

N R STUTELY  
 IDT  
 20 February 1981

20/60

## 1. TAXATION &amp; DUTIES

BUDGET PREDICTIONS BY CATEGORY

## Contents

## 1. TAXATION &amp; DUTIES

- la) income tax
- lb) indirect taxes & duties
- lc) capital taxes
- ld) business taxation
  - ldi) small business (see also 2. BANKS)
  - ldii) North Sea

## 2. BANKS

## 3. NATIONAL INSURANCE

## 4. AID FOR INDUSTRY

## 5. NATIONALISED INDUSTRIES

## 6. MTF&amp;S &amp; MONETARY CONTROL

## 7. MINIMUM LENDING RATE

## 8. FUNDING

## 9. BORROWING

1b) indirect taxes & duties

Measures may appear under more than one heading.

(see also 902FT)

References relate to annex B eg. J05FT indicates that the proposal first appeared in the Financial Times on 5 January.

1. TAXATION & DUTIES

1a) income tax

J13FT (Following PM's briefing) options are restricted by the determination to hold the basic rate of income tax. There may not be full indexation.

J27FT There will be partial (10%) indexation-saving £750m in a full year.

J27FT Tax aids for small businesses (see ldi).

F02FT Full indexation should be possible. The tax base should be broadened to include payments in kind and some allowances.

F16FT A group of ministers is said to be pressing for cuts in MLR and NIS partly financed by increased personal taxation.

1d) business taxation (see also 2 BANKS)

F02FT A tax switch to help industry at the expense of the corporate and financial sectors is under consideration.

1b) indirect taxes & duties

J27FT Excise duties will be indexed by 14½%  
(see also F02FT)



1c) capital taxes

J21DT Capital gains tax threshold might be raised from £3000 to £10,000. (CGT yield 1980-81: £490m)  
Capital transfer tax initial threshold might be raised to £50,000; the starting rate might be reduced from 30% to 20%; and the top rate threshold might be raised from £2.01m to over £5m-allowing for inflation since its introduction in 1975 (CTT yield 1980-81: £400m).  
(see also J27FT)

1d) business taxation (see also 2 BANKS)

F02T1 A tax switch to help industry at the expense of the corporate and financial sectors is under consideration.

2. BANKS

J05FT A bank profits tax is high on the list of options - but is unlikely  
(also J27FT)

F10DE £1.4bn ECGD loans may be shifted to the banks.

F1580 Officials have been instructed to work out a £200m levy on banks' pre-tax profits. The banks have suggested instead that they might take on £1bn of the £1.5bn ECGD loans, and perhaps find the low interest rate associated with these loans.

1di) small businesses

J27FT Tax aids for small business: capital taxes  
concessions for people setting up new companies;  
personal tax relief for those investing in small  
business; offset of capital losses against income;  
encouragement for large companies to invest in small;  
tax credits for first time investors; tax allowances  
for costs incurred by inventors; more incentives for  
stock options.

4. AID FOR INDUSTRY

ldii) North Sea

FO2FT North Sea taxation should be restructured.

J16FT A guarantee scheme for loans to small businesses will  
be announced in or before the budget

J27FT Aid for industry will include:  
some relief on energy costs  
a reduction in the 16% non-heavy fuel oil duty  
a loan-guarantee scheme for small businesses  
investment incentives

2.

BANKS

J05FT A bank profits tax is high on the list of options  
- but is unlikely

(also J27FT) Tax aids for small business: capital taxes concessions

FLODE £1.4bn ECGD loans may be shifted to the banks.

F15SO Officials have been instructed to work out a £200m levy  
on banks' pre-tax profits. The banks have suggested  
instead that they might take on £1bn of the £1.5bn  
ECGD loans, and perhaps fund the low interest rate  
associated with these loans.

3. NATIONAL INSURANCE

J13FT A cut in employers NIS is unlikely because of the cost: selective cuts to aid manufacturing industry are possible.

(also J27FT)

F16FT A group of ministers is said to be pressing for cuts in ... NIS ... in MLR and NIS.

5. NATIONALISED INDUSTRIES

F15FT Certain cosmetic reductions to the PSM including ... "deconsolidating" certain nationalized industries in which there is part private ownership.

4. AID FOR INDUSTRY

J05FT General large-scale aid for industry is unlikely

J13FT A cut in employers NIS is unlikely: selective cuts for manufacturing industry are possible.

J16FT A guarantee scheme for loans to small businesses will be announced in or before the budget

J27FT Aid for industry will include:  
some relief on energy costs  
a reduction in the £8 a ton heavy fuel oil duty  
a loan-guarantee scheme for small businesses  
investment incentives  
selective cuts in (manufacturing) employers NIS  
a cut in MLR

J27FT Tax aids for small busines: capital taxes concessions for people setting up new companies; personal tax relief for those investing in small business; offset of capital losses against income; encouragement for large companies to invest in small; tax credits for first time investors; tax allowances for costs incurred by investors; more incentives for stock options.

(also F09FT)



AID FOR INDUSTRY cont'd

F02FT Aid should include:

- a cut in MLR
- small company finance
- energy costs
- local rates

F16FT A group of ministers is said to be pressing for cuts in MLR and NIS.

5. NATIONALISED INDUSTRIES

F15ST Certain cosmetic reductions to the PSBR including ... "deconsolidating" certain nationalised industries in which there is part private ownership.

6. MTFS & MONETARY CONTROL

J05FT The Bank and Treasury are considering the appropriateness of £M3

J27FT There will be changes in methods of monetary control

F02FT It may be necessary to state strategy in terms of its true long-term objectives to bring growth of money GDP progressively into line with potential real growth) and then rely on a more sophisticated range of indicators (including broad and narrow money, the monetary base, the growth of domestic credit and the movement of the exchange rate).  
A stable and practical set of rules for monetary policy should be developed.

F08ST The FST wants to claw back over the next three years excess monetary growth. Targets would then be eg

1981-82 4 - 8%

1983-4 2 - 6%

Alternative Views are to set more than one monetary target or to set a flexible exchange rate target and a money target

(also F09FT)

6. continued

F15ST Professor Walter's view is said to be that basing day-to-day monetary management on eg. the monetary base and the level of the exchange rate would still be consistent with M3 growth targets taking the remaining 3 years of the MTFS as a whole.

J27FT The 1981-82 PSBR will be between £8bn and £10bn

F15WT The 1981-82 PSBR will be about £10bn.

7. MLR

J27FT The Budget may include a cut in MLR.  
(also FO2FT)

FO9FT A decision on MLR will be delayed to the eve of the Budget

F16FT A group of ministers is believed to be pressing for cuts in MLR ....

8. FUNDING

J19FT The Treasury and Bank are considering funding changes: The introduction of a new debt with a maturity between 6m and 2 years (eg. 12m Treasury Bill); and an index-linked gilt restricted to pension funds, insurance companies and other institutions. (29 January Rodney Lord, Daily Telegraph: No pressure for decision before Budget).

J27FT There will be a major expansion of national savings

FO2FT The cost of debt service should be reduced - partly by allowing NI's to borrow at commercial rates.

F14DT Details of North Sea and British Telecoms bonds may be announced in the Budget.



BORROWING

J17DT 1981-82 PSBR on present policies with fully-indexed  
excise duties and tax allowances will be £10-£11bn.  
FST's Zurich speech indicated £9.5bn PSBR. Therefore,  
next Budget must increase revenue or decrease spending  
by £1bn, or some combination of the two.

J27FT The 1981-82 PSBR will be between £8bn and £10 bn

F15FT The 1981-82 PSBR will be about £10bn.

5 January. Peter Riddell, Financial Times:

A bill proposing the is one of the list of options.  
The likely opposition is is not likely to be introduced.

BUDGET PREDICTIONS BY NEWSPAPER ARTICLE

13 January. Peter Riddell & Michael Brown, Financial Times:  
Options discussed by the Department including HM's briefing  
is with the rate of income tax. There may not be just  
increases of thresholds and allowances.  
A cut in allowances is unlikely because of the small selective  
cuts to help the manufacturing industry are possible.

16 January. John Elliott, Financial Times:  
A provision is being considered for loans to small businesses in or before the 1980.

17 January. Andrew Whittam Smith, Daily Telegraph:  
HM's policy on present policies with fully indexed existing duties  
and tax allowances will be £10-£15bn. HM's speech indicated  
to the TOR. Therefore, next Budget must increase revenue or  
decrease spending by £1bn, or some combination of the two.

19 January. Peter Riddell, Financial Times:  
The Treasury and Bank are considering fundraising changes:  
The introduction of a new debt with a maturity between 6m and 2 years  
(eg. 12m Treasury Bill); and index-linked gilt restricted to pension  
funds, insurance companies and other institutions. (29 January.  
Rodney Lord, Daily Telegraph:  
No pressure for decision before Budget)

21 January. Rodney Lord, Daily Telegraph:  
Capital gains tax threshold might be raised from £5000 to £10,000.  
(COT yield 1980-81: 1490m)  
Capital transfer tax initial threshold might be raised to £50,000;  
the starting rate might be reduced from 30% to 20%; and the top rate  
threshold might be raised from £2.0m to over £5m-allowing for inclusion  
since its introduction in 1975 (COT yield 1980-81: 1400m).

5 January. Peter Riddell, Financial Times:

A bank profits tax is high on the list of options. But given the likely opposition it is not likely to be introduced.

General large-scale help for industry is unlikely.

The Bank and Treasury are reviewing the appropriateness of £M3 as the main monetary measure.

13FT 13 January. Peter Riddell & Richard Evans, Financial Times:

Options restricted by the determination (following PM's briefing) to hold the basic rate of income tax; There may not be full indexation of thresholds and allowances.

A cut in employers NIS is unlikely because of the cost: selective cuts to help the manufacturing industry are possible.

16FT 16 January. John Elliott, Financial Times:

A guarantee scheme for loans to small businesses (in or before the Budget

17DT 17 January. Andreas Whittam Smith, Daily Telegraph:

1981-82 PSBR on present policies with fully-indexed excise duties and tax allowances will be £10-£11bn. PST's Zurich speech indicated £9.5bn PSBR. Therefore, next Budget must increase revenue or decrease spending by £1bn, or some combination of the two.

19FT 19 January. Peter Riddell, Financial Times:

The Treasury and Bank are considering funding changes:

The introduction of a new debt with a maturity between 6m and 2 years (eg. 12m Treasury Bill); and index-linked gilt restricted to pension funds, insurance companies and other institutions. (29 January.

Rodney Lord, Daily Telegraph:

No pressure for decision before Budget)

21DT 21 January. Rodney Lord, Daily Telegraph:

Capital gains tax threshold might be raised from £3000 to £10,000. (CGT yield 1980-81: £490m)

Capital transfer tax initial threshold might be raised to £50,000; the starting rate might be reduced from 30% to 20%; and the top rate threshold might be raised from £2.01m to over £5m-allowing for inflation since its introduction in 1975 (CTT yield 1980-81: £400m).



127NF 27 January. Peter Riddell, Financial Times:

A PSBR of between £8bn and £10bn

Aid for industry:

some relief on energy costs

a reduction in the £8 a ton heavy fuel oil duty

a loan-guarantee scheme for small businesses

other incentives to investment by and in small businesses

selective cuts in (manufacturing) employer's NIS.

Possibly a Bank windfall profits tax

Partial indexation of income tax allowances and thresholds eg. by 10%, saving £750m in a full year.

An increase of 14½% in excise duties

Some further reform of capital taxes

A major expansion of national savings

Announcement of monetary control changes and the new target

A possible cut in MLR

27FT 27 January. John Elliott, Financial Times:

Tax aids for small business: capital taxes concessions for people setting up new companies; personal tax relief for those investing in small business; offset of capital losses against income; encouragement for large companies to invest in small; tax credits for first time investors; tax allowances for costs incurred by inventors; more incentives for stock options.

02T1 2 February. David Blake, The Times:

Under consideration is a taxation switch to help industry at the expense of the 'corporate' and financial sectors.

02FT 2 February. Editorial, Financial Times:

It may be necessary to state strategy in terms of its true long-term objectives (to bring the growth of money GDP progressively into line with potential real growth) and then rely on a more sophisticated range of indicators (including broad and narrow money, the monetary base, the growth of domestic credit and the movement of the exchange rate).

A stable and practical set of rules for monetary policy should be developed.

The Budget should aim to get the fiscal balance back on track.

Aid for industry should include:

- a cut in MLR
- small company finance
- energy costs
- local rates

Full indexation of specific duties is unlikely.

Full indexation of income tax should be possible

North Sea taxation should be restructured.

The tax base should be broadened to include payments in kind and a reduction in some allowances.

The cost of debt service should be reduced - partly by allowing NIs to borrow at commercial rates.

BST

8 February. Malcolm Crawford, Sunday Times:

The FST wants to claw back over the next three years excess monetary growth. Targets would then be eg 1981-82 4 - 8%

1983-84 2 - 6%

Alternative views are to set more than one monetary target or to set a flexible exchange rate target and a monetary target.

9FT

9 February. Anon, Financial Times:

A decision on MLR will be delayed to the eve of the Budget.

(The article also looks at alternative targets.)

ODE

10 February. Roy Assersohn, Daily Express:

The Chancellor is considering shifting £1.4bn of ECGD loans to the clearing banks thus reducing the PSBR by the same amount

4DT

14 February. Andreas Whittam Smith, Daily Telegraph:

Details of North Sea bonds, and perhaps British Telecom bonds, may be given in the Budget.

5SO

15 February. Hamilton and Vincent, Observer:

Officials have been instructed to work out the practical details of a £200m levy on banks' pre-tax profits. The banks have suggested instead that they might take on £1bn of the £1.5bn ECGD loans, and perhaps fund the low-interest rate associated with the loans.



F15ST

15 February. Malcolm Crawford, Sunday Times:  
The recession adjusted PSBR target is likely to be £10bn. The Chancellor is considering certain cosmetic changes which would reduce the PSBR, including: a bank tax, shifting ECGD loans to the banks, and "deconsolidating" certain nationalised industries in which there is part private ownership. After these changes, £1bn will have to be raked out of the private sector's incomes via taxation. Excise duties are likely to be raised by £½bn more than inflation adjustment. Increases will be loaded onto tobacco (10p on 20 cigarettes) and petrol (12 or 13p on a gallon).

16FT

16 February. Kaletsky and van Hattem, Financial Times:  
Professor Walters is said to think that sterling is too high. His view is that basing day-to-day monetary management on eg. the monetary base and the level of the exchange rate would still be consistent with targets for M3's growth taking the remaining 3 years of the MTFs as a whole. A group of ministers including Prior, Gilmore, Walker and Heseltine is believed to be pressing for cuts in MLR and NIS partly financed by increased personal taxation.

1981-82 at ... higher figure than I would have expected. To it must be added ... £20m-£30m for the cost of improved ...

3. The Department will ... Sir Donald Neilson's authority this morning for themselves and Treasury to discuss their ... the meetings with the ... that authority is not ... telephone Sir Donald Neilson to say that the ... require some reasonably accurate figures and that ... length immediately between the Treasury ... calculate them. (Authoring ... meeting arranged ... afternoon.)

4. The Department will also ... of the later years. There are ... at the account is that we should be ... 1980 Survey pages) ... and probably increased ...

5. It is possible that ... figures after this ...

6. On the Eighth Round ...