

PRIME MINISTER

1. Please see a number of minutes from the Chancellor; and one from Alan Walters.

2. I am shocked at the extent to which the NIC increases announced in the Autumn Statement offset the generous threshold increases the Chancellor is proposing. In spite of the threshold increases many (single) people will be paying more in tax - plus - NIC next year than they did this year. An earlier draft of the Chancellor's minute (not intended for No. 10) had the following example: "a married man on £12,000 a year will gain £6 in 1983-84; a single man or one on a contracted-out NIC scheme will lose at that salary level [By contrast, a married man on £30,000 will gain some £600 (or £750 if he has a mortgage of £30,000 plus)]".

3. I have enquired about the threshold increases which would be required in order to reduce the burden of taxation plus NIC (i.e. income tax + NIC as a proportion of gross earnings) below the level before May, 1979. At indexation plus 8½ per cent the burden of tax will be higher than in May, 1979 after the Budget for single and married people at half-average earnings, average earnings and twice average earnings. I have not enquired above this level. Indexation plus 10 per cent would just maintain the burden unchanged from 1979 for those on twice average earnings but the burden would be increased for all those less well off.

4. If you cut out the ½ per cent NIS reduction (after all, there will be a NIS reduction anyway in April, as announced in the Autumn Statement) you would have £200 million to apply to threshold increases - it would enable you to go up from indexation + 8½ per cent to indexation + 10 per cent. Still not enough, I fear, to enable you to demonstrate that you had reduced the burden of taxation since the Election. And you may need the NIS £200 million yet to repair the hole in the Budget which would be caused by a reduction in the oil price to, say, \$28 a barrel.

MUS

4 March, 1983