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10 DOWNING STREET

From the Private Secretary

23 February 1984

Budget proposals

The Chancellor discussed with the Prime Minister today his proposals for income tax and the taxation of savings and investment. She welcomed the proposal to raise thresholds by double the amount required by indexation. She queried the removal of the relief on foreign earnings but accepted the Chancellor's explanation that this relief had been subject to abuse and was in any case less justified now that the higher rate of income tax had been reduced. The Prime Minister accepted the Chancellor's proposals on the taxation of car benefits and of share options.

On the tax treatment of savings, the Prime Minister accepted the proposals on stamp duty for sales of securities and for housing and land; for the increase in the stamp duty threshold for houses; and for the abolition of relief on life assurance premia for policies taken out after Budget Day.

On the encouragement of personal savings, the Prime Minister endorsed the abolition of the investment income surcharge and the cut in the top rate of capital transfer tax. On banks and building societies, the Prime Minister accepted the introduction of a composite rate for bank interest (she has already endorsed the proposal to subject building societies' gains on gilt transactions to corporation tax).

The Chancellor said that he was thinking further about the proposal to introduce a credit licence duty.

Andrew Turnbull

John Kerr, Esq.,
H.M. Treasury.

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10 DOWNING STREET

From the Private Secretary

23 February 1984

Budget proposals

The Prime Minister held a meeting yesterday with the Chancellor to discuss his proposals for the budget. On excise duties - the Chancellor's minute of 16 February - the Prime Minister was content with what was proposed. The Chancellor explained that the reduction in the differential between the tax on beer and wine was the smallest which was thought to be acceptable to the European Court. Closing the gap with a modest rise in beer duty and a fall in wine duty was the best presentation that could be made though there would inevitably be criticism from anti-European MPs. The Prime Minister agreed but queried the 3p rise in cider duty. The Chancellor explained that the industry itself was happy to see this as a smaller increase would leave it vulnerable to challenge from Europe. On this basis, the Prime Minister was content. She welcomed the removal of the duty on kerosene and accepted the changes proposed for the duties on petrol, tobacco and vehicle excise. She also agreed that the Government should be prepared to impose a temporary surcharge on vermouth, should insufficient progress be made in reducing the Italian duty on whisky. The Prime Minister noted that the package would yield slightly more than strict revalorisation.

The discussion then turned to the business tax package - the Chancellor's minute of 16 February. The Prime Minister endorsed the objectives of the package which would widen the tax base and shift the burden of tax between labour and capital. She wondered whether, in total, too much was being given to the corporate sector which, having already a favourable liquidity position, might relax its control over costs. The Chancellor explained that the introduction of VAT on imports would reduce liquidity in 1984/85 and since the Government was pledged to abolish NIS, there were advantages in using its abolition to smooth the way for the major changes in the corporation tax regime. After further discussion, the Prime Minister agreed the proposed changes in corporation tax, the abolition of NIS and the imposition of VAT on imports.

The Chancellor said he had had further discussions with the Secretary of State for Trade and Industry on the way the budget would affect the Nissan project. He believed the effect of the new corporation tax regime would be rather less than the £50 million

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suggested in Mr. Tebbit's letter of 16 February. Furthermore the impact would be felt only in phase 2. Decisions on whether further assistance was needed to compensate Nissan could be deferred until nearer the time when Nissan would be deciding whether to move to phase 2. Officials were continuing to examine the problem and he would submit further advice. It might be desirable for the Prime Minister to write to Nissan immediately after the budget explaining the effect of the changes. He would be happy to provide a draft.

The discussion then turned to presentation. As there would be loud cries from the losers from the budget package, it was important to mobilise the gainers. Lord Weinstock was known to favour the kind of corporation tax system proposed. Sir Nicholas Goodison would undoubtedly welcome the reduction in stamp duty. Mr. Halstead could be encouraged to speak up in support of PAS.

The discussion then turned to the MTFS - the Chancellor's minute of 20 February. The Chancellor said he hoped to publish a figure for the PSBR in 1984/85 of £7-7½ billion. If possible he would like to aim towards the lower end of this range. The budget itself would be presented as neutral. The Prime Minister agreed that a significant reduction in the PSBR should be made in 1984/85; the economy was recovering, there would be substantial asset sales and North Sea oil revenues would be close to their peak. All these indicated that 1984/85 should be a year in which Government borrowing was low. She therefore hoped that the figure would come out towards the lower end of this range. She was content that the MTFS should show the PSBR declining to 1¾% GDP in 1988/89.

The Prime Minister accepted a range of 6-10% for £M3 (with PSL2 in a subsidiary role), and 4-8% for MO (with M2 in a subsidiary role).

The Prime Minister would be grateful if the Chancellor would discuss his final proposals for the PSBR with her when he has available the complete budget arithmetic.

Andrew Turnbull

John Kerr, Esq.,
H.M. Treasury.

BUDGET SECRET

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10 DOWNING STREET

From the Private Secretary 23 February 1984

BUDGET PROPOSALS: VAT

The Chancellor discussed his proposals on VAT with the Prime Minister today. She endorsed the aim of widening the base of the tax. She recognised that the Chancellor's proposals to extend VAT to newspapers, periodicals, etc., to building extensions and alterations, and to hot take-away food would be contentious but she nevertheless agreed to them. She accepted the proposal to retain zero-rating for books.

ANDREW TURNBULL

John Kerr, Esq.,
HM Treasury.

BUDGET SECRET