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PRIME MINISTER

Excise Duties

The principle of valorisation, the overall level of revenue raised and the RPI impact seem reasonable.

You could ask whether the balance between beer, wine and spirits is correct. The Chancellor's proposals will be seen as:

- a) a victory for foreigners at the expense of good British beer
- b) favouring the rich at the expense of the rest.

Some brewers will undoubtedly try to foment a nationalistic working man's campaign against these proposals.

Would it be possible to reduce wine duty by less and still show willing on the European Court judgement? And couldn't spirits be valorised fully?

The abolition of kerosene duty is a good idea.

Business Taxes

The proposals are bold and imaginative.

- 1) Speeding up VAT on imports. A good measure: at the moment importers in the UK are favoured unduly.

There will be opposition from some importers whose cash flow will be badly affected by this measure.

It is being used, as the Chancellor spells out clearly, to defer the revenue impact of abolishing NIS. This is sensible.

- 2) Stock Relief. Now is a good time to abolish it with inflation low and with other changes dwarfing its significance. Some will protest.
- 3) Capital Allowances. The changes are good. They will cause friction with leasing companies and banks: capital allowance reduction is the best way of taxing bank profits by removing one of the prime types of shelter. Some manufacturers, doubtless egged on by the CBI, will also complain.

The main risks in the package are:

- a) Financial. The announcement commits the government to a reduction of £1.4 bn in 1985-86 in total business taxes, despite rising profitability and stronger cash flow for companies. This limits manoeuvre on personal taxes but is about right if expenditure can be properly controlled.
- b) Presentational. The many favourable characteristics, particularly ending the tax on jobs and moving to a more neutral stance between capital and labour, have to be hammered home. There are several groups of losers, some with lobbies, who will otherwise dominate the debate.

You could raise these risks with the Chancellor whilst welcoming the central thrust of his proposals.



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