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PRIME MINISTER

THE BUDGET

In this minute I set out the Budget plans, which remain along the lines we have previously discussed. I envisage no major changes - except in the event of a very substantial further fall in the oil price in the next few days.

2. I plan to hold to the figures for monetary growth set out in the 1982 Medium Term Financial Strategy - ie ranges of 7-11 per cent for next year, 6-10 per cent for 1984-85 and 5-9 per cent for 1985-86. As before these paths apply to both the narrow and broad measures of money. I hope that we shall hit the middle of the ranges. I have given a good deal of thought to the possibility of reducing at least the top of these ranges by one point. But there is some disadvantage in revising medium term objectives in two successive years. And it is clear that the announcement of a downward move could make it significantly more difficult for us to go on getting interest rates down. In present circumstances, I regard that as decisive.

3. At the time of the last Budget, and again last Autumn, I proposed a figure for the 1983-84 PSBR, of 2½ per cent of GDP, and I plan to hold to this too. For this year (1982-83) we shall publish a forecast out-turn figure of some 3 per cent. The 1984-85 figure, after taking account of the Budget measures and allowing for a future "fiscal adjustment" of £0.5 billion, is forecast at 2½ per cent. Although the nominal figures will coincidentally be £8 billion in all three years, we shall thus continue to show a downward trend as a percentage of GDP.

4. On the basis of the present forecast, an £8 billion PSBR next year gives scope for tax reductions with a PSBR cost of some £1½ billion,



over and above revalorisation of thresholds and excise duties. This figure, however, understates the total reductions we shall have effected for the year 1983-84 because it does not take account of the measures I announced in the Autumn. I shall, of course, ensure (with due discretion) that these are not overlooked.

5. The Annexes below provide a summary of the detailed proposals. Where they have a public expenditure cost it will be accommodated within the Contingency Reserve, and will not lead to any increase in plan totals.

6. As you see, the lion's share of the initial benefit goes to individuals rather than to industry. We both think this is right, given the need to tackle the poverty and unemployment traps, and the way we have favoured industry in previous years, (eg by not increasing thresholds in 1981). Industry is, of course, the main beneficiary of the measures which we announced in the Autumn - and is also helped by the lower exchange rate.

7. The main line of attack on our plans will I think be that we are proposing a "Budget for the Better Off". As you know, I plan to raise all the income tax thresholds and allowances by 8½ per cent over indexation. Using the Government Actuary's earnings assumption of 6½ per cent, this will reduce or match average rates of tax and NIC for 1982-83 for all those contracted-in. But the perceived effect of course is to confer the greatest benefit on the better off and critics will seize on the point that the immediate effect of the Budget changes will be that at fixed levels of income (the so-called static comparison) taking the changes in tax with the NIC increases, married men on salaries of less than £16,000 a year will gain only up to £100 in 1983-84 (and some single people or a few on contracted-out schemes will actually lose.) Yet a married man on £30,000 a year will gain some £600.

8. The increase in the mortgage interest relief ceiling will also give most benefit to the better off. And no doubt our critics will add our plans for social security upratings to their indictment.



9. But there is no sensible way of preventing the perceived effect of increases in the income tax thresholds. One could in theory increase the higher rate bands less than the basic rate thresholds - or even freeze them, as happened over many years in our political youth. But that allows inflation to make the rate structure even more steeply progressive than it already is, and would be wholly wrong. Even if we were to do no more than index the higher rate bands, our £30,000 a year married man would still gain by about £450, and we should scarcely have blunted our opponents' attack. The truth is that all the thresholds and bands suffered similarly from the absence of indexation in 1981; and that all should be corrected now if we are to restore the rate structure - though not yet the levels - set in my 1979 Budget.

10. All this increases the political importance of a number of - not very costly - other measures, viz the increase in child benefit to £6.50, which is above the April 1979 level; the unemployment package we have discussed, together with action on unemployment benefit; extension of the widow's bereavement allowance; removal of the invalidity trap, and so on - the full list is in table 2 of Annex B below. Another useful counter-weight to criticism is the group of minor measures against corporate tax avoidance and fringe benefits listed in table 6 at Annex B.

11. On the positive side, for business and enterprise I am proposing packages of measures to help small and new businesses - including a major simplification and extension of the Business Start-up Scheme, now extended to all existing unquoted companies; new technology - including a £100 million re-introduction of the SEFIS scheme; the construction industry; and wider share ownership. This is all in addition to the further $\frac{1}{2}$ per cent cut in NIS which we discussed some weeks ago: I am sure that it is politically necessary to cope with the "pure" industrial lobby, which has significant backbench support, not least in the West Midlands.



... 12. I attach at Annex A a summary of the costs of the main proposals. Annex B lists the minor items. You may also wish to glance at the commentary by officials at Annex C.

13. I am sending you a separate note on the oil taxation proposals which I have agreed with Nigel Lawson.

(G.H.)

4 March 1983

£ million

	1983-84		1984-85	
	PSBR	REVENUE	PSBR	REVENUE
<u>Individuals</u>				
Personal Allowances	1010	1170	1060	1490
Housing and Home Ownership (Table B1)	80	115	65	105
Social Security (Table B2)	75	125	190	320
Unemployment (Table B3)	25	55	40	75
	<hr/>	<hr/>	<hr/>	<hr/>
	1190	1465	1355	1990
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Businesses and Industry</u>				
Corporation Tax	35	40	60	70
National Insurance Surcharge	200	220	300	400
Small Firms and Enterprise (Table B4)	25	35	130	165
Technology and Innovation (Table B5)	30	40	50	80
	<hr/>	<hr/>	<hr/>	<hr/>
	290	335	540	715
	<hr/>	<hr/>	<hr/>	<hr/>
<u>North Sea Oil</u>	105	120	85	100
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Specific Duties</u>	(10)	(10)	(10)	(10)
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Miscellaneous (Table B6)</u>	-	-	(30)	(45)
	<hr/>	<hr/>	<hr/>	<hr/>
GRAND TOTAL	1575	1910	1940	2750
	<hr/>	<hr/>	<hr/>	<hr/>

Note 1: The measures include both tax and public expenditure elements. For tax the costs shown are the excess over indexation; for public expenditure the excess over what is already provided in the PEWP.

2: The figures shown are rounded and may still vary marginally. The specific PSBR costs shown for each group of measures is necessarily approximate.

TABLE 1

HOUSING AND HOME OWNERSHIP

£ million

	<u>1983-84</u>	<u>1984-85</u>	<u>Full Year</u>
1. Enveloping*	50	nil	-
2. Mortgage Interest Relief ceiling - increase to £30,000	50	85	60*
3. Improvement grants*	10	10	-
4. Stock relief: householders part exchange simple scheme	under 1	5	5
5. Self-employed second home mortgage interest relief	2	5	5
Revenue costs	52	95	70
Public expenditure costs	60	10	-
GRAND TOTAL	112	105	70
Taken as	115	105	

Note: Items marked * are public expenditure

* Interesting! We were
given £50-75m for 1983-84
, £75m-100m for 1984-5.
and £100-200m "eventual"
cost in the Chancellor's
paper.

PLS.

SOCIAL SECURITY

£ million

	<u>1983-84</u>	<u>1984-85</u>
1. Abolition of £25,000 limit for CTT exemption on gifts to Charities	under 1	under 1
2. Deeds of Covenant - increase in ceiling for higher rate		3
3. Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1
4. Extension of widow's bereavement allowance	25	30
5. Raise cut-off for SB resources to £3,000 *	2	7
6. Raise cut-off for SB single payments to £500 *	1	3
7. Real increase in therapeutic earnings limit *		
8. New mobility supplement for War Pensioners *		
<u>Less housing benefit savings</u>	(2)	(6)
9. Restoration of 5 per cent abatement in UB *	22	59
10. Increase child benefit to £6.50 per week, plus corresponding rise in one parent benefit *	74	212
11. Removal of invalidity trap *	4	14
Revenue costs	25	34
Public expenditure costs	101	290
GRAND TOTAL	126	324
Taken as	125	320

* Public expenditure items. Costs are those over and above amounts provided for in the White Paper

Note:
not abated
by 2.7%
MLD

UNEMPLOYMENT

£ million

	<u>1983-84</u>	<u>1984-85</u>
DHSS early retirement (automatic credits 2, long-term SB 22)*	24	24
Enterprise allowance: cash limited nationwide scheme, plus spill over (gross)*	25	25
Part-time JRS from 62* <i>(subject to the Chief Secretary's agreement)</i>	5	25 <i>/</i>
GRAND TOTAL	<hr/> 54	<hr/> 74
Taken as	<hr/> 55	<hr/> 75

Note: Items marked * are public expenditure

/ £25 million is provisional estimate

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

£ million

	<u>1983-84</u>	<u>1984-85</u>	<u>Full Year</u>
1. Business Expansion Scheme	nil	75	75
2. Loan Guarantee Scheme*	nil	nil	-
3. Wider share ownership	20	30	40
4. Capital Gains Tax (see note 1)			
a. monetary limits	nil	1	1
b. retirement relief	nil	1	4
5. VAT registration thresholds	5	10	10
6. De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7. Acceptance credits	1	1	1
8. Capital Transfer Tax (see note 2)	8	18	20
9. Zero/deep-discounted stock	neg	15	15
10. Relief for interest, employee buy-outs	1	1	2
11. Tax treatment of interest paid by companies to non-residents	under 1	under 1	10
12. Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
13. DLT - extension of own-use deferment	nil	under 1	4
14. Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
GRAND TOTAL	36	163	208
Taken as	35	165	

Note: Items marked * are public expenditure

1. The cost of these CGT measures when statutory indexation is added is nil, 5 and 15 million.
2. Indexation of CTT costs 15, 30 and 45 respectively. The additional costs shown for item 8 are for rounding up the indexed thresholds, for extending the instalment period from 8 to 10 years, and for increasing reliefs on let land and unquoted companies to 30 per cent.

TECHNOLOGY AND INNOVATION

£ million

	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
1. Extension of transitional period for capital allowances - films	nil	nil	30
2. Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3. SEFIS*	20	40	40
4. Information technology*	5	8	11
5. Innovation linked investment*	5	15	20
6. Advisory services*	9	6	6
7. Science Parks* (included above)			
	<hr/>		
Revenue costs	nil	10	45
Public expenditure costs	39	69	77
	<hr/>		
GRAND TOTAL	39	79	122
	<hr/>		
Taken as	40	80	
	<hr/>		

Note: Items marked * are public expenditure

The cost of the whole package over three years is £240 million

MISCELLANEOUS	£ million (yields)		
	<u>1983-84</u>	<u>1984-85</u>	<u>Full Year</u>
1. Car and car fuel scales - 15 per cent average increase	nil	(25)	(30)
2. Cheap housing for directors	nil	nil	(1)
3. Life assurance: chargeable events: secondhand bonds	under (1)	under (1)	under (1)
4. CGT: non-resident trusts	under (1)	under (1)	under (1)
5. CTT: remove special deemed domicile rule for Isle of Man etc	1	2	2
6. Group relief: avoidance (BL)	nil	(10)	(10)
7. DLT: disposals by non-residents	(1)	(2)	(2)
8. Taxation of international business. Offset by Double Taxation Relief against Corporation Tax	nil	nil	nil
9. Beneficial mortgage loans from employers	nil	under (1)	under (1)
10. Directors PAYE tax	nil	(10)	(10)
11. TSBs to be treated as bodies corporate	3	10	10
	<hr/>		
GRAND TOTAL	2	(47)	(52)
	<hr/>		
Taken as	-	(45)	
	<hr/>		

INDIVIDUAL MEASURES

Personal Allowances

1. All thresholds and allowances (including the higher rate and IS thresholds) to increase by 14 per cent, or 8½ per cent above the statutory minimum. This will for the great majority of people (but not quite all) more than outweigh the increased National Insurance Contributions which come into effect in April.

Social Security etc.

2. Child benefit to increase to £6.50 per week, taking its value above the level inherited in 1979. There will be a parallel increase in one-parent benefit. The 5 per cent abatement in unemployment benefit, effected in 1980, to be restored; widows bereavement allowance to be extended to a second year; the invalidity trap to be eliminated. Should go some way to offset the criticism on general social security upratings.

Housing and Home Ownership

3. This group includes the increase in the Mortgage Interest Relief ceiling from £25,000 to £30,000. Also included are proposals to provide more for Home Improvement Grants, and also to provide money for so-called "enveloping" schemes, under which local authorities repair the external fabrics of complete streets or terraces, as part of helping counter the problems of housing decay.

Unemployment

4. The measures here include proposals in respect of early retirement, a nationwide extension of the Enterprise Allowance Scheme, and making the Job Release Scheme available to part-timers from the age of 62.

Corporation Tax

5. Reduce the small companies rate from 40 per cent to 38 per cent, and alter the limits so as to reduce the transitional marginal rate.

National Insurance Surcharge

6. Cut NIS by $\frac{1}{2}$ per cent for the private sector only, from next August. Complete abolition of the Surcharge is the single measure most frequently and forcefully pressed in industrial representations.

Small Firms, Enterprise and Wider Share Ownership

7. A major extension and simplification of the Business Start-Up Scheme, to be called the Business Expansion Scheme. The principal change is the extension of the present scheme to provide tax relief for equity investment not just in new companies but in all qualifying established unquoted trading companies. (Following a review, other changes are being made to make the scheme less restrictive.) Also further measures to encourage wider share ownership, improvements in the Capital Transfer Tax regime, an extension of the Loan Guarantee Scheme, and an increase in the VAT registration threshold.

Technology and Innovation

8. The major measure is the re-opening, at a cost of £100 million over the next three years, of the Small Engineering Firms Investment Scheme (SEFIS). Also included in the total technology package of £240 million over three years is help with Information Technology, Innovation Linked Investment and a provision for extension of Science Parks. It is hoped that this package will particularly benefit the West Midlands.

Other

9. The measures here comprise mainly action on corporate anti-avoidance and personal fringe benefits.

10. On anti-avoidance, the intention is:-

- (i) to counter the "British Leyland" device for avoidance through group relief. Treasury Ministers are satisfied that the proposals will not hamper genuine business transactions.
- (ii) to legislate on tax havens but not implement the new measures before 1984, and to provide for Double Taxation Relief to be allowed from the same date against the full corporation tax liability before ACT is deducted. This is one of the

changes most widely requested in representations on our corporation tax green paper. Taken together the two changes do not involve any net increase in the burden of tax on international business, but a switch in the burden away from those who remit profits to the UK towards those who accumulate surplus cash balances in tax havens overseas. The tax havens element in the package has been the subject of extensive consultation by Mr Wakeham: he and the Chancellor are satisfied that the proposals in their latest form meet every reasonable representation that has been made during the consultative process.

I understand
that Alan
Walters is
content

11. On fringe benefits, the intention is:-

- M/S
- (i) from 1984/85, to increase car and car fuel scales for company cars used privately by higher paid employees by 15 per cent on average. (But the scales will still be well below any realistic estimate of the costs of running a car.)
 - (ii) on Directors PAYE tax, to deal with cases in which close companies pay directors or higher paid employees a sum without deduction of tax from him and so account for insufficient tax to the Revenue. To do this, tax accounted for by the company will be deemed to be a benefit in kind to the director.
 - (iii) to tax as a benefit expensive accommodation provided by companies to employees.
 - (iv) a deficiency in the present rules will be remedied to prevent employees getting both tax relief up to the limit on a commercial mortgage and the benefit of a commensurate interest free loan from the employer for house purchase.

Several other proposals go in the opposite direction:-

- (i) the extension from 20 per cent to 30 per cent of the CTT reliefs for minority holdings in unquoted companies, and for let land.
- (ii) the removal of the special "deemed domicile" CTT rule applying to those emigrating to the Channel Islands and the Isle of Man. (The Home Secretary has pursued this case for some time.)
- (iii) allowing the tenant self-employed (publicans and farmers) to have interest relief on "second" home mortgages.

Specific Duties

12. These will be increased generally in line with inflation, though with some small real decreases in cigarettes, petrol and derv, and, largely due to rounding, some small real increases in beer, cider and VED. The Chancellor's minute to the Prime Minister of 24 February set out details of the proposals for petrol, derv and VED.

Oil

13. The Chancellor's minute of 4 March reports on the package of measures agreed with the Secretary of State for Energy.

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO :

PRIME MINISTER

THE BUDGET

In 12.3 minute I set out the which remain along the lines we
~~I have now completed my Budget plans, / They may have to be~~
~~have previously discussed. I envisage no major changes~~
~~amended if there is any substantial change in the oil market~~
~~unless of course there were a very substantial fall to be~~
~~over the next few days, but subject to that this note sets~~
~~out my thinking.~~
 though a very substantial further fall in the oil price would necessitate a
 further review.

? omit [2. Overall I shall continue with the monetary and fiscal policies we have adopted hitherto, with a view to sustaining and encouraging the recovery.

? omit 3. [There are some hopeful signs, but there are also some serious risks, most notably on oil, as already mentioned. Thus I shall need to lean on the cautious side, not only from this point of view but also for fear of adverse reaction in the present very sensitive markets. I also have well in mind the domestic political situation; there is no need for a Budget which is over severe but on the other hand we want so far as possible to avoid charges of electioneering - though of course these will be levelled whatever we do.]]

2. ^{plan to hold to} I shall ~~abide by~~ the figures for monetary growth set out in the ¹⁹⁸² Medium Term Financial Strategy (MTFS) ~~published at the time of my last Budget - that is,~~ ^{ie} ranges of 7-11 per cent for next year, 6-10 per cent for 1984-85 and 5-9 per cent for 1985-86. As before these paths apply to both the narrow and broad measures of money. ~~Stated policy in respect of the exchange rate will remain unaltered.~~

3. At the time of ~~the~~ ^{the} last Budget, and in ~~the~~ ^{last} Autumn Statement, I proposed a figure of 2 1/4 per cent of GDP for the Public Sector Borrowing Requirement (PSBR) for 1983-84, and I plan to hold to this ~~two~~ ^{and I plan to hold to this}. We shall publish a forecast ~~figure of 3% for this year,~~ ^{figure of 3% for this year,} by this, and to continue the downward trend by going for a 2 1/4 per cent of GDP for 1984-85. ~~In nominal terms this leads to showing £8 billion for each of the two years. [This is likely to be a little bigger than the latest estimate for the current year 1982-83 which we shall disclose at Budget time].~~ ^{The 1984-85 figure, taking account of the budget measures and allowing for a future fiscal adjustment of £0.5 billion, will be 2 1/2%. We shall continue to show a downward trend, though the nominal figures will be £8 billion in all 3 years.}

4. On the basis of the present forecast ~~this~~ ^{or a £8 billion PSBR next year} gives scope for tax reductions next year with a PSBR cost of ~~around~~ ^{some} £1 1/2 billion, over and above revalorisation of thresholds and excise duties. This figure however understates the total reductions we shall have effected for the year 1983-84 because it does not include the costs of the measures I announced in the Autumn. ~~[By way of comparison, the total reductions effected last year had a PSBR cost of around £1.3 billion].~~

5. I attach a ~~note~~ ^{summary of the} which ~~summarises~~ ^{summarises} my detailed proposals and ~~comments~~ ^{comments} briefly on them. Where they have a public expenditure cost ~~they~~ ^{it} will be accommodated within the Contingency Reserve, and will not lead to any increase in ~~plan~~ ^{plan} totals. ~~Most of them affect 1984-85 also, but taken with the PSBR I propose I shall be able to show at the time of the Budget a small positive "fiscal adjustment" for that year.~~

6. As you see, ~~this will be a Budget where the greater part of the initial benefit goes to individuals rather than to industry. In my view this is right, having regard to the need to do something about the problems of the poverty and unemployment traps, and to the way we have favoured industry in previous years, (eg by not increasing thresholds in 1981). I have also borne in mind the help for industry for 1983-84 which we announced in the Autumn, and the way the lower pound helps industry as against individuals.~~ ^{We both think this is right, given the need to do something about the problems of the poverty and unemployment traps, and to the way we have favoured industry in previous years, (eg by not increasing thresholds in 1981). I have also borne in mind the help for industry for 1983-84 which we announced in the Autumn, and the way the lower pound helps industry as against individuals.}

7. It seems I ought to alert you to what will probably be the main line of attack on our proposals. I plan to raise all the income tax thresholds and allowances by 5/2% (lower inflation) ~~and~~ ^{and} the bands are further to compress. The bands would be a mistake. Yet the effect is of ~~the~~ ^{the} greatest benefit on ~~the~~ ^{the} better off.

Nevertheless, these proposals will lead to some attack. ~~For example, if one takes account of taking the changes in tax with the NIC increases, a married man on £12,500 a year will gain £6 in 1983-84. (and lose if~~ ^{by a small amount}

~~he is single or in a contracted-out NIC scheme,~~ ^{or one on} ~~whereas~~ ^{will lose at that salary level). Yet}
 a married man on £20,000 will gain ~~nearly £350.~~ ^{some £600} (The increase
 in the Mortgage Interest Relief ceiling will also help the
 better off ~~married man earning £30,000 and with a~~ ^{The gain to the} ~~£30,000 mortgage)~~ ^{rises to £750 if he has a}
~~will benefit by about £750.~~ ^{So it is to} There is
~~risk therefore that the Opposition will call this a~~
~~"Budget for the better off", and~~ ^{And} ~~no doubt, what we propose~~ ^{our critics will add our plans}
~~in respect of social security upratings will be added to~~ ^{for}
~~the indictment.~~ ^{In order to minimise the effect of this}
 charge, therefore, I attach importance to the various
 measures which I propose in respect of tax avoidance,
 fringe benefits, and the like. We must have these in
 order to help give the total picture a balanced political
 appeal.

8. I don't think we
 need lose much sleep
 over this, ~~but it means~~
~~we can point to~~
 but it increases the
 political importance
 of the major increase
 in child benefit which
 I envisage, and
 the two together will
 act in an unemployment
 benefit, widows
 bereavement allowance,
 and the invalidity trap.
 Another useful
 through ~~minor~~ counter-weight
 is the ~~various~~ group of
 minor measures against
 fringe benefits and
 corporate tax avoidance.
~~an ~~some~~ that~~
~~detail later~~

10. This is not an easy Budget, for a number of reasons.
 But overall and to a great extent in detail what I propose
 will not be out of line with what most commentators expect.
 Although the detailed measures will be attacked on the
 grounds I describe, I am convinced that overall this is
 the right approach in both economic and political terms.

9. I attach ~~to the~~
 a summary of the
 costs of ^{all} the individual
 proposals, together with
 a commentary by officials.

10. I shall send you a separate
 note on the ~~oil~~ ^{total} proposals
 which ~~Nigel Lawson~~ ^{have}
 agreed with Nigel Lawson.