

PRIME MINISTERTHE BUDGETPersonal Taxes

The Chancellor's proposals for Rooker-Wise plus 8½% on all thresholds together with the increase from April 1983 in the upper earnings level for NIC (from £220 to £235 a week) creates some opportunities for opponents to attack the Budget.

Raising of the upper earnings level and NIC means that tax plus NIC will be greater in cash terms in 1983/84 than in 1982/83 for many of those who fall in the earnings range from the UEL (upper earnings limit) to the top of the 1982/83 basic rate band. The increase of Rooker-Wise plus 8½% reduces the cash loss but does not eliminate it. (~~See Annex 1 attached~~) Furthermore, even if we increase the thresholds by Rooker-Wise plus 10% it will only reduce the loss slightly. Indeed to make sure no-one loses requires more than Rooker-Wise plus some 20+%.

This comparison, however, is on stable earnings from 1982/83 to 1983/84. If we allow an average increase in the rate of earnings of, say, 6½%, then the number who lose and the amount of loss falls very considerably. But it is not entirely eliminated even under the Rooker-Wise plus 10%, although in that case on my calculation the loss will be less than 20 pence per week for Rooker-Wise plus 10% and about 40 pence for Rooker-Wise plus 8½%.

The lesson is that with our present UEL arrangements combined with the standard rate band, we cannot produce a threshold adjustment in the system which will ensure that no-one can lose. Certainly this is true on static money incomes (that is to say reduced real incomes) and even under conditions where money earnings increase by 6½% per annum, there are some losers.

NIS

The Chancellor is proposing another ½% reduction on the usual grounds that industry put it first and that we are committed to abolition. I suggest that in view of the reductions in interest rates and sterling, we might now regard the NIS as the "optional extra". If, therefore, there is a sudden fall in the oil price, or

/some similar

some similar revenue reducing event, we could eliminate the NIS reduction from the package. This will give a revenue saving of £220m in 1983/4 and £400m in 1984/5.

Corporation Tax, etc

The changes here are small, in revenue terms, but they do hang together with the small firms and enterprise package. I think it would not be wise to try cheeseparing here. All the other changes are quite small in terms of revenue, except for construction, and there is a good case for the building and contracting industry.

Summary

I think that the budget is broadly along the lines which you wanted. I wish we could have done more on thresholds, but RW + 8½% is as far as we can prudently go.



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