

CH/EX REF NO F70
COPY NO 1 OF 11 COPIESTreasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

I am writing to let you know what I have in mind for indirect taxes in the Budget.

2. Given the severe constraints in this year's Budget, I badly need to increase what little scope I have to raise thresholds by a further rise in indirect taxation. At the same time, it is clearly important to limit the effect of any increases in indirect taxes on the RPI. Accordingly, I have in mind a package that would raise in a full year some £300m over and above indexation, but would do so without a damaging effect on prices.

3. On the motoring taxes, I propose that the extra burden should fall on Vehicle Excise Duty. Nicholas Ridley and I have agreed that the duty on cars should be raised to £100. This is more than twice revalorisation, but it provides substantial extra revenue for a comparatively low RPI effect. We have also agreed that the increase in VED on goods vehicles should average out at 1½ times revalorisation. For petrol and derv I propose increases strictly in line with indexation, giving an extra 4.1p a gallon on petrol and 3.5p on derv. This should minimise both the impact on business costs and criticism of rising petrol prices by the rural motoring lobby.

4. For drinks, I have in mind an increase of 1½p a pint on beer, 6p a bottle on table wine, and 10p a bottle on fortified wine. These increases are about 1½ times revalorisation. For spirits, I propose an increase of only 10p a bottle, well below revalorisation, to recognise the difficulties on the Scotch whisky industry, a home producer of some importance to employment in Scotland.

BUDGET SECRET



5. As to tobacco, I intend to make an increase of 6p for a packet of 20 cigarettes. This is again about 1½ times revalorisation but will be generally accepted on health grounds. I would propose no increase in the duty on pipe tobacco or cigars, both of which are produced mainly in areas of high unemployment.

6. These increases would yield some £250m in a full year, over and above strict revalorisation. The RPI impact will be about 0.5 per cent, of which 0.4 per cent represents revalorisation and 0.1 per cent the additional revenues. This is less than the increase of about ¾ per cent produced by the last Budget (including the VAT changes) so that the effect of the proposals would be to produce a slight fall in the annual figure.

7. Finally, VAT. Whatever the long-term arguments for shifting more of the burden to VAT, I believe it would be wrong to make a big move in that direction this year. I therefore propose only to bring newspaper and magazine advertisements (but not newspapers and magazines themselves) into the tax. This would raise £50m in a full year, with no impact on the RPI. I am also seriously considering a small change in the VAT treatment of credit card companies which would increase revenue by up to £20 million a year.

I would be grateful to know if you would be content with these changes.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

26 February 1985

~~CONFIDENTIAL~~
~~BUDGET SECRET~~

DSG

file



Copy No. 2 of 2 copies

10 DOWNING STREET

From the Private Secretary

28 February 1985

INDIRECT TAXES

The Prime Minister has seen the Chancellor of the Exchequer's minute of 26 February setting out his proposals for indirect taxes. These were discussed at their meeting today and were agreed.

Andrew Turnbull

Mrs. Rachel Lomax,
H.M. Treasury.

DG2ADU

BUDGET SECRET