

BUDGET SECRET



COPY NO 1 OF 6 .

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PRIME MINISTER

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

I have reached the view that it would not be sensible to do more than revalorise the excise duties as a whole this year. There is no prospect of a major offsetting reduction in income tax. So I see little point in jeopardising the good prospect for a further significant reduction in inflation by adding unnecessarily to the RPI. But I think it is attractive to take the opportunity to reduce sharply the number of individual tax increases in the Budget, rather than simply uprating all the duties by the 5.7 per cent indexation factor.

As far as the motorist goes, I propose to put up petrol duty by 7½p a gallon and the duty on derv by 6½p a gallon. In each case this is about 2p a gallon more than revalorisation - but far less than most people are predicting. This will enable me to leave all the main VED rates unchanged.

Moreover, given the sharp fall in the oil price that has already occurred, and the slowness of the oil companies so far to reflect this in lower prices at the pump, there is no need for fuel duty increases of this order to be passed on to the consumer at all.

As Norman Fowler reminds me every year, there is considerable pressure on health grounds to increase the tax on cigarettes by appreciably more than revalorisation. I therefore propose an increase equivalent to approximately 11p on a typical packet of 20, with, as last year, no increase in the tax on pipe tobacco and cigars.

Simple revalorisation would be about 5p.



This will mean that there is no need for any increase at all in the duty on alcoholic drinks - for the first time since 1979. The prize here will be the absence of any increase in the tax on beer - which, you will recall, I had to put up by more than I would otherwise have done in 1984, to conform with the EC infraction judgement. The standstill on whisky will, of course, go down well in Scotland.

The overall impact of this package on the RPI, as conventionally calculated, will be to add about 0.5 per cent, entirely reflecting the effect of revalorisation. This is the same as last year's Budget, so there will be no change in the annual figure on this account.

I also propose to simplify the indirect tax system slightly by abolishing one or two of the minor oil duties and recouping the small loss of revenue from a $\frac{1}{2}$ p increase in the duty on gas oil. This has been unchanged since 1980, leaving gas oil clearly under-taxed at the present time, relative to the rest of the EC. The duty on heavy fuel oil would once again remain unchanged.

So far as VAT is concerned, with the exception of one or two minor concessions to charities - relief on their newspaper advertising, and on medicinal products supplied to them - I am proposing to make no changes here, either to the rate or the base. However, I do intend to increase the VAT threshold to £20,500, in line with revalorisation, in spite of the Commission's contention (which we reject) that it is already higher than Community law allows.

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

Yes no
? RPI at 0.5%
what will be the
revalorisation's not?
taking full increase?
mf

N.L.

26 February 1986

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10 DOWNING STREET

From the Private Secretary

26 February 1986

BUDGET: INDIRECT TAXES

The Prime Minister is content with the proposed changes to the indirect taxes set out in the Chancellor's minute to her of today.

(David Norgrove)

Mrs. Rachel Lomax,
HM Treasury

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