

BUDGET SECRET

Confidential

Mrs Chiswick

MR TAYLOR

cc: Mr Martin HE
Mr Griffiths

Mr Howard C&E *HW*

A. N. W. HAYFIELD
24 February 1981

Sir Douglas Wass asked me to have a word with Mr Lankester at No. 10 about two points outstanding in the Chancellor's discussion this afternoon with the Prime Minister.

ITV Levy

2. After talking to Mr Martin, I told Mr Lankester that the Treasury and the Home Office had in hand an exercise to take a fundamental look at the structure of the levy. Whilst this might well take some months, it was clearly not sensible simply to put up the rate as a short-term budgetary measure, particularly given the effect of the present levy in transferring a large portion of the companies' marginal costs on to the Exchequer. I confirmed that an increase would require separate legislation.

VAT on advertising

3. After consulting Mr Howard at Customs and Excise, I confirmed that VAT applied comprehensively to advertising expenditure, including advertising on television, with the sole exception of newspaper advertising. The latter had been excluded for political reasons, and because it had always been thought that applying the tax to classified advertising would hit particularly hard some of the small provincial newspapers. Charging companies display advertising in the press would, of course, raise little new money because the advertisers would be able to reclaim the input tax when they remitted their output tax.

4. Mr Lankester said he would report to the Prime Minister.

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A M W BATISHILL
24 February 1981

Mr [unclear]
Mr [unclear]
Mr [unclear]
Mr [unclear]
Mr [unclear]
Mr [unclear]

The Minister of State (Income) has seen Mr Lankester's note of 23 February and has redrafted the attached sections of the Budget speech.

You will see that there remains to be done a good deal of substantive editing. I would be grateful if you would re-examine this with the Revenue Department.

Revised texts should be with the Desk by lunch on Thursday 26 February.

PAM
P A MICHAEL
Private Secretary
24 February 1981