BUDGET SECRET

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Andrew Turnbull Esq
10 Downing Street

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Dear Andrew.

The Chancellor undertook to show the Prime Minister today the latest version of the Budget text. I attach a copy of the text, on which he is still, of course, working. He would be happy to discuss at their meeting tomorrow any points which the Prime Minister might have.

Yours ever,

John Kerr.

J O KERR

BUDGET SECRET

Copy No 1

INTRODUCTION

This Budget will set the Government's course for this Parliament. It is founded on the policies which we have consistently followed since 1979.

2. Consistency of purpose is the hallmark of this Government. It is the only way to improve economic performance and lay the foundations for future prosperity, more jobs and lower taxation. Above all, it is the only way to defeat inflation and achieve our ultimate objective of stable prices.

3. The results of the Medium Term Financial Strategy introduced in 1980 can be seen in four years of falling inflation, down now to the lowest levels since the sixties. And that in turn has brought a steady recovery of output, rising living standards and, more recently, rising employment.

4. The facts speak for themselves. They are a tribute to the courage and foresight of the five Budgets presented from this Despatch Box by my distinguished predecessor, the present Foreign Secretary, whose duties sadly keep him in Brussels today.

5. Today's Budget has two themes: first, the further reduction of inflation, which will further improve the prospects

not a good enough para and gives the impression that the only way we are hoping to improve employment is by reducing inflation for jobs; and second, the reform and simplification of the tax system~~, which will make it fairer for all~~.

6. I shall begin by reviewing the economic background to the Budget. I shall then deal with the medium term financial strategy; with monetary policy and the monetary targets for next year; and with public borrowing and the appropriate PSBR for the coming year. I shall then turn to public expenditure, including the prospects for the longer term. Finally I shall deal with taxation, and the changes in the structure of taxation which will pave the way for cuts in taxes in subsequent years. Some of these cuts for persons or business I shall announce today, for this is in a sense a Budget for two years. In a wider sense it is a tax reform Budget, setting out a tax strategy for this Parliament.

7. As usual, a number of press releases will be issued today, filling out the details of my tax proposals. Put in library.

THE ECONOMIC BACKGROUND

8. But I start with the economic background, and the convincing evidence of recovery: a recovery that springs from the monetary and fiscal policies to which we shall hold.

9. Since 1980, inflation has fallen steadily from a peak of over 20 per cent. Last year it was down to about 4½ [on average] per cent, the lowest figure since the sixties. And with lower inflation have come lower interest rates. still too high.

10. The underlying strength of the recovery is clear. Whereas in some previous cycles recovery has come from a self-defeating stimulus to monetary demand, this time its roots are in our commitment to sound finance and honest money. Lower inflation and lower interest rates benefit industry, business, and consumer confidence. Falling inflation has made room for real growth, as we always said it would.

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11. Across the economy, total money incomes grew in 1983 by about 8 per cent, of which 3 per cent represented real growth in output. Although there is still room for improvement, this ~~clearly~~ is a very much healthier division between inflation and real growth than the nation experienced in the 1970s. Output in the second half of 1983 is now reckoned to have exceeded the previous peak, before the world recession set in, and is still rising strongly.

12. Productivity too has continued to improve rapidly. Just as over the past year many have wrongly predicted an end to the recovery, so some have tried to dismiss the sharp rise in productivity as a flash in the pan. Yet during 1983 manufacturing productivity grew by 6 per cent with no sign of slowing down. Unit labour costs across the whole economy are likely to show the smallest annual increase since the 1960s. This has allowed a welcome and necessary recovery in real levels of profitability.

13. Higher profits lead to more jobs. The number of people in employment increased by about 85,000 between March and September last year. The loss of jobs in manufacturing has slowed down sharply, while jobs in services increased by getting on for 200,000 in the first nine months of last year. This is encouraging news for the unemployed and those who will be leaving school this summer.

14. But further progress ~~on productivity~~ is needed: although our unit wage costs in manufacturing rose by under 3 per cent last year, such costs actually fell in the US, Japan and Germany, our three biggest competitors. The employment prospect would be significantly improved if a bigger contribution to improved ~~productivity~~ competitiveness were to come from lower pay rises. Good sense about pay remains vital.

15. Demand, output, profits and employment all rose last year. Home demand has played the major part in the recovery so far. Lower inflation reduced people's need to save and real

incomes rose. Personal consumption increased by over 3½ per cent compared with 1982. Fixed investment rose rather faster than consumption, with investment in housing and services particularly strong.

16. Imports rose a little faster than home demand last year, as the UK emerged from recession ahead of our main trading partners - our rate of economic growth last year was the highest in the European Community. For much of 1983 our export performance reflected the weakness in many of our overseas markets. But by the end of last year world trade was clearly moving ahead again, and in the three months to January manufacturing exports increased very substantially. The balance of payments on current account last year is estimated to have been in surplus by about £2 billion.

17. Our critics have been confounded by the combination of recovery and low inflation. Even the pessimists have been forced to acknowledge the strength of the recovery. It is set to continue throughout this year at an annual rate of 3 per cent. Inflation is expected to remain low, edging back down to 4½ per cent by the end of this year. With rising incomes and low inflation, personal consumption will continue to grow. And the recovery is already becoming more broadly based. Encouraged by improved profitability and better long-term growth prospects, investment is expected to rise by 6 per cent this year.

18. Looking abroad, economic prospects are also more favourable than for some time. Output in the United States should continue to grow strongly this year. And recovery is spreading to the rest of the world.

19. Of course, there are inevitable risks and uncertainties. The size and continued growth of the United States budget deficit causes widespread concern, not least among Americans, and keeps American, and hence international, interest rates high. This acts as a brake on world recovery and worsens the problems of the debtor countries. Another consequence is a massive and still growing deficit in the US current balance of payments, financed by inflows of foreign capital, and leading to mounting pressures for protectionism within the United States, and sharp exchange rate movements. It is an unstable situation, creating worrying uncertainties.

20. A second potential risk is disruption in the oil market. The immediate prospects are less obviously volatile than they were a year ago. But uncertainties remain, and the United Kingdom, and indeed the world economy, inevitably remains vulnerable to any major disturbances.

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21. But despite these risks there is a growing sense throughout the industrialised world that the recovery this time is not merely cyclical, but one which can be sustained. The essential requirement is the continued pursuit of prudent monetary and fiscal policies.

THE MTFS

22. For the United Kingdom, the Medium Term Financial Strategy has been the cornerstone of such policies. It will continue to play that role; to provide a framework and discipline for Government and to set out clearly, to industry and the financial markets, the guidelines of policy. Too often in the past Governments have abandoned financial discipline whenever the going got rough, and been driven to stagger from one short-term policy expedient to another. The temptation to accommodate inflationary pressures proved irresistible, and the nation's longer-term economic performance was progressively undermined.

23. The discipline of the MTFS was designed to ensure consistency between monetary and fiscal policies, and a proper balance in the economy. It is so designed to ensure that the more inflation and inflationary expectations come down, the more room is available for output and employment to grow.

24. People now know that the Government intends to stick to its medium term objectives. They understand that the faster inflation comes down, the faster output and employment can recover. Increasing realism, and flexibility in the economy, owes much to the pursuit of firm and consistent policies within the MTFS framework.

25. Originally the MTFS covered four years. In this first Budget of a new Parliament we have thought it is appropriate to carry it forward for five years. So the MTFS published today in the Financial Statement and Budget Report -the Red Book - shows a continuing downward path for the monetary target ranges over the next five years, and a path for public borrowing consistent with that reduction. It takes full account of important influences such as the pattern of North Sea oil revenues, and the level of asset sales arising from the privatisation programme. For the last two years of the new MTFS, which lie beyond the period covered in last years Public Expenditure Survey and last month's White Paper, the Government has not yet made firm plans for public spending. But the MTFS assumption - and it is no more than an assumption - is that the level of public spending in 1987-88 and 1988-89 will be the same in real terms as that currently planned for 1986-87.

26. The precise figures set out in the MTFS are not of course a rigid framework, lacking all flexibility. As in the past, there may well need to be adjustments to take account of changing circumstances. But such changes will be made only when they will not jeopardise the consistent pursuit of the Government's objectives.

MONETARY POLICY

27. Monetary policy will continue to play a central role. For further reductions in monetary growth are needed to achieve still lower inflation.

28. Over the twelve months to mid-February the growth of £M3 has been well within the 7-11 per cent target range, with M1 and PSL2 at or a little above the top of it. While in the early months of the target period most measures of money showed signs of accelerating, growth in all the target aggregates has since the summer been comfortably within the range.

29. Other evidence confirms that monetary conditions are satisfactory. The effective exchange rate has remained fairly stable, despite the international uncertainties and instability which I have described. And nominal interest rates have continued to decline in line with falling inflation.

30. To maintain sound monetary conditions in the years ahead the monetary targets must reflect changes in the financial system and in the significance of different measures of money. There is nothing new in this. Over the years we have altered the target ranges and aggregates to take account of such changes. But the thrust of the strategy has been maintained.

31. One important development has been the attempt to give a more explicit role to the narrow measures of money. Even when targets were set solely in terms of £M3, we recognised the significance of their behaviour. £M3 and the other broad aggregates give a good indication of the growth of liquidity. But a large proportion of this money is deposited in ways which earn interest. In defining policy it is therefore helpful also to make specific reference to measures of money which bear very little interest, and provide a good guide to the immediate potential for spending.

32. M1 was for this reason introduced as a target aggregate, but it has not proved entirely satisfactory for that purpose. Its behaviour has been dominated by changes in its large interest-bearing component, which has grown rapidly, and now accounts for over 25 per cent of the total. With the introduction of new, interest bearing chequing accounts, the signs are that this will continue.

33. Other measures of narrow money have not been distorted to the same extent. In particular, MO, which consists mainly of currency, has not been subject to this development. It has been affected by other innovations that have reduced people's need for cash, but the pace of change has not diminished its value as an indicator of financial conditions. There is also the new aggregate M2, which was specifically devised to provide a comprehensive measure of transactions balances and which may in time prove a useful guide, but still needs to be interpreted with particular care.

34. In the past two years, it has been possible to set a single target range for both broad and narrow measures of money. But this will not normally be the case; for narrow monetary aggregates tend to grow more slowly than broader measures. And this year's Red Book sets out two separate ranges.

35. The target range for broad money will continue to apply to £M3, and for the coming year will be set at 6-10 per cent, as indicated in last year's MTFS. The target range for narrow money will apply to MO and for next year will be set at 4-8 per cent. To avoid any possible misunderstanding, I stress that the use of MO as a target aggregate will not involve any change in methods of monetary control.

36. Both target ranges will have equal importance in formulating policy. And we shall continue to take into account other measures of money, especially M2 and PSL2, as well as wider evidence of financial conditions, including the exchange rate. As in the past, we shall seek to influence monetary conditions by an appropriate combination of funding and operations in the money market.

37. So far as funding is concerned, the role of the National Savings movement will remain important. This year's target of £3 billion is likely to be achieved: the target for the coming year will again by £3 billion.

38. Precise monetary targets for the later years will be decided nearer the time. But to give a broad indication of the

objectives of monetary policy, the new MTFS, like previous versions, shows monetary ranges for a number of years ahead. These ranges are consistent with a continuing downward trend in inflation: they demonstrate the Government's intention to make further progress towards stable prices.

PUBLIC SECTOR BORROWING ETC

39. I turn now to public borrowing, for just as the classical formula for financial discipline - the gold standard and the balanced budget - had both a monetary and a fiscal component, so does the medium term financial strategy.

40. The MTFS has always envisaged that the Public Sector Borrowing Requirement would fall as a percentage of Gross Domestic Product over the medium term. And it has, notably as a result of the courageous Budget introduced by my predecessor in 1981, which brought the PSBR down to 3½ per cent of GDP in 1981-82.

41. Since then there has been little further fall. The latest estimate of the PSBR for the current year, 1983-84, remains what it was in November: around £10 billion, equivalent to 3¼ per cent of GDP. This is significantly above what was intended at the time of last year's Budget, and would of course have been higher still had it not been for the measures taken last July.

42. We now need a further substantial reduction in borrowing, in order to help bring interest rates down further as monetary growth slows down. Sterling interest rates are, of course, also influenced by dollar interest rates and so by the US situation which I have already described: but that makes it all the more

important to curb domestic pressures. In contrast to virtually the whole of the post-war period, UK longer-term rates are now lower than American rates. As long as American rates remain near their current level, it is highly desirable that this advantage be maintained.

43. The higher level of asset sales planned as the privatisation programme gathers pace is a further reason for reducing the PSBR significantly in the coming year. Asset sales reduce the Government's need to borrow. But their effect on interest rates is less than the effect of direct ~~[illegible]~~ reductions in Government spending programmes.

44. Last year's MTFS showed an illustrative PSBR for 1984-85 of 2½ per cent of GDP, equivalent to around £8 billion. But ~~I~~ for the reasons I have outlined I ~~believe~~ believe that it is ~~possible, and indeed~~ prudent, to aim for a somewhat lower figure. I have therefore decided to provide for a PSBR next year of 2¼ per cent of GDP, or roughly £7 billion.

45. The House will recall that in November I warned that on conventional assumptions, including the 1983 Red Book's PSBR figure of £8 billion for next year, I might have to increase taxes slightly in the Budget. I am glad to report that the latest, and more buoyant, forecasts of tax revenue in the coming year, [coupled with the decisions taken in the Public Expenditure Survey and the continuing effects of the July measures,] have changed the picture. Bringing the PSBR down to £7 billion will not

require such an increase in taxation. In fact it will require no overall net increase at all. So the measures I shall shortly announce will, after indexation, be broadly neutral in their effects on revenue in 1984-85.

46. Better still, they will reduce taxation in 1985-86 by some £1¾ billion. And the MTFS published today shows that there should be room ~~[illegible]~~ for further tax cuts not only in 1985-86, but ~~throughout~~ the remainder of this Parliament, provided ~~of~~ ~~[illegible]~~ that we stick firmly to our published plans for public expenditure to 1986-87, and maintain an equally firm control of public spending thereafter.

PUBLIC EXPENDITURE

47. The Public Expenditure White Paper setting out our spending plans for the next three years was approved by the House last week. Today I want to consider the critically important issue of government spending in a rather wider perspective.

48. For far too long, spending has grown faster than has the economy as a whole. The trend has seemed inexorable, and the result has been that the great mass of the population have had to pay more and more in tax. To take just one example: as recently as 1963-64 no married man had to pay a penny of income tax unless his taxable income was at least 45 per cent of the average earnings level. Today the tax threshold is down to ~~little more than~~ under a third of average earnings. Over the years more and more people on lower and lower incomes have been brought into income tax.

change in child tax allowances

49. We have seen a steady enlargement in the role of the State, at the expense of the individual, and ~~a steady~~ an increase in the ~~dead~~ weight of taxation dragging down our economic performance as a nation.

50. Clearly this ~~dangerous~~ process has to stop. Of course, much public spending is directed to eminently desirable ends. But there is an important choice to be made; and it is not

enough simply to make marginal changes in spending programmes from year to year. The choice needs more fundamental national consideration and debate; and it needs to be set within a longer time horizon.

51. I am therefore publishing today, in addition to the customary Budget documents, a Green Paper on the prospects for public spending and taxation in the next ten years. It examines past trends; discusses pressures for still higher spending; and examines the rewards for the individual if these pressures can be contained.

52. The Green Paper concludes that, without firm control over public spending, there can be no prospect of bringing the burden of tax back to more reasonable levels. On the assumptions made in the Green Paper, the burden of taxation will be reduced to the levels of the early 1970s only if public spending does not rise in real terms over the next ten years. If, on the other hand, spending grows by 1 per cent a year in real terms after 1988-89, the tax burden would by 1993 be only just below the 1978-79 level, and still well above its level in the 1960s, even if the economy grows by about 2 per cent a year over the ten years. And of course excessive taxation slows the whole economy.

53. The Government believes that the issues discussed in the Green Paper merit the attention of the House and the country.

It is a discussion document - descriptive not prescriptive - and we shall welcome the fullest possible discussion.

54. I can at once inform the House of a further innovation. In contrast to previous years, I have no specific public expenditure measures to announce in this Budget. The White Paper plans stand.

55. But lest the innovation seems too sweeping, I can make one small announcement, which I think the House will welcome. Within the plans we have been able to provide the National Heritage Memorial Fund with additional resources which will enable them among other things to secure the future of Calke Abbey. My Rt Hon Friend the Secretary of State for the Environment is providing £6.3 million from his planned expenditure for this year and next, and I have accepted a claim on the Reserve of £2 million for next year.

56. The House will recall that the proposals for the new rates of social security benefit to come into force in November are not now made on Budget day. Following last year's legislation to return to the historic method of uprating, price protection is measured by reference to the Retail Price Index for May. Accordingly, my Rt Hon Friend the Secretary of State for Social Services will be announcing the new rates of social security benefits, including Child Benefit, in June.

57. Before turning from Government spending to Government revenue, I should add a word on public sector manpower. At the beginning of the last Parliament, the Government set itself the target of reducing the size of the Civil Service from 732,000 in April 1979 to 630,000 by April of this year. That target has been achieved. We have now set ourselves the further target of 593,000 by April 1988, and I am confident that it too will be achieved, and that a leaner Civil Service will continue to operate with increasing efficiency. Speaking for my own Departments, the tax changes I shall be announcing today will reduce manpower requirements by at least 1000 which will help towards meeting the 1988 target.

TAX REFORM

58. I mentioned at the outset that this will be a radical, tax-reforming, Budget. It will also significantly reduce the overall burden of tax over the next two years taken together [- and indeed over the whole MTFS period -] and I hope to have scope for further reductions in tax in subsequent Budgets.

59. My proposals for reform are guided by two basic principles. First, the need to make changes that will improve our economic performance over the longer term. Second, the desire to make life a little simpler for the taxpayer.

60. But I am well aware that the tax reformer's path is a stony one. Any change in the system is bound, at least in the short term, to bring benefits to some and disadvantages to others. And, if I may borrow a phrase from the Rt Hon member for Leeds East, the howls of anguish from the latter group tend to be rather more audible than the murmurings of satisfaction from the former.

61. ~~Reform must succeed, but need not be, in this sense, a howling success. So~~ I have rejected the extreme suggestion, popular in some quarters, that I should scrap our income-based tax system and replace it with a brand new expenditure-based system. A reform of this kind would produce, ~~in the real world,~~ an upheaval of mind-boggling dimensions.

62. But I don't believe we can afford to opt for the quiet life and do nothing. So I have chosen the middle way: to work for improvements, some I believe very substantial, but within the framework of our existing income-based system. I shall also be proposing transitional arrangements where I believe it fair and appropriate to do so.

63. The changes I shall be proposing today fall into three broad categories. These are the taxation of savings and investment, business taxation, and the taxation of personal income and spending.

SAVINGS AND INVESTMENT

64. First, the taxation of savings and investment. The proposals I am about to make should improve both the direction and quality of both. And they will contribute further to the creation of a property-owning and share-owning democracy, in which more decisions are made by individuals rather than by intermediary institutions.

65. First, stamp duty. This was doubled from its long-standing 1 per cent by the post-war Labour Government in 1947, reduced by the Macmillan Government in 1963, and once again doubled to 2 per cent in the first Budget presented by the Rt Hon member for Leeds East in 1974. At its present level it is an impediment to mobility and incompatible with the welcome movement to greater competition in the City, following the withdrawal of the Stock Exchange case from the Restrictive Practices Court.

66. I therefore propose to halve the rate of stamp duty to 1 per cent. [Transactions from today will benefit from the new rate, unless documents have to be stamped before 20 March, which is the earliest date on which the change will have legal effect.]

67. For the home buyer, the new flat rate 1 per cent stamp duty will start at (an increased threshold of) £30,000. Below this level no duty will in future be payable, and 90 per cent of first time home buyers will therefore not be liable for stamp duty at all.

68. Reducing the rate of duty on share transfers will remove an important disincentive to direct investment in equities and increase the international competitiveness of our stock market. It should also help British companies to raise equity finance.

69. In addition, I have three proposals to encourage the issue of corporate bonds. I shall go ahead with the new arrangements for deep discount stock and the reliefs for companies issuing Eurobonds and convertible loan stock which were announced but not enacted last year. And I propose to exempt from Capital Gains Tax certain corporate fixed interest securities provided they are held for more than a year. Since such securities are already exempt from stamp duty ~~- an exemption I can confirm also extends to certain convertible loan stocks -~~ this means that the tax concessions for Government borrowing in the gilt-edged market will now be virtually the same as for private sector borrowing in the corporate bond market.

70. The reductions in stamp duty will cost £450 million in 1984-85, of which £160 million is the cost of the relief on share transfers, and £290 million the cost of the relief on transfers of houses and other real estate.

71. Next, life assurance. I have concluded that there is no longer any justification for Premium Relief on Life Assurance,

which is now only one of a number of savings channels for ordinary people. The main effect of the relief today is to encourage institutional rather than direct personal investment, and to spawn a multiplicity of well-advertised tax management schemes. I propose to withdraw the relief on all new policies made after today. I stress that this change will apply only to new (or newly enhanced) policies, taken out or increased after today. Existing policies will not be affected at all. The change is estimated to yield £90 million in 1984-85.

72. We must also review unjustified penalties on direct personal investment. The Investment Income Surcharge is an unfair and anomalous tax on savings and on the rewards of successful enterprise. It hits the small businessman who reaches retirement without the cushion of a company pension scheme,and impedes the creation of farm tenancies. In the vast majority of cases it is a tax on savings made in the first place out of hard-earned and fully-taxed income. More than half of those who pay the investment income surcharge are over 65, and of these more than half would otherwise be liable to tax at only the basic rate.

73. I have therefore decided that the investment income surcharge should be abolished. The cost in 1984-85 will be some £25 million, and in a full year around £350 million.

74. Finally, I propose to draw more closely together the tax treatment of depositors in banks and building societies.

These institutions compete in the same market for personal deposits. I believe that they should be able to do so on more equal terms as far as tax is concerned.

75. One inequality has already been removed, with the recent change made on legal advice in the tax treatment of building societies' profits from gilt-edged securities. They are now treated in the same way as those of the banks have always been.

76. But the major inequality of treatment, against which the banks in particular have frequently complained, lies with the special arrangement for interest paid by building societies, under which the societies pay tax at a special rate - the "composite rate" - on the interest paid to the depositor who receives credit for income tax at the full basic rate.

77. This system, which has worked well for the past 90 years, has both an advantage and a disadvantage. The disadvantage is that a minority of depositors, who are below the income tax threshold, still suffer the deduction of tax at the composite rate. However, it is always open to such depositors to put their savings elsewhere, such as National Savings. The advantage of the scheme is its extreme simplicity, particularly for the taxpayer; most taxpayers are spared the bother of paying tax on interest through PAYE or individual assessment, while the Revenue are spared the need to recruit an additional 2000 staff to collect the tax due on interest paid without deduction.

78. In common with my predecessors of all Parties over the past 90 years, I am satisfied that the advantage of the composite rate arrangement outweighs the disadvantage. It follows that equal treatment of building societies and banks should be achieved, not by removing the composite rate from the societies, but by extending it to the banks and other licensed deposit takers.

79. Non-taxpayers would ~~of course~~ continue to be able to receive interest gross, should they wish to do so, by putting their money into appropriate National Savings facilities. But the purpose of the move is not, of course, to attract savings into Government hands: as I have already announced, next year's target for National Savings will be the same as this year's and last year's, and the total Government appetite for savings, which is measured by the size of the Public Sector Borrowing Requirement, is being significantly reduced. Moreover I have decided to reduce substantially the permitted maximum size of future holdings in the National Savings Investment Account and in Income Bonds.

80. The true purpose of the move is simple: simplicity itself. Unless they are higher rate taxpayers, individual bank customers will, when it comes to tax, be able to forget about bank interest altogether, for all the tax due on it will be deducted at source. The Inland Revenue will be able to make staff savings of up to an extra 1000 civil servants. Moreover, this figure takes no account of the extra numbers that would have

been required to operate the present system as the trend towards the payment of interest on current accounts develops.

81. Accordingly, I propose to extend the composite rate arrangements to interest received by UK resident individuals from banks and other licensed deposit takers with effect from 1985-86. The composite rate will not apply either to non-residents or to the corporate sector. Arrangements will also be made to exclude from the scheme Certificates of Deposit and Time Deposits of £50,000 or more.

82. Taken together, the major proposals I have just announced on stamp duty, life assurance relief, the investment income surcharge and the composite rate, coupled with other minor proposals, will provide a simpler and more straightforward tax system for savings and investment. They will remove biases which have discouraged the individual saver from investing directly in industry. And they will reinforce the Government's policy of encouraging competition in the financial sector, as in the economy as a whole.

BUSINESS TAXATION

83. I now turn to company taxation.

84. In this area, Government has two responsibilities towards British business and industry. The first is to ensure that they do not have to bear an excessive burden of taxation. The second is to ensure that, given a particular burden, it is structured in the way that does least damage to the nation's economic performance.

85. The measures I am announcing today will, taking the next two years together, result in a [redacted] substantial reduction in the burden of taxation on British industry. And in addition I shall be proposing a far-reaching reform of the structure of company taxation.

86. The current rates of Corporation Tax are far too high, penalising profit and success, and blunting the cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied and of diminishing relevance to the conditions of today. Some of these reliefs reflect economic priorities or circumstances which have long vanished, and now serve only to distort investment decisions and choices about finance. Others were introduced to meet short-term pressures, notably the upward surge of inflation. With inflation down to 5 per cent and set to go lower, this is clearly the time to take a fresh look. And with unemployment as high as it is today, it is particularly difficult to justify

a tax system which encourages low-yielding or even unprofitable investment at the expense of jobs.

87. My purpose therefore is to phase out some unnecessary reliefs, in order to bring about, over time, a markedly lower rate of tax on company profits.

88. First, capital allowances. Over virtually the whole of the post-war period there have been incentives for investment in both plant and machinery and industrial (though not commercial) buildings. But there is little evidence that these incentives have strengthened the economy or improved the quality of investment. Quite the contrary: the evidence suggests that businesses have invested substantially in assets yielding a lower rate of return than the investments made by our principal competitors. Too much of British investment has been made because the tax allowances make it look profitable, rather than because it would be truly productive.

89. The nation needs more investment, and the 6 per cent increase forecast for this year is encouraging. But the greatest benefits flow from investment decisions based on analysis of future market assessments, not future tax assessments.

90. I propose to restructure the capital allowances in three annual stages. In the case of plant and machinery, and assets whose allowances are linked with them, the first

year allowance will be reduced from 100 per cent to 75 per cent for all such expenditure incurred after today, and to 50 per cent for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances, and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent reducing balance basis.

91. In addition, from next year annual allowances will be given as soon as the expenditure is incurred, and not, as they are today, when the asset comes into use. This will bring forward the entitlement to annual allowances for those assets, such as ships and oil rigs, for which some payment is normally made well in advance of their being brought into use.

92. For industrial buildings, I propose that the initial allowance should fall from 75 per cent to 50 per cent from tonight, and be further reduced to 25 per cent from 31 March next year. After 31 March 1986 the initial allowance will be abolished, and expenditure will be written off on an annual 4 per cent straight line basis. I should add that, when these changes have all taken place, in respect of both plant and machinery and industrial buildings, tax allowances will still on average be rather more generous than would be provided by a strict system of economic depreciation.

93. The changes in the rates of allowances will not apply to payments under binding contracts entered into on or before today, provided that the expenditure is incurred within the

next three years.

94. After consulting my Rt Hon Friend the Secretary of State for Trade and Industry, I have decided to make transitional tax arrangements for certain investment projects in the regions. Existing capital allowances will continue to apply to expenditure on projects in Development Areas and special Development Areas for which regional development grants are available and offers of selective assistance have already been made between 1 April 1980 and today. Similar arrangements were announced for regional development grants in my Rt Hon Friend's White Paper on Regional Industrial Development last December.

95. Over the same period to 31 March 1986 most other capital allowances will be brought into line with the main changes I have announced. The Inland Revenue will be issuing a press notice tonight giving full details of these proposals.

96. Next, stock relief. As the House will recall, this was introduced by the last Labour Government as a rough and ready form of emergency help to businesses facing the ravages of high inflation. These days are past; and relief is no longer necessary; for company liquidity has improved and, above all, inflation has fallen sharply, ~~and will be falling further during this Parliament.~~ Accordingly, I propose to abolish stock relief from this month.

97. The changes I have just announced, in capital allowances and stock relief, enable me to embark on a major programme of progressive reductions in the main rate of Corporation Tax. For profits earned in the year just ending, on which tax is generally payable in 1984-85, the rate will be cut from 52 per cent to 50 per cent. For profits earned in 1984-85 the rate will be further cut to 45 per cent. Looking further ahead, to profits earned in 1985-86, the rate will go down to 40 per cent; and for profits earned in 1986-87 the main rate of Corporation Tax will be 35 per cent.

98. All these rates for the years ahead will be included in this year's Finance Bill.

99. And they will bring a further benefit. Responses to the Corporation Tax Green Paper published in 1982 revealed a strong and general desire to retain our imputation system of Corporation Tax. This allows a company to offset in full all interest paid. But only a partial deduction for dividends is allowed. Companies thus have an unhealthy incentive to finance themselves through borrowing, in particular bank borrowing, rather than by raising equity capital. The closer the Corporation Tax rate comes to the basic rate of income tax, the smaller this undesirable distortion becomes.

100. Of course, the majority of companies are not liable to pay the main rate of Corporation Tax at all. For them it is the small companies' rate, at present 38 per cent, which applies.

I propose to reduce this rate forthwith to 30 per cent, for profits earned in 1983-84 and thereafter.

101. The Corporation Tax measures I have just announced will cost £280 million in 1984-85. In 1985-86 the cost will be £600 million - made up of £1,150 million by way of reductions in the rates, only partially offset by a £550 million reduction in the value of the reliefs. The estimated costs for later years, which have been provided for in the MTFS figures contained in the Budget Red Book, have been drawn up on a cautious basis. Thus business and industry can go ahead confidently on the basis of the Corporation Tax rates I have announced today, and which set the framework of company taxation for the rest of this Parliament.

102. I expect these changes to have both a somewhat different impact in the short and long term. In the short term, some investment should be brought forward over the next two years, to take advantage of high first year capital allowances while they last - a prospect made all the more alluring for business by virtue of the fact that profits earned will be taxed at the new lower, rates. But the more important and durable effect will be to encourage the search for investment projects with a genuinely worthwhile return, and to discourage uneconomic investment.

103. It is doubtful if it was ever really sensible to subsidise capital irrespective of the true rate of return. Certainly,

with over three million unemployed it cannot make sense to do so.

104. These changes hold out an exciting opportunity for British industry as a whole: an opportunity further to improve its profitability, and to expand, building on the recovery that is already well under way. Higher net profits should encourage and reward enterprise and stimulate [~~higher current expenditure and~~] innovation in all its forms - research and development and work on new products, processes and markets. They are the centre-piece, for business, of this Budget and the tax strategy for this Parliament.

105. But I have further measures to announce that are relevant to business.

106. First, the Business Expansion Scheme, introduced last year as a successor to the Business Start Up Scheme, has been widely welcomed as a highly imaginative scheme for encouraging individuals to invest in small companies. It is already proving a considerable success. It now needs time to settle down, and I have only one change to propose this year.

107. The scheme was designed to offer generous incentives for investment in high risk areas by new or expanding companies. Farming is clearly not an area which falls within this category, and I therefore propose that from today farming should cease to be treated as a qualifying trade under the scheme. I am

also ready to consider tightening the scheme further, if it becomes clear at any time in the future that it is being used for purposes for which it was clearly not designed.

108. Secondly, as a measure of help to small firms, I propose to raise the VAT registration threshold with effect from midnight tonight from £18,000 to £18,700.

£9,000?

109. Thirdly, in keeping with what I have said about removing distortions, I propose to abolish two reliefs in the personal tax field which were introduced at a time when this country suffered from excessively high rates of income tax. As we have reduced those rates, the reliefs are no longer justified.

110. The first distortion is the 50 per cent tax deduction (falling after 9 years to 25 per cent) ~~given from~~ applied to the emoluments of foreign employees working here for foreign employers. Foreign employees are often paying much less tax here than they would either at home or in most other European countries. At present income tax rates, the need for the relief has clearly disappeared. Moreover it is open to widespread abuse. It is, for example, possible for the son of an immigrant, working here for a foreign company, to pay tax on only 75 per cent of his salary, even if he himself has lived in this country all his life. I therefore propose to withdraw the relief entirely for all new cases from today, and to withdraw the 25 per cent deduction from existing beneficiaries from 6 April next. The 50 per cent deduction will be phased out over the

5 years to 5 April 1989.

111. I also propose to withdraw the so-called foreign earnings relief for United Kingdom residents who perform their duties both here and overseas and who spend at least 30 days abroad in a tax year. This relief too has lost its rationale, which harks back to the days of penalty high income tax rates. It too has been exploited, in particular by those who prolong their overseas visits purely in order to gain a tax advantage. For the same reason, I propose to withdraw the matching relief for the self-employed who spend 30 days abroad, and for resident employees and self-employed who have separate employments or separate trades carried on wholly abroad. The relief will be halved to 12½ per cent in 1984-85 and removed entirely from 6 April 1985. However, I have also authorised the Inland Revenue to consult interested parties about a possible relaxation in the rules governing the taxation of expenses reimbursed to employees for travel overseas. I am not making any change to the 100 per cent deduction given for absences abroad of 365 days or more.

112. The abolition of these reliefs will eventually yield revenue savings of over £150 million; and represents another useful step in the removal of complexity and distortions.

113. I need to set the car benefit scales for 1985-86 for those provided with the use of a car by their employer.

Despite the increases over recent years, the levels still fall short of any realistic measure of the true benefit. I am accordingly proposing an increase of 10 per cent in both the car and car fuel scales with effect from April 1985.

114. Unnecessarily high rates of tax discourage enterprise and risk taking. This is true of the capital taxes, just as it is of the corporation and income taxes. It is a matter of particular concern to those involved in running unquoted family businesses. The highest rates of capital transfer tax are way out of line with comparable rates abroad, and with the top rates of other taxes in this country. I propose therefore to reduce the highest rate of capital transfer tax from 75 per cent to 60 per cent and to raise the threshold to £64,000 in line with inflation indexation. [For lifetime gifts I further propose to make the rate one-half of that on death over the whole scale.]

misleading

115. For capital gains tax I will, as promised, bring forward in the Finance Bill proposals to double the limit for retirement relief to a figure of £100,000, backdated to April 1983. A consultative document on other possible changes in this relief is being issued next week. I am proposing no other changes this year in capital gains tax beyond the statutory indexation of the exempt amount from £5,300 to £5,600. However, the tax continues to attract criticism - not least for its complexity - and that is a matter to which I hope to return in a later year.

116. We have done much to improve the Development Land Tax. Early in the last Parliament, my predecessor increased the threshold from £10,000 to £50,000. I now propose a further increase to £75,000, which will reduce the numbers affected by the tax by more than one-third.

117. Next share options. The measures introduced in the last Parliament to improve employee involvement through profit sharing and savings related share option schemes have been a notable success. The numbers of all these employee schemes have increased from about 30 in 1979 to over 670 now, benefiting some half a million employees. To maintain and build on this progress I propose to increase the monthly limit on contributions to savings related share option schemes from £50 to £100. I have also authorised the Inland Revenue to double the tax-free limits under the concession on long service awards and to include the gift of shares in the employee's company.

118. But beyond this, I am convinced that we need to do more to attract top calibre company management and to increase the incentives and motivation of existing executives and key personnel by linking their rewards to performance. I propose therefore that, subject to certain necessary limits and conditions, share options generally will be taken out of income tax, leaving any gain to be charged to capital gains tax on ultimate disposal of the shares. The new rules will

apply to options meeting the conditions which are granted from 6 April.

119. I am sure that all these changes will be welcomed as measures to encourage the commitment of employees to the success of their companies and to improve the performance, competitiveness and profitability of British industry.

120. Before turning to North Sea taxation, I should like to remind the House of the Government's concern at the threat which the spread of unitary taxation in certain US states has posed to the US subsidiaries of British firms. With our European partners we are monitoring the situation closely, and await with keen interest the imminent report of a Working Group under my US counterpart. It is very important that a satisfactory solution be speedily implemented.

121. This issue isnot wholly irrelevant to the North Sea, for US firms operating there, or elsewhere in this country, are not of course taxed on a unitary basis, taking account of world-wide profits.

122. Last year's North Sea tax changes were well received, and there has been encouraging progress in the number of development projects coming forward, as well as in exploration and appraisal. The Government is already committed to a study of the economics of investment in incremental development in existing fields. This is of increasing importance and in consultation with my rt hon friend the Secretary of State for Energy I

therefore propose to review this area with the industry, and to legislate as appropriate next year to improve the position. To prevent projects being deferred pending this review, any changes will apply to all projects which receive development consent after today.

123. Meanwhile, I am taking two measures to prevent an unjustified loss of tax in the North Sea. First, in addition to the PRT measures on farmouts which I announced last September, I am limiting the potential Corporation Tax cost of such deals. Second, I propose to repeal the provision which allows Advance Corporation Tax to be repaid where Corporation Tax is reduced by PRT. I have concluded that this can no longer be justified. I have also reviewed the case for extending last year's future field concessions to the Southern Basin, but have concluded that additional incentives here are not needed.

124. I have just two further changes affecting business to propose, both of which will come into force on 1 October.

125. Ever since VAT was introduced in this country, we have treated imports differently from the way in which they are treated by our main European Community competitors. In a nutshell, they require VAT on imported goods to be paid in the same way as customs duties. We do not. Under our system an importer does not have to account for VAT on his

imports until he makes his normal VAT return, on average some 11 weeks later. During this time the importer enjoys free credit at the taxpayer's expense. This is an advantage not enjoyed by the home-produced equivalent of the import, since businesses buying from UK suppliers have to pay VAT when they pay their suppliers.

126. The UK system does indeed have many advantages, which is why the European Commission has for some years now been seeking to get it adopted throughout the Community, with the full support of both my predecessor and myself. But the plain fact is that in all that time the Commission has made no progress whatever.

127. I must tell the House that I am not prepared to put British industry at a competitive disadvantage in the home market any longer. Should our European partners at any time undergo a Damascene conversion, and agree that the Commission's proposal should be accepted after all, then of course we would ~~gladly~~ revert to the present system. But in the meantime I propose to move to the system used by our major competitors and charge VAT straight away on imports, providing the same facilities for deferring payment as apply to customs duties. That means that most importers will be able to defer payment of VAT by on average one month from the date of importation. But that is all.

128. As I have said, this change will apply from 1 October. By bringing forward VAT receipts, it will bring in an extra £1.2 billion in 1984-85, some of which will of course be borne ~~carried~~ by foreign producers and manufacturers. There will naturally be no increased revenue in subsequent years.

129. The second change I propose to make on 1 October concerns the National Insurance Surcharge. This, once again, was a the unhappy brainchild of the Rt Hon member for Leeds East. Having introduced it in 1977 at the rate of 2 per cent, he then raised it in 1978 to 3½ per cent. During the last Parliament, my predecessor succeeded in reducing it to 1 per cent, and we are pledged to abolish it during the lifetime of this Parliament.

130. Given the impact that this tax has, not only on industrial costs but also - at a time of high unemployment - on jobs, I have decided to take the opportunity of this my first Budget to fulfil that pledge. Abolition of the National Insurance Surcharge from October will reduce private sector employers' costs by almost £350 million in 1984-85, and over £850 million in a full year.

131. Thus my proposals offer British business the abolition of the tax on jobs and the reduction of the rate of taxation on profits. They also sweep away a number of out-dated reliefs, reduce distortions, and assist enterprise.

INDIRECT TAXES

131. Having announced major reforms of both the taxation of savings and investment and the taxation of business, I turn now to the third and final area in which I propose to make progress on tax reform. This is the taxation of personal income and spending.

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132. The broad principle was clearly set out in the Manifesto on which we were first elected in 1979 and which emphasised the need for a switch from taxes on earnings to taxes on spending. My predecessor made an important move in this direction in his first budget, and the time has come to make a further move today. To reduce direct taxation by this means is important in two ways. It improves incentives and makes it more worthwhile to work, and it increases the freedom of choice of the individual.

133. I do not however see the excise duties - with certain exceptions - as an area for major change. I shall of course need to raise most of the duties broadly in line with inflation, so as to maintain their real value: not to do so would run counter to the philosophy I outlined a moment ago. But with inflation now as low as it is, the necessary increases are on the whole mercifully modest. Only for a few particular duties do I envisage steeper rises.

134. One significant exception is tobacco, where I ~~am~~ believe it is right ~~convinced of the need~~ to raise the duty in real terms, given ~~to help cut smoking and thus reduce~~ the potential danger to health. I therefore propose an increase in the tobacco duty which, including VAT, will put 10p on the price of a packet of cigarettes, with corresponding increases for hand-rolling tobacco and cigars. This will do no more than restore the tax on tobacco to its 1965 level. I do not propose to increase the duty in pipe tobacco, which is important for a great many pensioners. These changes will take effect from midnight on Thursday.

135. For the duties on petrol and derv I propose simply broad revalorisation, which means increases which, again including VAT, will raise ~~increase~~ the price at the pumps by 4½p and 3½p a gallon respectively. I do not propose to increase the duty on heavy fuel oil, which is of particular importance to industrial costs. These changes will take effect for oil delivered from refineries and warehouses from six o'clock this evening.

136. There is one excise duty which I propose to do away with altogether. Many of those who find it hardest to make ends meet, including in particular many pensioners, use paraffin stoves to heat their homes, and it is with them in mind that I propose to abolish the duty on kerosene from six o'clock tonight. I am sure that this will be welcomed on all sides of the House.

137. The various rates of Vehicle Excise Duty will, once again, go up roughly in line with prices. Thus the duty for cars and light vans will be increased by £5, from £85 to £90 a year. However, given the further evidence my Rt Hon Friend the Secretary of State has now received on the wear and tear that various types of vehicle cause to the roads, there will be reductions in duty for the lightest lorries, offset by higher increases for some heavier lorries. All these changes in Vehicle Excise Duty will take effect from tomorrow.

138. However, I propose to exempt from Vehicle Excise Duty all recipients of the War Pensioners' Mobility Supplement.

139. And I have decided to widen the specific VAT reliefs for the disabled in the important area of transport. The existing VAT relief for motor vehicles designed or adapted for use by the handicapped will be extended, and matched by a new Car Tax relief. The effect will be that neither VAT nor car tax will apply to family cars designed for disabled people or substantially adapted for their use.

140. I now come to the most difficult decision I have to take in the excise duty field. As the House will be aware, the rules of the European Community, so far as alcoholic drinks are concerned, are designed to prevent a Member state from protecting its own domestic product by imposing a significantly higher duty on competing imports. In pursuit of this, the Commission has taken a number of countries to the European Court of Justice.

141. In our case, the Commission contended that we were protecting beer by under-taxing it in relation to wine. We fought the case, but lost; and I am now implementing the judgement handed down by the Court last year. Accordingly, I propose to increase the duty on beer, not by the 7p a pint which has been widely forecast ~~rumoured in the press,~~ but by the minimum amount needed to comply with the judgement and maintain revenue: 2p on a typical pint of beer, including VAT. At the same time, the duty on table wine will be reduced by the equivalent of about 18p a bottle, again including VAT.

142. I cannot, however, ignore the fact that while we comply with the judgement of the European Court, one of our partners appears determined not to do so. I refer to Italy, which has been ordered by the Court to remove forthwith its discrimination against Scotch whisky, but as yet shows no sign whatever of complying. I have therefore decided to introduce a temporary duty surcharge on vermouth of some 20p a bottle on top of the basic increase, to which I shall come in a moment. This surcharge will come into operation on 1 September unless the Italian Government has - as I very much hope it will - implemented the Court's judgement by that date, and it will lapse as soon as I am satisfied that it has complied.

143. As for the rest of the alcoholic drinks, cider, which increasingly competes with beer but attracts a lower duty, will go up by 3p a pint. The duties on made-wine will be aligned with those on other wine. And I propose to increase the duty on sparkling wine, fortified wine and spirits by about 10p a

bottle, including VAT. All these changes, except the vermouth surcharge, will take effect from midnight tonight.

144. These changes in excise duties will, all told, bring in some £840 million in 1984-85, some £200m more than is required to keep pace with inflation. The addition is of course ~~largely~~ due to the increase in tobacco duty.

145. But much of the extra revenue I need to make a substantial switch this year from taxes on earnings to taxes on spending will come from VAT. I propose no change in the rate of VAT. Instead, I intend to broaden the base of the tax by extending the 15 per cent rate to two areas of expenditure that have hitherto been zero-rated.

146. First, alterations to buildings. At present repairs and maintenance are taxed, but alterations are not. The borderline between these two categories is the most confused in the whole field of VAT. I propose to end this confusion and illogicality by bringing all alterations into tax. However, to allow a reasonable time for existing commitments to be completed or adjusted, the change will be deferred until 1 June.

147. Secondly, food. Most food is zero-rated. But food served in restaurants is taxed, together with a miscellaneous range of items including ice-cream, confectionery, soft drinks and crisps, which were brought into tax by the Rt Hon Member for Leeds East. Take-away food clearly competes with other

forms of catering, and I therefore intend to bring into tax hot take-away food and drinks, with effect from 1 May.

148. The total effect of the extensions of the VAT coverage which I have proposed will be to increase the yield of the tax by £375 million in 1984-85 and by almost £650 million in 1985-86.

149. The total impact effect on the Retail Price Index of the VAT changes and excise duty changes taken together will be less than three-quarters of one per cent. This has already been taken into account in the forecast which I have given to the House of a decline in inflation to 4½ per cent by the end of the year.

150. The extra revenue raised in this way will enable me within the overall framework of a neutral Budget to lighten the burden of income tax.

PERSONAL TAXATION

151. Since we took office in 1979, we have cut the basic rate of income tax from 33 per cent to 30 per cent and sharply reduced the confiscatory higher rates inherited from the last Labour Government. We have increased the main tax allowances not simply in line with prices but by around 8 per cent in real terms. It is a good record. But it is not enough. The burden of income tax is still too heavy.

152. During the lifetime of this Parliament, I intend to carry much further the progress we have already made. For the most part, this will have to wait for future Budgets, particularly since I have thought it right this year to concentrate on setting a new regime of business taxation for the lifetime of a Parliament - and beyond. But as a result of the changes to taxes on spending which I have just announced, I can make a start now.

153. I propose to make no change this year in the rates of income tax. So far as the allowances and thresholds are concerned, I must clearly increase these by the amounts set out in the statutory indexation formula, based on the 5.3 per cent increase in the Retail Price Index to December. The question is how much more I can do, and how to direct it.

154. I have decided that, this year, the right course is to use every penny I have in hand, within the framework of a revenue neutral Budget, to lift the level of the basic tax thresholds, for

makes no sense

the married and single alike. It is fundamentally wrong that we collect income tax from people whose incomes are so low that they are entitled to social security benefits on grounds of need. Moreover low tax thresholds make the poverty and unemployment traps much worse, so that the financial incentive to find a better job or even any job may decline almost to zero. There is, alas, no quick or cheap solution to these problems. But that is all the more reason to make a start on solving them now.

155. I propose to increase most thresholds in line with the statutory requirement, and by no more. The first higher rate of 40 per cent will apply when taxable income reaches £15,400 a year and the top rate of 60 per cent to taxable income of £38,100 or more. The single age allowance will rise from £2,360 to £2,490 and the married age allowance from £3,755 to £3,955.

156. For the basic thresholds, statutory indexation would mean putting the single and married allowances up by £100 and £150 respectively. I am glad to say that I can do considerably better than that. I propose to increase the basic thresholds by well over double what is required by indexation. The single person's threshold will be increased by £220, from £1,785 to £2,005; and the married threshold by £360, from £2,795 to £3,155. ~~The special allowances for widows, and for single parents, will as a consequence go up by some 14 per cent.~~

157. This is an increase of around 12½ per cent, or some 7 per cent in real terms. It brings the married man's tax threshold for 1984-85 to its highest level in real terms since the war. It means that every tax-paying married couple in the land will enjoy an income tax cut of at least £2 a week. And it means that a large number of people, those with the smallest incomes of all, are taken out of income tax altogether. ~~And~~ Some 850,000 people - over 100,000 of them widows - will not pay tax in 1984-85 who would have paid if thresholds had not been increased. And 400,000 fewer than if the allowances had merely been indexed.

158. All these changes will take effect under PAYE on the first pay day after 10 May. Their cost is considerable: some £1.8 billion in 1984-85, of which roughly half represents the cost of indexation.

159. This is as far as I can go on income tax this year, within a broadly revenue-neutral Budget for 1984-85. But as I have already said, so long as we hold to our published planned levels of public spending, there is an excellent prospect consistent with the necessary downward path of public borrowing of further tax cuts in next year's Budget. These would be on top of the measures I have announced in this Budget which, as I have already told the House, will reduce taxation in 1985-86 by some £1¾ billion, with business taking the lion's share. So for next year I would hope to be concentrating on further help to individuals, and principally on income tax.

CONCLUSION

160. I have, Mr Deputy Speaker, completed the course I charted at the outset this afternoon. I have described the recovery, and how the Government plans to sustain it, by working for further reductions in inflation, by maintaining sound money and by curbing borrowing. I have described a three part reform strategy for a fairer, simpler tax system. And I have been able to propose substantial tax reductions over two years in a Budget that is revenue-neutral for 1984-85. It is a Budget for responsibility and reform; and I commend it to the House.