



10 DOWNING STREET

From the Private Secretary

PRIME MINISTER

You saw the Treasury's note of 16 February last week but did not have time to discuss it with the Chancellor.

I suggest the main points to raise tomorrow are:

1. The overall fiscal stance

Is the Chancellor still sticking to the overall stance and package in the 2 February note? Does the recent evidence of ^{see} FLTB overheating, and in particular the prospective February trade figures, point to a more cautious stance?

(N.B. Not to be revealed to the Chancellor that you know this.)

I gather the internal Treasury forecasts now suggest a PSBR surplus of £5 billion even after the package. ~~So~~ He won't reveal that "true" figure to you, but may say that because the sums have improved, he thinks personal allowances could be raised by 10% rather than doubled by doble-indexation. That would cost another £400 million, and would respond to the main point of the Cabinet comments. But I think this would be very dangerous. All the risks are that the package is already too loose - if anything you should be urging him to tighten it e.g. by more than indexing excise duties.)



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2. Gainers and Losers

Talk through the main effects shown in the 16 February paper, namely:

(at A)

- although the main income tax changes imply that gains rise steadily as you go up the income scale, there could be some net losers with big company cars (see para. 3)
- some losers on CGT (see para. 4).
- no immediate losses on mortgages and covenants/maintenance, because changes will not apply to existing arrangements. But the main "loser" complaint from the whole package will come from those currently getting 2 lots of mortgage relief who will lose it when they next move house.
- potential loss for breadwinner wives will be prevented by transitional arrangements (see para. C).

3. Maintenance and Covenants

Are you happy with the details? (They look OK to me).
in the 16 February note.

4. Independent Taxation

Are you happy with the details in the 16 February note? (Again they look OK to me).

Budget Solicitor



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(3)

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5. Further Details

Is there any other aspect of the package on which you want to see further details? - e.g. the mortgage interest charge on which the 16 February note is a bit skimpy.

RRC6

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