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Prime Minister

Mr Gray.

to Keep.

1988 Budget

N. C. W

I have been given, privately, an outline of the Chancellor's present thinking about the 1988 Budget. This is of course still at a very early stage.

The main elements are:

- a reduction in the basic rate of tax from 27p to 25p;
- unification of all the higher rates of tax on 40p or perhaps 35p;
- abolition of the upper earnings limit (UEL) for NIC;
- help for those in the lower reaches of NIC payments, perhaps by raising the lower earnings limit or in some other way;
- capital gains tax to be paid at the same rate as his marginal tax;
- ^{outstanding} possibly / capital gains tax liabilities ~~to~~ between 1965 and 1982 to be written off, though this is very expensive (as much as £3/4 billion);

- Overall, the Chancellor is contemplating a package of around £4 billion at this stage.

One of the difficulties still being discussed intensively is that with this package there would be around 1/2 million losers in a band above the upper earnings limit (£295).

There are indications that the Chancellor may look for some targetted measures to help pensioners. He is not at present planning any changes in the tax treatment of pension fund income.

Options for changing the tax treatment of husband and wife are being discussed. Transferable allowances have been ruled out. One possibility is some kind of separate taxation with a system for clawing back the warned man's allowance for those on the higher rate of tax.

It is not easy to judge how attractive much of this is without costs, distributional analysis etc. But there are some useful-sounding ideas.

If you have strong feelings for or against
any of this perhaps you could let me know and I
will feed your reactions back very discreetly.

(The Chancellor of course knows nothing of my snooping.)

DW

4/9.