

PRIME MINISTER

The Chancellor has now sent in his papers on:-

- (i) Business taxes —
- (ii) Excise duties. —

On (i), you should be aware of a difficulty raised by Mr. Tebbitt. He, or perhaps more accurately his officials, claims that the withdrawal of capital allowances will make leasing less attractive (as indeed it is intended to do as part of the plan to raise more tax from the financial sector), and will hit the Nissan project. The Department of Trade and Industry fear that this could be interpreted by Nissan as a failure to deliver the assurances which the UK Government, and you yourself, gave to the company.

The Chancellor has spoken to Mr. Tebbitt about this - see the attached letter. The Treasury are questioning the estimate of the effects, have noted that there are offsetting benefits, for example, the removal of NIS, and believe that even if there is a loss to Nissan, there may well be other ways of handling the problem. A further report is awaited.

I think the paper on the business package should have done more to identify who the complainers will be, and how their arguments can be countered. Tax-exhausted companies should not complain if the value of allowances they are unable to use is reduced, but they, along with the banks, may complain that leasing is becoming less attractive. On PAS (VAT on imports) the CBI will find it difficult to speak with one voice. They may direct their efforts towards securing a concession for importers of components and semi-manufactures. This would, however, make the scheme much more complex to operate, and create a new frontier to defend. In any case,

importers can hardly complain about a measure which puts them on the same footing as those who buy British.

On excise duties, the point you will need to establish is whether the cut in the wine duty really is the minimum we can get past the European Court.

In considering these measures, you will want to keep in mind the nature of the complete budget package. Next week's paper on the taxation of the personal sector and of savings will include a consumer credit tax, a composite rate for bank interest, the removal of life assurance premium relief, and abolition of the investment income surcharge. It will be apparent that this could be one of the most revolutionary budgets for some time.

Also coming next week will be a paper on the framework of the Budget, for example, the time horizon of the MTFs, the path for the borrowing requirement, and the monetary ranges.

We have arranged two slots: 1100 on Wednesday for 45 minutes and another 30 minutes before Cabinet on Thursday.

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17 February, 1984.