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BUDGET BROADCAST
by
THE CHANCELLOR OF THE EXCHEQUER

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THE RT.HON.NIGEL LAWSON,MP (Chancellor of the Exchequer): One of the things that always surprises visitors to Britain is our strange attitude to success. It's almost as if we thought it was bad manners to admit we've done well in anything. Certainly it's true about the British economy.

We find it hard to accept that whereas less than ten years ago we were one of the weakest of the industrial nations, today we're one of the strongest.

Anyone would think our recovery was something to be ashamed of; some kind of dark secret. But like so many secrets these days it's finally found its way into the newspapers. Just about every recent survey, whether by British industry or by independent experts, finds that our economy is sound and strong and that our prospects are better than they've been for a generation.

Perhaps the clearest way to see Britain's transformation over these past eight years after decades of relative failure is to look at the economic growth in the leading European countries.

As you can see, during the sixties we were bottom of the league. Again, during the seventies, we were still bottom. But in the eighties, we've been right at the top of the league -- the fastest growing economy of all our main European rivals. And if you look at our national output over the years you can see just why.

After all the stops and starts of the seventies, when we seemed always to be lurching from one crisis to the next, we've at last had six successive years of steady growth, taking us far beyond anything we've achieved before. And this has meant higher living standards for pretty well everyone.

Over the past eight years, the take-home-pay of a man on average earnings has gone up by almost twenty percent more than the cost of living. Compare that with what happened when we last had a Labour government. In those five years, the real take-home-pay of the man on average earnings didn't go up at all -- in fact he was worse off at the end of the Labour government than he was at the beginning.

But the key to getting the British economy right has been the battle against inflation. There was that terrible peak under the Labour government in 1975, and it was rising again when we took over in 1979. Since then, we've brought it down to around four percent. And that combination of falling inflation with rising output is a blessing that Britain hasn't enjoyed at least twenty years. But there's one yardstick that's even more significant, at least as a pointer to the future. The curse of Britain's manufacturing industry throughout the sixties and seventies was low productivity. Our competitors were able to

to produce more goods than we could with the same number of people.

During the sixties, we were bottom of the productivity league. And during the seventies, we were still bottom. But now, in the eighties, we're right at the top of the league. And if our productivity is growing faster than our rivals' then that's great news for the years to come.

Of course the toughest problem for Britain and, indeed, for most other industrial countries is unemployment. That's because so many more people have been entering the job market. It isn't because new jobs aren't being created; they are. Indeed, jobs are another of Britain's growth areas. Since 1983 France has lost almost a-quarter-of-a-million jobs. Italy has gained almost a-quarter-of-a-million jobs, and West Germany has created half-a-million jobs. But here, in Britain, we now have a million more jobs than we had in 1983 -- a net gain of a million jobs more than in all the others put together. And unemployment is now firmly on the way down.

So that's the background to today's Budget. It's not just the result of one good year; it's the reward of eight years of steady policies by the government coupled with the tremendous energy and enterprise of the British people when they're allowed and encouraged to give of their best.

But there's a lot still to do, and today's measures will help us further along the road. In my Budget today, I've once again been able to cut income tax -- this time by t'pence in the pound which will increase the take-home-pay of a man on average earnings by more than three pounds a week. And I've done so without putting any extra tax at all on petrol, beer or tobacco.

In the years ahead, I want to get income tax lower still, because that's the only way to provide real incentives and to stimulate enterprise. And that in turn is the only practical route to an economy that can afford the better public services we all want to see. And above all, to more jobs.

A lot of the new jobs will be in small businesses, and that's why I've also made a number of changes to help small businessmen and businesswomen specially with VAT. And I've annoucned a brand new tax relief for those whose pay is directly linked to the profit their company makes. This could easily be worth the same as an extra penny off income tax to the employees concerned. And it will give people a greater personal interest in the success of the firms where they work. And it should also mean that companies will lay fewer people off when profits fall and take more people on when profits rise. And again, I've introduced a tax relief for personal pensions which is a way of giving everyone the opportunity to make their own pension arrangements independent of their employers. And all these tax reductions come on top of the the substantial extra spending on health, on education, and on other priority services which I announced last November. All these measures are things we wanted to do for a long time, but they're only possible now because of the solid base and growing strength of Britain's economy. And we have to advance sensibly because there's always the unforeseen. If we hadn't had this firm base, then the coal strike in 1984 and 1985, or the collapse of our oil revenues in 1986 could have knocked us right off course. In fact we were strong enough to ride out both those storms. And we're now enjoying the sort of success we haven't known since the war. But we can't relax or let up. It's taken
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eight long years to get ourselves into this enviable position. It would be all too easy to chuck it away and return to the high spending, high borrowing binges of the sixties and the seventies, and eight years of hard fought gains would all be thrown away. But if we stick to the steady sound policies of the past eight years, then we can all look forward to a new era of security and prosperity and of pride in the achievement of our country.

END OF BROADCAST.

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**RESOLUTIONS TO BE MOVED BY
THE CHANCELLOR OF THE
EXCHEQUER**

17th MARCH 1987

Mr Chancellor of the Exchequer

PROVISIONAL COLLECTION OF TAXES: That, pursuant to section 5 of the Provisional Collection of Taxes Act 1968, provisional statutory effect shall be given to the following Motions:—

- (a) Unleaded petrol (Motion No. 2); and
- (b) Vehicles excise duty (farmers' goods vehicles) (Motion No. 3).

ARRANGEMENT OF WAYS AND MEANS RESOLUTIONS

1. Amendment of the law.
2. Unleaded petrol.
3. Vehicles excise duty (farmers' goods vehicles).
4. Vehicles excise duty (recovery vehicles).
5. Vehicles excise duty (trade licences).
6. Abolition of general betting duty on on-course bets.
7. Gaming machine licence duty (rates).
8. Gaming machine licence duty (exemptions etc.).
9. Value added tax (credit for input tax).
10. Value added tax (supplies to groups).
11. Value added tax (valuation).
12. Value added tax (issue of securities).
13. Value added tax (supplies received from abroad).
14. Value added tax (tour operators).
15. Value added tax (transfers from the United Kingdom).
16. Value added tax (registration etc.).
17. Income tax (charge and rates for 1987-88).
18. Income tax (indexed personal reliefs etc.): operative date for PAYE.
19. Increased personal relief for those aged eighty and over.
20. Increased relief for blind persons.
21. Relief for interest (limit for 1987-88).
22. Corporation tax (charge and rate for financial year 1987).
23. Corporation tax (small companies).
24. Companies' chargeable gains.
25. Charities.
26. Registered friendly societies.
27. Annuities, etc.
28. Retirement benefits schemes.
29. Income support.
30. Pay as you earn.
31. Underwriters.
32. Foreign partnerships.
33. Companies: material interests.
34. Apportionment of income etc. of close companies.
35. Corporation tax (payment dates).
36. Charges on income.
37. Investment companies.
38. Recognised investment exchanges.
39. Controlled foreign companies.
40. Dual resident companies.
41. Double taxation relief: interest on overseas loans.
42. Advance corporation tax: oil industry.
43. Commodity futures, financial futures and options.
44. Stamp duty (clearance services).
45. Stamp duty (market makers).
46. Stamp duty (Crown exemption).
47. Stamp duty reserve tax.
48. Inheritance tax.
49. Oil taxation: nomination scheme.
50. Oil taxation: market value of oil.
51. Collective investment schemes.
52. Relief from tax (incidental and consequential charges).

1. Amendment of the law

That it is expedient to amend the law with respect to the National Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

- (a) for zero-rating or exempting any supply;
- (b) for refunding any amount of tax;
- (c) for varying the rate of that tax otherwise than in relation to all supplies and importations; or
- (d) for relief other than relief applying to goods of whatever description or services of whatever description.

2. Unleaded petrol

That, as from 6 o'clock in the evening of 17th March 1987,—

- (1) after section 13 of the Hydrocarbon Oil Duties Act 1979 there shall be inserted the following section—

“Rebate on
unleaded
petrol.”
13A.—(1) On unleaded petrol charged with the excise duty on hydrocarbon oil and delivered for home use there shall be allowed at the time of delivery a rebate of duty at the rate of £0.0096 a litre.

(2) For the purposes of this section petrol is “unleaded” if it contains not more than 0.013 grams of lead per litre of petrol or, if the petrol is delivered for home use before 1st April 1990, not more than 0.020 grams of lead per litre of petrol.

(3) Rebate shall not be allowed under this section in any case where it is allowed under section 14 below.”

- (2) in section 24 of that Act (control of use of duty-free and rebated oil) in subsection (1) (power of Commissioners to make regulations) after the words “section 12” there shall be inserted “section 13A”; and

(3) in section 27 of that Act (interpretation) in the definition of “rebate” after the words “section 11” there shall be inserted “13A”;

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

3. Vehicles excise duty (farmers' goods vehicles)

That Schedule 4 to each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972 shall have effect, in relation to licences taken out after 17th March 1987, with the amendments set out below:

But this Resolution shall not authorise the making of amendments which would result in different provisions being in force in different parts of Great Britain:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968:

(1) In Part I, in sub-paragraph (2) of paragraph 6 (farmer's goods vehicle or showman's goods vehicle having a plated gross weight or a plated train weight) in paragraph (b) (weight exceeding 7.5 tonnes but not exceeding 12 tonnes) for “£155” (which applies to farmers' goods vehicles only) there shall be substituted “£175”; and

(2) In Part II, for Tables A(1), C(1) and D(1) (rates for farmers' goods vehicles having plated weight exceeding 12 tonnes) there shall be substituted the Tables set out below:

TABLE A(1)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT
AND HAVING ONLY 2 AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated gross weight of vehicle		Rate of duty		
1. Exceeding	2. Not exceeding	3. Two axle vehicle	4. Three axle vehicle	5. Four or more axle vehicle
tonnes	tonnes	£	£	£
12	13	245	190	190
13	14	340	205	205
14	15	445	205	205
15	17	620	205	205
17	19	—	295	205
19	21	—	395	205
21	23	—	540	295
23	25	—	965	415
25	27	—	—	600
27	29	—	—	880
29	30.49	—	—	1,450

TABLE C(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING ONLY 2 AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1.	2.	3.	4.	5.
Exceeding	Not exceeding	For a tractor unit to be used with semi-trailers with any number of axles	For a tractor unit to be used only with semi-trailers with not less than two axles	For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	280	250	250
14	16	355	265	265
16	18	415	265	265
18	20	485	265	265
20	22	565	330	265
22	23	600	370	265
23	25	690	470	265
25	26	690	520	320
26	28	690	655	430
28	29	725	725	490
29	31	1,010	1,010	630
31	33	1,470	1,470	1,010
33	34	1,470	1,470	1,350
34	36	1,650	1,650	1,650
36	38	1,860	1,860	1,860

TABLE D(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT
AND HAVING THREE OR MORE AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1.	2.	3.	4.	5.
Exceeding	Not exceeding	For a tractor unit to be used with semi-trailers with any number of axles	For a tractor unit to be used only with semi-trailers with not less than two axles	For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	250	250	250
14	20	265	265	265
20	22	330	265	265
22	23	370	265	265
23	25	470	265	265
25	26	520	265	265
26	28	655	265	265
28	29	725	310	265
29	31	1,010	385	265
31	33	1,470	580	265
33	34	1,470	850	330
34	36	1,470	1,220	500
36	38	1,640	1,640	745

4. Vehicles excise duty (recovery vehicles)

That provision may be made for, and in connection with, charging duty in respect of recovery vehicles by reference to an annual rate of £50 under the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

5. Vehicles excise duty (trade licences)

That provision may be made with respect to the rates of duty applicable to trade licences under section 16 of each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

6. Abolition of general betting duty on on-course bets

That—

(1) General betting duty shall not be chargeable on any bet made on or after 29th March 1987 which is an on-course bet within the meaning of Part I of the Betting and Gaming Duties Act 1981 ("the 1981 Act");

(2) Nothing in this Resolution shall affect—

(a) the question whether a person is for the purposes of Schedule 1 to the 1981 Act carrying on a general betting business or engaged in an activity by reason of which he is or may be or become liable for general betting duty, or

(b) the question whether a person is for the purposes of Schedule 2 to the Miscellaneous Transferred Excise Duties Act (Northern Ireland) 1972 carrying on a business which involves or may involve general betting duty becoming payable or engaged in an activity by reason of which he is or may be or become liable for duty.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

7. Gaming machine licence duty (rates)

That, with respect to licences for any period beginning on or after 1st June 1987, for the Tables set out in section 23(1) of the Betting and Gaming Duties Act 1981 there shall be substituted the following Tables:

TABLE A
Small-prize machines

Description of machines authorised by the licence	Duty on whole-year licence
Chargeable at the lower rate	£150 per machine
Chargeable at the higher rate	£375 per machine

TABLE B
Other machines

Description of machines authorised by the licence	Duty on whole-year licence
Chargeable at the lower rate	£375 per machine
Chargeable at the higher rate	£960 per machine

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

8. Gaming machine licence duty (exemptions etc.)

That provision may be made amending Schedule 4 to the Betting and Gaming Duties Act 1981 (exemptions and supplementary provisions relating to gaming machine licence duty).

9. Value added tax (credit for input tax)

That, in relation to supplies and importations made on or after 1st April 1987, the Value Added Tax Act 1983 shall have effect with the following amendments:

(1) In section 15, for subsections (1) to (3) there shall be substituted—

“(1) The amount of input tax for which a taxable person is entitled to credit at the end of any period shall be so much of the input tax for the period (that is input tax on supplies and importations in the period) as is allowable by or under regulations as being attributable to supplies within subsection (2) below.

(2) The supplies within this subsection are the following supplies made or to be made by the taxable person in the course or furtherance of his business—

- (a) taxable supplies;
- (b) supplies outside the United Kingdom which would be taxable supplies if made in the United Kingdom;
- (c) supplies which section 35 below provides are to be disregarded for the purposes of this Act and which would otherwise be taxable supplies.

(3) The Commissioners shall make regulations for securing a fair and reasonable attribution of input tax to supplies within subsection (2) above, and any such regulations may provide for—

(a) determining a proportion by reference to which input tax for any prescribed accounting period is to be provisionally attributed to those supplies;

(b) adjusting, in accordance with a proportion determined in like manner for any longer period comprising two or more prescribed accounting periods or parts thereof, the provisional attribution for any of those periods; and

(c) the making of payments in respect of input tax, by the Commissioners to a taxable person (or a person who has been a taxable person) or by a taxable person (or a person who has been a taxable person) to the Commissioners, in cases where events prove inaccurate an estimate on the basis of which an attribution was made.”

(2) In section 6(1), for the words “the charge to tax” there shall be substituted the words “this Act”.

(3) In section 35(1) and (2), for the words “shall be disregarded” there shall be substituted the words “shall, except where the contrary intention appears, be disregarded”.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

10. Value added tax (supplies to groups)

That, in relation to transfers of assets made on or after 1st April 1987, the Value Added Tax Act 1983 shall have effect with the insertion after section 29 of the following section—

“Supplies to groups.
29A.—(1) Subject to subsections (2) and (3) below, subsection (4) below applies where—

(a) a business, or part of a business, carried on by a taxable person is transferred as a going concern to a body corporate treated as a member of a group under section 29 above;

(b) on the transfer of the business or part, chargeable assets of the business are transferred to the body corporate; and

(c) the transfer of the assets is treated by virtue of section 3(3) (c) above as neither a supply of goods nor a supply of services.

(2) Subsection (4) below shall not apply if the representative member of the group is entitled to credit for the whole of the input tax on supplies to it and importations by it—

(a) during the prescribed accounting period in which the assets are transferred, and

(b) during any longer period to which regulations under section 15(3) (b) above relate and in which the assets are transferred.

(3) Subsection (4) below shall not apply if the Commissioners are satisfied that the assets were acquired by the taxable person transferring them more than three years before the day on which they are transferred.

(4) The chargeable assets shall be treated for the purposes of this Act as being, on the day on which they are transferred, both supplied to the representative member of the group for the purpose of its business and supplied by that member in the course or furtherance of its business.

(5) A supply treated under subsection (4) above as made by a representative member shall not be taken into account as a supply made by him when determining the allowance of input tax in his case under section 15 above.

(6) The value of a supply treated under subsection (4) above as made to or by a representative member shall be taken to be the open market value of the chargeable assets.

(7) For the purposes of this section, the open market value of any chargeable assets shall be taken to be the price that would be paid on a sale (on which no tax is payable) between a buyer and a seller who are not in such a relationship as to affect the price.

(8) The Commissioners may reduce the tax chargeable by virtue of subsection (4) above in a case where they are satisfied that the person by whom the chargeable assets are transferred has not received credit for the full amount of input tax arising on the acquisition by him of the chargeable assets.

(9) For the purposes of this section, assets are chargeable assets if their supply in the United Kingdom by a taxable person in the course or furtherance of his business would be a taxable supply (and not a zero-rated supply)."

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

11. Value added tax (valuation)

That, in relation to supplies made on or after 1st April 1987, Schedule 4 to the Value Added Tax Act 1983 shall have effect with the insertion, at the beginning of paragraph 1(1) (c), of the words "if the supply is a taxable supply."

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

12. Value added tax (issue of securities)

That, in relation to supplies made on or after 1st April 1987, Group 5 in Schedule 6 to the Value Added Tax Act 1983 shall have effect with the following amendments—

(a) at the end of item 5 there shall be added the words "or the underwriting of an issue within item 1"; and

(b) after item 6 there shall be inserted the following item—

"6A. The making of arrangements for, or the underwriting of, an issue within item 6."

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

13. Value added tax (supplies received from abroad)

That, with respect to services supplied on or after 1st April 1987, section 7 of the Value Added Tax Act 1983 (reverse charge on supplies received from abroad) shall be amended as follows—

(a) in paragraph (b) of subsection (1), for the words "taxable person" there shall be substituted "person (in this section referred to as 'the recipient')";

(b) in subsection (1), in the words following paragraph (b) for the words "as if the taxable person" there shall be substituted "as if the recipient";

(c) in subsections (3) and (4) for the words "taxable person" there shall be substituted "recipient"; and

(d) in subsection (3) for the words "the allowance" there shall be substituted "any allowance".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

14. Value added tax (tour operators)

That provision may be made about the treatment for the purposes of value added tax of supplies by tour operators, travel agents and others making like supplies.

15. Value added tax (transfers from the United Kingdom)

That provision may be made repealing item 2 of Group 15 in Schedule 5 to the Value Added Tax Act 1983.

16. Value added tax (registration etc.)

That the Value Added Tax Act 1983 may be amended by provisions as to registration, and provisions treating as taxable persons certain registered persons who neither make nor intend to make taxable supplies.

17. Income tax (charge and rates for 1987-88)

That—

(1) Income tax for the year 1987-88 shall be charged at the basic rate of 27 per cent. and, in respect of so much of an individual's total income as exceeds £17,900 (the basic rate limit as determined under subsection (4) of section 24 of the Finance Act 1980—indexation), at such higher rates as are specified in the Table below:

TABLE

<i>Higher rate bands</i>	<i>Higher rate</i>
The first £2,500	40 per cent.
The next £5,000	45 per cent.
The next £7,900	50 per cent.
The next £7,900	55 per cent.
The remainder	60 per cent.

(2) Section 24(4) of the Finance Act 1980 (indexation of thresholds) shall not, so far as it relates to the higher rate bands, apply for the year 1987-88.

(3) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

18. Income tax (indexed personal reliefs etc.): operative date for PAYE

That, for the year 1987-88, in subsection (7) of section 24 of the Finance Act 1980 (which specifies the date from which indexed changes in income tax thresholds and allowances are to be brought into account for the purposes of PAYE) for "5th May" there shall be substituted "18th May";

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

19. Increased personal relief for those aged eighty and over

That, for the year 1987-88 and subsequent years of assessment—

(1) Subject to the provisions of this Resolution, subsection (1) of section 8 of the Income and Corporation Taxes Act 1970 (personal reliefs) shall have effect—

(a) in relation to a claim by a person who proves that he or his wife was at any time within the year of assessment of the age of eighty or upwards, as if the sum specified in paragraph (a) (married) were £4,845; and

(b) in relation to a claim by a person who proves that he was at any time within the year of assessment of the age of eighty or upwards, as if the sum specified in paragraph (b) (single) were £3,070;

and for this purpose, a person who would have been of the age of eighty or upwards within the year of assessment if he had not died in the course of it shall be treated as having been of that age within that year;

(2) For any year of assessment for which a person is entitled to increased personal relief by virtue of this Resolution, he shall not be entitled to increased relief under subsection (1A) of the said section 8 (increased relief for persons of sixty-five and upwards);

(3) For the purpose of any enactment which refers to Part I of the Income and Corporation Taxes Act 1970 or to Chapter II of that Part, paragraph (1) above shall be taken to be included in that Chapter;

(4) In the following enactments—

(a) subsection (1B) of the said section 8 (tapering of relief under subsection (1A)), and

(b) paragraph 3(3) of Schedule 4 to the Finance Act 1971 (exclusion of certain reliefs where there is separate taxation of wife's earnings),

any reference to subsection (1A) of the said section 8 shall include a reference to paragraph (1) above;

(5) In subsection (8) of section 36 of the Finance Act 1976 (application of provisions relating to transfer of balance of certain reliefs between spouses) the reference in paragraph (b) to subsection (1A)(b) of the said section 8 shall include a reference to paragraph (1)(b) above;

(6) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987;

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

20. Increased relief for blind persons

That—

(1) For the year 1987-88 and subsequent years of assessment, in section 18 of the Income and Corporation Taxes Act 1970—

(a) in subsection (1) (single blind persons and married couples of whom one is blind) for “£360” there shall be substituted “£540”; and

(b) in subsection (2) (married couples, both of whom are blind) for “£720” there shall be substituted “£1,080”;

(2) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987;

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

21. Relief for interest (limit for 1987-88)

That, for the year 1987-88, the qualifying maximum referred to in paragraphs 5(1) and 24(3) of Schedule 1 to the Finance Act 1974 (limit on relief for interest on certain loans for the purchase or improvement of land) shall be £30,000;

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

22. Corporation tax (charge and rate for financial year 1987)

That corporation tax shall be charged for the financial year 1987 at the rate of 35 per cent.

23. Corporation tax (small companies)

That—

(a) the small companies rate for the financial year 1987 shall be 27 per cent; and

(b) the fraction by reference to which corporation tax charged on income is reduced under section 95(2) of the Finance Act 1972 shall for that financial year be one fiftieth.

24. Companies' chargeable gains

That provision may be made with respect to the treatment of the chargeable gains of companies for the purposes of corporation tax.

25. Charities

That, for the year 1987-88 and subsequent years of assessment, section 27(7) of the Finance Act 1986 (which limits to £100 the payroll deductions attracting relief) shall have effect with the substitution of “£120” for “£100”;

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

26. Registered friendly societies

That provision may be made—

(a) amending section 332(2) of the Income and Corporation Taxes Act 1970 and section 64 of the Friendly Societies Act 1974 with respect to contracts for the assurance of gross sums under tax exempt life or endowment business of registered friendly societies; and

(b) amending the operation of section 400 of that Act with respect to gains arising in connection with policies issued in the course of such business by registered friendly societies.

27. Annuities, etc.

That provision may be made about contracts, schemes or other arrangements providing for the payment of annuities or lump sums.

28. Retirement benefits schemes

That provision may be made about retirement benefits schemes.

29. Income support

That provision may be made charging to income tax under Schedule E payments of income support under the Social Security Act 1986 or the Social Security (Northern Ireland) Order 1986.

30. Pay as you earn

That provision may be made with respect to the payments to which section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) applies.

31. Underwriters

That charges to income tax (including charges for the years of assessment 1985-86 and 1986-87) may be imposed by provisions about underwriters.

32. Foreign partnerships

That provision may be made, with retrospective effect, with respect to the taxation of persons resident in the United Kingdom who are members of partnerships resident outside the United Kingdom.

33. Companies: material interests

That provision may be made as to the cases in which a person is to be regarded as having a material interest in a company for certain purposes of the Tax Acts.

34. Apportionment of income etc. of close companies

That provision may be made amending Schedule 16 to the Finance Act 1972.

35. Corporation tax (payment dates)

That provision may be made as to the time within which corporation tax in respect of any accounting period of a company is required to be paid.

36. Charges on income

That provision may be made with respect to the dates on which certain payments made between companies are to be treated as received.

37. Investment companies

That amendments may be made to section 304 of the Income and Corporation Taxes Act 1970.

38. Recognised investment exchanges

That charges to income tax, corporation tax and capital gains tax may be imposed by provisions enabling enactments referring to The Stock Exchange to have effect, with or without modification, in relation to other recognised investment exchanges.

39. Controlled foreign companies

That provision may be made with respect to the circumstances in which a controlled foreign company, within the meaning of Chapter VI of Part II of the Finance Act 1984, is to be regarded as pursuing an acceptable distribution policy.

40. Dual resident companies

That provision may be made with respect to companies which are resident in the United Kingdom and are also within a charge to tax under the laws of a territory outside the United Kingdom.

41. Double taxation relief: interest on overseas loans

That provision may be made amending sections 65 and 66 of the Finance Act 1982.

42. Advance corporation tax: oil industry

That provision may be made with respect to—

(a) the setting of advance corporation tax against corporation tax on profits arising from oil extraction activities or oil rights, within the meaning of Part II of the Oil Taxation Act 1975; and

(b) the repayment of advance corporation tax under section 17(3) of that Act and section 127(5) of the Finance Act 1981.

43. Commodity futures, financial futures and options

That provision may be made—

(a) for bringing gains on certain disposals of commodity futures, financial futures and options within the charge to capital gains tax or corporation tax on chargeable gains, and

(b) with respect to the treatment under the Capital Gains Tax Act 1979 of certain options.

44. Stamp duty (clearance services)

That provision may be made with respect to stamp duty in relation to instruments transferring securities to persons concerned with clearance services.

45. Stamp duty (market makers)

That amendments may be made to section 82(6) of the Finance Act 1986.

46. Stamp duty (Crown exemption)

That charges to stamp duty may be imposed by provisions relating to instruments made by, to or with Ministers of the Crown.

47. Stamp duty reserve tax

That charges to stamp duty reserve tax may be imposed by further provisions relating to that tax.

48. Inheritance tax

That charges to inheritance tax may be imposed—

- (a) by provisions relating to the coming to an end of an interest in possession in settled property;
- (b) by provisions as to the circumstances in which the settlor is liable for the tax on the value transferred by a potentially exempt transfer relating to settled property;
- (c) by provisions relating to relief under Chapter I (business property) or Chapter II (agricultural property) of Part V of the Inheritance Tax Act 1984;
- (d) by provisions relating to settled property of the kind to which Schedule 4 to that Act (maintenance funds for historic buildings etc.) relates; and
- (e) by provisions relating to the payment of tax by instalments.

49. Oil taxation: nomination scheme

That, in connection with a scheme relating to the nomination of sales, appropriations and other disposals of oil, provision may be made with respect to the amounts to be taken into account under the Oil Taxation Act 1975 in determining the gross profit or loss accruing to a participator in an oil field in any chargeable period.

50. Oil taxation: market value of oil

That provision may be made with respect to the determination of the market value of oil for the purposes of provisions of the Oil Taxation Act 1975.

51. Collective investment schemes

That charges to income tax, corporation tax, capital gains tax, inheritance tax, stamp duty and stamp duty reserve tax may be imposed by provisions relating to unit trust schemes or to other collective investment schemes.

52. Relief from tax (incidental and consequential charges)

That it is expedient to authorise any incidental or consequential charges to any duty or tax (including charges having retrospective effect) which may arise from provisions designed in general to afford relief from tax.

PROCEDURE RESOLUTIONS

PROCEDURE (PERSONAL PENSION SCHEMES): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may make provision for the payment of sums out of or into the National Insurance Fund in connection with provisions relating to the payment of minimum contributions under Part I of the Social Security Act 1986.

PROCEDURE (EXCHANGE AND FINANCIAL CONTROL): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may—

- (a) make provision for and in connection with the repeal of the Exchange Control Act 1947; and
- (b) amend section 2 of the Banking and Financial Dealings Act 1971.

PROCEDURE (FUTURE TAXATION): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain the following provisions taking effect in a future year—

- (a) provisions amending the Taxes Management Act 1970;
- (b) provisions with respect to amounts due by way of penalty or interest;
- (c) provisions with respect to interest on tax overpaid;
- (d) provisions with respect to the payment of corporation tax without assessment; and
- (e) provisions with respect to the time within which corporation tax in respect of any accounting period of a building society is required to be paid.

WAYS AND MEANS

Budget Statement

Mr. Deputy Speaker (Mr. Harold Walker): Before I call the Chancellor of the Exchequer, it may be for the convenience of hon. Members if I remind them that at the end of the Chancellor's speech, as in past years, copies of the Budget resolutions will not be handed around in the Chamber but will be available to hon. Members in the Vote Office.

3.34 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): The setting for this year's Budget is more favourable than it has been for very many years. We are now entering our seventh successive year of steady growth, and the fifth in which this has been combined with low inflation. The public finances are sound and strong, and unemployment is falling. These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets. Once again, I reaffirm those policies.

I shall begin, as usual, by reviewing the economic background to the Budget. I shall then turn to monetary policy and to the fiscal outlook this year and next. Finally, I shall propose some changes in taxation designed to improve still further the prospects that lie before us. A number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have sat down.

THE ECONOMIC BACKGROUND

I start with the economic background. Nineteen Eighty-six was dominated by the sudden collapse of the oil price. Our own economy was affected not only directly, as a major oil producer and exporter, but also by the pause in world growth as the world economy adjusted to what has been described as the third oil shock. Despite this dislocation, however, the economy has developed in most respects as I foreshadowed a year ago.

In 1986 as a whole output grew by a further $2\frac{1}{2}$ per cent., or so, which compares well with the experience of other industrialised countries. It is worth recalling that during the 1960s, and again in the 1970s, Britain's growth rate was the lowest of all the major European economies. By contrast, during the 1980s, our growth rate has been the highest of all the major European economies.

This greatly improved growth performance has been accompanied by falling inflation, which at $3\frac{1}{2}$ per cent. in 1986 reached the lowest figure for almost 20 years. Over the lifetime of this Parliament, inflation has averaged less than 5 per cent.

During the first half of last year, exports and hence output were affected by the pause in world growth to which I have already referred. But since the middle of the year exports have grown strongly. Indeed, over the last three months the volume of exports of manufactures was 6 per cent. higher than a year earlier — a better performance than that of any other major economy. This pattern was reflected in the rapid growth of manufacturing output in the second half of last year.

This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since

July unemployment has fallen by more than 100,000, the largest six-monthly fall since 1973. Though the numbers out of work are still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago.

I announced a number of specific employment measures in my last Budget, and since then my right hon. and noble Friend the Secretary of State for Employment has further extended the restart programme for the long-term unemployed. There will also be more places on the enterprise allowance scheme, and the number of jobclubs is to be quadrupled. The new job training scheme will eventually give a quarter of a million people, most of them youngsters, vocational training leading to recognised qualifications. With these and other measures, this Government have developed their employment and training programmes on a scale which no other country can match. But the best hope of all for the unemployed is in the continued vigour of the economy.

Since the early months of last year, there has been a further surge in manufacturing productivity. This continues the remarkable improvement in productivity growth achieved by British industry throughout the 1980s. During the 1960s, and again in the 1970s, growth in manufacturing productivity in the United Kingdom was the lowest of all the seven major industrial countries in the world. During the 1980s, our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries.

The recorded current account of the balance of payments went into deficit in 1986 by around £1 billion. This followed a cumulative current account surplus of some £20 billion between 1979 and 1985. Some deterioration in our current account was inevitable in the face of a £4 billion loss of earnings on oil trade virtually overnight. But the significance of this should not be exaggerated. The exchange rate adjustment that followed the fall in the oil price is already contributing to an improved non-oil trade performance. And earnings from the massive stock of net overseas assets we have acquired since 1979 will provide a continuing support to the current account in the years ahead. At well over £100 billion, our net overseas assets are now greater than at any time since the war, and second only to those of Japan.

Looking ahead, I expect 1987 to be another year of balanced growth with low inflation. Total output is forecast to rise by 3 per cent., with exports and investment up by rather more than that. By then we will have registered the longest period of steady growth, at a rate approaching 3 per cent. a year, that the British economy has known since the war. Manufacturing industry, in particular, should do well in 1987. and with the non-oil economy set to grow at $3\frac{1}{2}$ per cent., there is every prospect of unemployment continuing to fall throughout the year.

In last year's Budget speech I said that the outlook for jobs depended on a sustained improvement in the performance of business and industry. That sustained improvement in economic performance is now well under way.

Despite the strong growth in exports, it will inevitably take time for the full effect of the exchange rate adjustment to work through. The current account is thus likely to remain in deficit this year, by some £2½ billion, around half of 1 per cent. of GDP.

As I foreshadowed in the autumn statement, inflation may continue to edge up for a time, perhaps exceeding $4\frac{1}{2}$

Mr. Fairbairn: Does my right hon. Friend appreciate, I could say it in Latin, but I shall not, that the permissive society one generation on has turned out to be the criminal society?

The Prime Minister: My hon. and learned Friend makes his own point very effectively.

Q3. **Mr. Winnick** asked the Prime Minister if she will list her official engagements for Tuesday 17 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Winnick: As the head of the security service, does the Prime Minister not recognise that if some dissident members of the security service in the 1970s tried to destabilise a Government whom they did not like, it strikes at the very heart of democracy? On reflection, therefore does the Prime Minister not recognise, bearing in mind the answers that were given yesterday by the Attorney-General, that we cannot be satisfied with anything less than a full judicial inquiry about what happened during the time of a Labour Government?

The Prime Minister: The hon. Gentleman is concerned with something that did not happen in my time and about which the Prime Minister of the day made a clear statement. *[Interruption.]*

Mr. Speaker: Order. I ask the House to listen to the Prime Minister.

The Prime Minister: The Labour Prime Minister of the day made a clear statement about it. The hon. Gentleman must take up that matter with that Prime Minister.

Mr. Bell: On a point of order, Mr. Speaker. Earlier, the hon. Member for Poole (Mr. Ward) said that the Leader of the Opposition had been converted to the cause of law and order. I should like you to ask him to withdraw that phrase.

Mr. Speaker: Order. I do not think that it was unparliamentary, although it might have been rather offensive.

Mr. Ward: Further to that point of order, Mr. Speaker. I had not realised what a sensitive subject law and order is with the Opposition. In view of the embarrassment, of course I withdraw it.

NEW MEMBER

The following Member took and subscribed the Oath:

Matthew Owen John Taylor Esq., for Truro.

per cent. by the summer, before falling back to 4 per cent. by the end of the year. While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an underlying downward trend.

Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole. There are still serious imbalances afflicting the three major economies—the United States, on the one hand, and Japan and Germany on the other—which, if not handled properly, could lead to a simultaneous downturn in all three. And this in turn could be exaggerated by renewed turmoil in the foreign exchange markets, whose tendency to overshoot is as notorious as it is damaging.

It was to address these dangers that the Finance Ministers and central bank governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability. In my Budget speech last year, I said:

"Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."—[*Official Report*, 18 March 1986; Vol. 94, c. 167.] That is what we have now done, with Plaza II. But it would be idle to deny that the wider risks still remain.

Short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability. Provided it can control its costs and maintain its present competitive advantage, and assuming the continuation of present policies, we can look forward to many more years of strong growth combined with low inflation.

MONETARY POLICY

For their part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since 1980, the medium-term financial strategy. The central objective of the MTFS is gradually to reduce the growth of money GDP over the medium term so as to squeeze inflation out of the system and ultimately to achieve price stability. This requires monetary discipline buttressed by low public sector borrowing. The essential instrument of monetary policy must remain short-term interest rates. These will continue to be set in the light of monetary conditions as indicated principally by the growth of narrow and broad money and the behaviour of the exchange rate.

For narrow money, MO, the target range for next year will be 2 to 6 per cent. as foreshadowed in last year's MTFS. For broad money, however, as the Governor of the Bank of England cogently argued in his Loughborough lecture last October, it is probably wiser in current circumstances to eschew an explicit target altogether. But broad money will continue to be taken into account in assessing monetary conditions, as of course will the exchange rate.

PUBLIC SECTOR BORROWING

I mentioned a moment ago the need to keep public sector borrowing low.

The final outturn for the public sector borrowing requirement last year, 1985-86, was just under £6 billion, equivalent to $1\frac{1}{2}$ per cent. of GDP, the lowest level since 1970-71. In my Budget last year, faced with a massive loss

of what now looks to be almost £7 billion of North sea oil revenue, I none the less decided to hold the PSBR for this year, 1986-87, to £7 billion, or $1\frac{3}{4}$ per cent. of GDP.

In the event, this year's PSBR looks like turning out at only £4 billion, or 1 per cent. of GDP—the second successive year of significant undershoot. This successful outcome is chiefly attributable to the remarkable buoyancy of non-oil tax revenues in general and of the corporation tax paid by an increasingly profitable business sector in particular.

Looking ahead, there is still a degree of uncertainty surrounding oil prices, and I have therefore stuck to the assumption I made last year that the North sea oil price will average \$15 a barrel. But it is clear that the increased flow of non-oil tax revenues, coupled with the prospective further growth of the economy in excess of the growth of public expenditure, puts the public finances in a very strong position. I intend to keep it that way.

Last year's MTFS indicated a PSBR for 1987-88 of £7 billion, or $1\frac{3}{4}$ per cent. of GDP; and, as the House will recall, I gave an assurance at the time of the autumn statement, when I announced a £4 $\frac{3}{4}$ billion increase in planned public expenditure in 1987-88, that on no account would I exceed that figure.

Indeed, I believe it is right to go below it. Since its inception in 1980, the MTFS has indicated a steadily declining path for the PSBR expressed as a percentage of GDP. We have now reached what I judge to be its appropriate destination—a PSBR of 1 per cent. of GDP. My aim will be to keep it there over the years ahead. This will maintain a degree of fiscal prudence that, until this year, had been achieved on only two occasions since 1950.

Accordingly, I have decided to provide for a PSBR in 1987-88 of £4 billion.

Inevitably, this greatly diminishes the scope I have this year for reducing the burden of taxation, which of course remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future. That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now.

Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom concluded, one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible. They were wrong, and have been proved wrong. The British economy is now embarking on its seventh successive year of steady growth, at an average rate of getting on for 3 per cent. a year. And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from a shade under 6 per cent. of GDP to a little over 2 per cent. Indeed, had I or my predecessor at any time heeded the advice of our so-called expansionist critics, the British economy would never have been in the unprecedentedly favourable position it is in today.

EXCHANGE CONTROL

Before I turn to my proposals for changes in taxation, I have one other change of a specific nature to announce. In 1979, a few months after the present Government had first taken office, my predecessor announced the abolition of exchange controls, which had been in continuous operation ever since the outbreak of war in 1939. That bold action has, over the past seven and a half years, proved wholly beneficial to the British economy; and I am glad to note that other European countries are now moving in the same direction.

But the Exchange Control Act remains on the statute book. The time has come to repeal it. The necessary legislation will be contained in this year's Finance Bill.

I note that, in what was clearly intended to be a major speech in New York in September, the Deputy Leader of the Labour party declared that

"The Labour Party has no intention of reintroducing statutory exchange controls".

I am confident, therefore, that the proposal I have just made will be welcomed on all sides of the House.

BUSINESS AND ENTERPRISE

I now turn to taxation. First, taxes on business.

The fundamental reform of the corporation tax system which I introduced in 1984 came fully into effect last April. The new system has undoubtedly improved the quality of business investment decisions in Britain, and is also encouraging more overseas companies to set up here.

During the transition to the new system, companies were given advance notice of the main rate of Corporation Tax for the year ahead. This helped them in their forward planning, and I intend as far as possible to continue the practice of setting the rate in advance.

Accordingly, I can announce now that the main rate of corporation tax in 1987-88 will be unchanged at 35 per cent.—lower than in any other major industrial nation, though the United States is now set to emulate us.

The low rate of corporation tax enables me to introduce a further simplification into the system.

At present, while companies' capital gains are liable to corporation tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as that on capital gains made by individuals. This dates back to the time when the two rates of tax were far apart.

This is no longer the case. Indeed, the corporation tax rate for small companies is now below the capital gains tax rate. I therefore propose that, from today, companies' capital gains be charged at the appropriate corporation tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.

Hitherto, companies have not been allowed to set payments of advance corporation tax against their liability to tax on capital gains. This means that, where companies distribute capital gains as dividends, the gains are, in effect, taxed twice—once in the hands of the company, and once in the hands of the shareholder. I propose that, under the new system, companies should be able to set ACT payments against tax on capital gains.

Taken together, these changes should yield £60 million in 1988-89.

I also have some further simplification and rationalisation of the corporation tax system to announce.

At present, some companies established before 1965 do not have to pay their corporation tax until up to 21 months

after the end of the period for which it is due, whereas companies established since 1965 have to pay their tax after nine months—and indeed some building societies have to pay sooner still. This difference in treatment cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total corporation tax yield at risk.

I therefore propose that all companies and building societies should be treated the same way, with all liable to pay tax nine months after the accounting period for which it is due.

While business and industry as a whole are doing well, the North sea oil sector has inevitably been hard hit by last year's oil price collapse. My right hon. Friend the Secretary of State for Energy and I have followed closely the effects on North sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while, as for the tax system, not only is it inherently price-sensitive, but the companies themselves have repeatedly stressed their desire for stability.

However, in the light of the immediate problems, I introduced legislation last autumn to bring forward the repayment of over £300 million of advance petroleum revenue tax. This has already helped many of the smaller and medium-sized companies faced with cash flow difficulties.

I now propose two further petroleum revenue tax reliefs. First, as from today, companies may elect to have up to 10 per cent. of the costs of developing certain new fields set against their petroleum revenue tax liabilities in existing fields, until such time as the income of those new fields exceeds the costs incurred. Second, there will be a new relief against PRT for spending on research into United Kingdom oil extraction that is not related to any particular field.

I believe that these carefully targeted changes will give a worthwhile measure of relief to the North sea oil sector.

Last year I put the business expansion scheme on to a permanent footing. However, the present rules still produce too much end-year bunching of BES investments, and hence may crowd out some projects and lead to bad decisions on others. I propose, therefore, to permit someone who invests in the first half of the year to claim part of the relief against his previous year's income. This will make it easier for companies to raise BES finance throughout the year.

I also propose to legislate now to pave the way for a new method of collecting corporation tax, to be known as pay and file. Under this system companies will estimate their tax liabilities themselves, and pay on the normal due date. Where it turns out that the initial payment was too low, the company will pay interest to the Revenue; where the initial payment was too high, the Revenue will pay interest to the company. This new approach, which has already been generally welcomed by the business community, is part of a wider programme of streamlining tax collection, and will not come into force until the early 1990s.

I have to set the 1988-89 car and fuel benefit scales for those with company cars. The car scale charges still fall well short of the true value of the benefit, and, as last year, I propose to increase them by 10 per cent. There will be no change in the fuel scales which, as already announced, will also be used for VAT purposes from 6 April. [Interruption.]

Training and retraining are vital to a flexible and competitive economy. At present training — *[Interruption.]* If right hon. and hon. Members are not interested in training, they show themselves to be a fraud, which we know them to be.

Mr. Willie W. Hamilton (Fife, Central): On a point of order, Mr. Deputy Speaker. The Chancellor's Parliamentary Private Secretary, obviously, has some amended version of the speech which he has received from a civil servant in the Box. Would you now suspend the sitting until the Chancellor is properly equipped with the new speech?

Mr. Deputy Speaker: Order. The hon. Gentleman knows perhaps better than any other hon. Member that, according to convention, the Chancellor is listened to without interruption. The hon. Gentleman also knows that what happens behind the Chair is not part of our proceedings.

Mr. Lawson: Training and retraining are vital to a flexible and competitive economy. At present, training financed by an employer that is related to the employee's current job is allowable against tax for the employer and imposes no tax burden on the employee. But an employer who is willing to finance the retraining of workers for future employment elsewhere may find that the cost of this is not allowable against tax, and the employee may find that he has received a taxable benefit. I propose to remove both these obstacles. This should help more workers to acquire new skills for new jobs.

The past few years have seen a remarkable and welcome growth in the number of small businesses and the self-employed. The Government have done a great deal to lighten the burdens on this vitally important sector of the economy. But I am well aware that problems remain, not least in the field of VAT.

Accordingly, I asked Customs and Excise to issue a consultative document last autumn canvassing a number of changes. In the light of the responses to that document, I have four proposals to make.

Perhaps the biggest problem faced by the small business man today is the trade customer who is late in paying his bills: so late sometimes that VAT becomes due before the bill has been paid. I can do nothing about late payment; but I can, I hope to something about the VAT problem.

My first and most important proposal, therefore, is that, as from 1 October, businesses whose annual turnover is under £½ million, which covers more than half of all traders registered for VAT, will be able to choose to account for VAT on the basis of cash paid and received. In other words, they will have no liability to pay VAT until they themselves have received the money from their customers. In addition to easing the cash flow problems caused by late payers, this system will, of course, provide automatic VAT relief on bad debts.

I have to warn the House, however, that I cannot legally introduce this change without first obtaining a derogation from the European Community's sixth VAT directive. I am applying for the necessary derogation today. The House will note that the upper limit of £½ million is considerably greater than the £100,000 suggested in the consultative document.

Second, I propose to give these businesses the option of accounting for VAT on an annual basis. Instead of making quarterly returns, they would make regular

payments on account, and then file a single return at the end of the year. This option, which offers considerable streamlining, will be available next year.

Third, the period within which business must apply to be registered for VAT will be extended from 10 to 30 days.

Fourth, there will be changes to the rules for the special VAT schemes for retailers, and more small and medium-sized businesses will be able to make use of the simpler schemes.

I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. The cost will be £115 million in 1987-88 and £60 million in 1988-89.

In addition, I propose to increase the VAT threshold to £21,300, to keep it at the maximum permitted under existing European Community law.

In the light of the responses to the consultative document, I shall not be going ahead either with the withdrawal of the so-called standard method by which retailers calculate their gross takings for VAT, or with the compulsory deregistration of traders below the VAT threshold.

I have one further measure to help the small business man, unrelated to VAT. I propose to increase the limit for capital gains tax retirement relief by 25 per cent. from £100,000 to £125,000.

In any ongoing programme of tax reduction and reform, where much still remains to be done, an essential element must always be the elimination of unintended or unjustified tax breaks, which cause rates of tax generally to be higher than they need to be. Accordingly, I have five proposals to make today to that end.

The first concerns VAT, and has already been the subject of extensive consultation. The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases. But where the activities of a business are in part liable to VAT and in part exempt the existing rules are excessively generous as to the amount of input tax that can be deducted; and this generosity is being exploited on a growing scale.

The rules must therefore be changed, and the changes, which I proposed to the House last December, will come into effect on 1 April.

There will be special arrangements to deal with the problem of brewers' tied houses.

I am also taking this opportunity to exclude a significant number of small businesses from the scope of this provision. The yield from this change will be some £300 million in 1987-88 and £400 million in 1988-89.

Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment. Genuine trading companies will not be affected. This change, which will take effect on 1 April, follows the similar action recently taken by the United States. It will yield £125 million in 1988-89.

Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely. This will bring our rules broadly into line with those in most other countries.

[Mr. Lawson]

The change will apply from 1 April this year for new loans and from 1 April next year for existing loans. It will yield some £20 million in 1988-89.

Fourth, the tax treatment of Lloyd's syndicates as it applies to the reinsurance to close system is clearly unsatisfactory. I therefore propose to bring it into line with that of provisions for outstanding liabilities made by ordinary insurance companies and, indeed, of comparable provisions made by other financial traders. I have asked the Inland Revenue to consult urgently with Lloyd's about the details of the legislation. The new rules will first apply to premiums payable for the Lloyd's account which closes on 31 December this year.

Fifth, I propose to implement the Keith committee's recommendations that interest should be charged in the limited number of cases where an employer does not apply PAYE properly and a formal assessment has to be made to recover the tax. This change will take effect from April next year, and the yield in 1988-89 is estimated at £45 million.

I have one further proposal to make in the broad field of business and tax.

In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

I pointed then to two considerable advantages that might be expected to flow from arrangements which relate pay to profits. First, the work force would have a more direct personal interest in the profits earned by the firm or unit in which they work; and, second, there would be a greater degree of pay flexibility in the face of changing market conditions. Such flexibility is vital if, as a nation, we are to defeat the scourge of unemployment.

Last July I presented a Green Paper on profit-related pay in conjunction with my right hon. and noble Friend the Secretary of State for Employment and my right hon. Friend the Secretary of State for Trade and Industry. I now propose to introduce a scheme of tax relief broadly along the lines floated in the Green Paper.

My proposals depart from those in the Green Paper in one important respect. I am doubling the proportion of an employee's profit-related pay that will be tax free from a quarter to a half, and I am also increasing the upper limits on the relief. For a married man on average earnings receiving 5 per cent. of his pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax. The cost will inevitably depend on take-up. It could be £50 million in 1988-89, building up to substantially more than that, as take-up grows, and as the proportion of an employee's pay which is profit-related rises.

Profit-related pay is no panacea. But then there are no panaceas. What it is a tool to help British business gradually to overcome one of our biggest national handicaps—the nature and behaviour of our labour market. I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their firm, their work force and their country.

TAXES ON SAVING

I turn now to the taxation of savings.

A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism.

That means wider home ownership, wider share ownership, and wider pension ownership. Over the past

eight years, the Government have actively promoted the first two, and have now embarked on the third: home ownership, above all through the council tenant's right to buy; and share ownership, through the rapid growth of employee share schemes, through the massively successful privatisation programme, where Britain has led the world, and most recently through the new personal equity plans, which I announced in last year's Budget and which started on 1 January this year. In the first month of the scheme, more than 2,000 people a day took out personal equity plans, many of them first-time investors, as I had hoped.

We know that 63 per cent. of households now own their own homes, 2½ million more than in 1979. However, there have been no official figures for the more explosive growth of share ownership in Britain over the past eight years. The treasury and the Stock Exchange therefore jointly commissioned a major independent survey of individual shareholding in Britain.

The results are now available. They show that there are now some 8½ million individual shareholders in this country, amounting to one fifth of the total adult population, and roughly three times the number there were in 1979.

Mr. Eric S. Heffer (Liverpool, Walton): So what?

Mr. Lawson: The hon. Gentleman may learn.

Then there is wider pension ownership. Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement. We have already introduced a number of important new measures to that end, and the tax changes I am announcing today will complete the picture.

The cornerstone of the Government's pensions strategy is the introduction of an entirely new means of provision for retirement, developed by my right hon. Friend the Secretary of State for Social Services. This is the personal pension, which will be launched at the beginning of next year, three months earlier than planned.

Personal pensions are an important new dimension of ownership. They will enable employees—if they so wish—to opt out of their employers' schemes and make their own arrangements, tailored to fit their own circumstances. And they will provide a new opportunity for the 10 million employees who at present do not belong to an occupational scheme to make provision of their own and, if they so wish, to contract out of SERPS.

In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly published in a consultative document last November, and the necessary legislation will be contained in this year's Finance Bill.

In addition, to encourage a wider spread of occupational schemes, employers will be able to set up simplified schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme. Again, the Finance Bill will contain the necessary tax provisions.

Finally I have decided to go beyond the proposals set out in the consultative document in one important respect.

Starting in October, I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employers' schemes. They will be able to top their pensions up to the present tax approval limits.

The proposals I have outlined—along with the measures my right hon. Friend has already taken—will make it easier for people to take their pensions with them when they change jobs, which will be good both for labour mobility and for independence. They will widen the range of choices people can make about their pensions and will mean that in future individuals will have much more control over the way in which their own pension contributions are invested.

Taken as a whole, the changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers and much greater freedom for individuals to plan their own pensions. This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities.

But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include a stricter definition of final salary and, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on the pension and lump sum benefits can be calculated. The cost of the overall pensions package will inevitably depend on take-up, but with that proviso is estimated at £65 million in 1988-89.

For friendly societies, I have decided to replace the existing tax-exempt life assurance limit based on the sum assured with a new limit based on annual premiums. I propose to set this at £100 a year, which will greatly increase the scope for the traditional societies to offer life policies to their members.

The tax-exempt limits governing sickness and accident benefits which trade unions provide for their members have not been changed since 1982. With effect from today, I propose to increase them to £3,000 for lump sums and £625 for annuities.

Finally, in this section, I turn to inheritance tax. In my Budget last year I abolished the pernicious capital transfer tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family businesses. This year I propose to extend the same exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession. This will not, however, apply to discretionary trusts. These changes will be of particular benefit to family businesses and to heritage properties, both of which are often held in trust.

I also propose to make two minor changes affecting business assets. First, holdings in companies quoted on the unlisted securities market will henceforth be treated for inheritance tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing. Second, business relief for minority holdings in excess of 25 per cent. in unquoted companies will be increased from 30 per cent. to 50 per cent. The purpose of both these

changes is to concentrate business relief more accurately on those assets which could provide funds to pay the tax only at the risk of damaging the business.

The abolition of the tax on lifetime giving was of the first importance to family businesses, but I remain conscious that it did little to help the smallest taxable estates, where the family home is often the principal asset. I therefore propose to make a substantial increase in the threshold for inheritance tax, from £71,000 to £90,000, coupled with a simplification of the rate structure from seven rates to four. As a result of this change, the number of estates liable to inheritance tax will be cut by roughly a third. The cost will be £75 million in 1987-88 and £170 million in 1988-89.

Despite this substantial relief, however, and all the other much-needed reliefs that my predecessor and I have introduced since 1979, the House may be interested to learn that the expected yield of inheritance tax in 1987-88, at over £1 billion, is three times the yield of capital transfer tax in 1978-79, an increase in real terms of almost 50 per cent.

TAXES ON SPENDING

I now turn to the taxation of spending.

I have already announced some important changes in value added tax to prevent avoidance and to help the small business man. I have no other proposals for major changes in VAT this year.

However, in the light of representations I have received, I have decided to extend slightly the VAT reliefs I introduced last year for certain aspects of charitable work. I propose to relieve charities from VAT on certain welfare vehicles used by hospices to transport the terminally ill; on installing or adapting lavatory or bathroom facilities in charity homes for the disabled; on drugs and chemicals used by a charity in medical research; and on specialised location and identification equipment employed by mountain rescue and first aid services.

While on the subject of charitable giving, I should remind the House that this year's Finance Bill will increase the limit on donations to charity under the new payroll giving scheme, which starts next month, from £100 to £120 a year.

Next, the excise duties. I propose to maintain the revenue from the taxation of gambling, but to make some readjustment within the total. I therefore propose to increase the gaming machine licence duty by about a quarter, which will restore it in real terms to its 1982 level, when it was last increased; and to offset this by abolishing, from 29 March, the tax on on-course betting. I am sure that this measure will be welcomed by the racing and bloodstock industry, as well as consoling those hon. Members who have complained to me about the clash this year between Budget day and the Champion Hurdle.

In my Budget statement last year I undertook to introduce a tax differential in favour of unleaded petrol, to offset its higher production cost. I can now announce that the differential will be 5p a gallon. This means that the pump price of unleaded petrol should be no higher than that of four-star leaded petrol. The change will take effect from 6 o'clock this evening.

In my 1985 Budget I announced the first stage in the process of increasing the rates of vehicle excise duty on farmers' heavy lorries to bring them into line with the use they make of the public roads. I introduced the second

[Mr. Lawson]

stage in last year's Budget and propose to complete the process this year. I also propose to increase the rates of duty on trade licences and to rationalise the taxation of recovery vehicles.

I have no further changes to propose this year in the rates of excise duty.

INCOME TAX

Finally, I turn to income tax.

There is now a worldwide consensus on the economic desirability of tax reform and tax reduction, and in particular the reduction of income tax. This was demonstrated most recently by the various national policy declarations that emerged from last month's meeting of Finance Ministers from the major industrial nations.

Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; and only by improving our economic performance that we will be able to create jobs on the scale that we all want to see.

That is why, ever since we first took office in 1979, we have consistently sought to reduce the burden of income tax. We have cut the basic rate of tax from 33 per cent. to 29 per cent. and sharply reduced the punitive higher rates we inherited from the Labour party. And we have increased the main tax allowances by 22 per cent. more than inflation, taking almost 1½ million people out of income tax altogether.

For 1987-88 I propose to raise all the main thresholds and allowances by the statutory indexation factor of 3.7 per cent., rounded up. Thus the single person's allowance will rise by £90 to £2,425 and the married man's allowance by £140 to £3,795. The single age allowance will rise by £110 to £2,960 and the married age allowance by £170 to £4,675. The age allowance income limit becomes £9,800. I propose to raise the first 40 per cent. higher rate threshold by £700 to £17,900, in line with statutory indexation; but the threshold for the 45 per cent. rate will go up by only £200 to £20,400. The other higher rate thresholds will remain unchanged.

I have two other changes in allowances to announce.

First, I propose to give an additional increase in the age allowance for those aged 80 or over. For them, the increase will be double the amount due under statutory indexation so that, for the very elderly, the single age allowance will rise by £220 to £3,070 and the married age allowance by £340 to £4,845. Around 400,000 taxpayers will benefit from this new measure, and up to 25,000 of them will be taken out of income tax altogether.

Second, the blind person's allowance has remained unchanged since 1981, when it was increased by £180 to its present level of £360. For 1987-88 I propose to increase it by a further £180, to £540.

Finally, I turn to the basic rate of income tax. This is the starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

In my Budget speech last year I reaffirmed the aim set out by my predecessor in 1979, to reduce the basic rate of income tax to no more than 25 per cent. That remains my firm objective.

However, given my decision to use the greater part of the fiscal scope I now have to reduce the public sector borrowing requirement, that goal cannot be achieved in this Budget.

I can, however, take a further step towards it, as I did last year. I am therefore reducing the basic rate of income tax by 2p to 27 per cent. This reduction, which will benefit every taxpayer in the land, will be worth more than £3 a week to a man on average earnings.

There will, of course, be a consequential reduction in the rate of advance corporation tax, and—as last year—I also propose a corresponding cut in the small companies' rate of corporation tax from 29 per cent. to 27 per cent.

Taken together with the income tax change, this will mean a significant reduction in the tax burden on small businesses, which are so important for future growth and jobs.

The income tax changes I have just announced will take effect under PAYE on the first pay day after 17 May. They will cost a little more than £2 billion in 1987-88 over and above the cost of statutory indexation.

The total cost of all the measures in this year's Budget again on an indexed basis, is a little over £2½ billion.

CONCLUSION

In this Budget I have reaffirmed the prudent policies which, despite a year-long coal strike followed by a collapse in the oil price, have given us the strongest economy we have known since the war.

After an autumn statement which substantially increased public spending in priority areas, I have once again cut the basic rate of income tax: a cut which the Labour party is pledged to reverse, if it is given the chance—which it will not be. And I have done this while sharply reducing public borrowing—a combination that has eluded successive Governments for decades.

This is a Budget built on success, and a Budget for success. I commend it to the House.

PROVISIONAL COLLECTION OF TAXES

Motion made, and Question,

That, pursuant to section 5 of the Provisional Collection of Taxes Act 1968, provisional statutory effect shall be given to the following motions:

- (a) Unleaded petrol (Motion No. 2); and
- (b) Vehicles excise duty (farmers' goods vehicles) (Motion No. 3)—[Mr. Lawson.]

put forthwith, pursuant to Standing Order No. 50 (Ways and Means Motions), and agreed to.

Mr. Deputy Speaker (Mr. Harold Walker): I shall now call the Chancellor of the Exchequer to move the motion entitled "Amendment of the law". It is on that motion that the Budget debate will take place today and on succeeding days. The remaining motions will not be put until the end of the Budget debate next week, and they will then be decided without debate.