

1A

PRIME MINISTER

I have had a report back from the Chancellor's Private Office about the discussion you had with the Chancellor on the prospects for the Budget on Sunday evening. It would be very helpful if you could confirm whether this account is consistent with your understanding of the meeting.

The Chancellor's intention, though still provisional at this stage, was to aim for a PSBR of £8b. in 1984/85. This would be the same as signalled in the MTFs, though the increase in the figure for asset sales meant that it would be slightly more expansionary in its effects. As current expectation was that this could be achieved with a revenue neutral Budget. He was hoping, however, to go beyond simple indexation of tax thresholds (perhaps 3% more) by shifting the balance between direct and indirect taxation. This could be done in part by widening the scope of VAT.

He suggested a number of candidates for this:-

- i) Extending VAT to building alterations.

Initially you expressed reservations about this but the Chancellor is reported to have defended this on the grounds that it would not affect the RPI; house-buyers as a group would benefit from the proposed reductions in stamp duty; there were already substantial tax reliefs for home ownership; this would produce a more defensible borderline between alterations and repairs. It was not clear whether you had accepted the Chancellor's arguments.

*He did
think it
was in the
draft with
the budget
written in
margin to go
further on
thresholds*

- ii) Extending VAT to newspapers and newspaper advertisements. You were reported to favour this but to have suggested extending VAT to television advertisements. The Chancellor is considering the latter though he may conclude that this is best dealt with by adjusting the levy.

/On

On corporation tax, the Chancellor proposed a radically remodelled system with much lower allowances offset by a lower rate. He is reported as having raised the question of whether some of the savings should be devoted to abolishing NIS. You are reported as giving priority to a reduction in the corporation tax rate. The Chancellor felt that there might be merit in abolishing NIS as failure to do so would provide the business lobby with an obvious focus of criticism. It was left that the Chancellor would look at this again in the light of the way the arithmetic was working out. One possibility was to announce the abolition of NIS but to delay action to, say, January 1985.

Do you have any comments on this?

AT

No
mt.

23 January 1984