THIS TRANSCRIPT WAS TYPED FROM A TELEDIPHONE RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT: BECAUSE OF THE POSSIBILITY OF MIS-HEARING AND THE DIFFICULTY, IN SOME CASES, OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS ACCURACY.

BUDGET '88

RECORDED FROM TRANSMISSION: BBC-1 **DATE:** 15 MARCH 1988

RT. HON. NIGEL LAWSON: Once upon a time Governments used to believe that it was their job to balance the budget, not to spend any more than they could raise from taxes, but taxes aren't popular so Governments found a clever way out, they borrowed. Now obviously a small amount of borrowing doesn't matter too much, the trouble is it is addictive, by the mid seventies nearly one pound in every five the Labour Government spent was being paid for out of borrowed money and we have all had to foot the bill in heavy interest payments ever since.

For nine years this Government has gought to free Britain from that terrible inheritance and the result is that tonight for only the second time since the beginning of the fifties I can tell you as Chancellor that once again Britain has a balanced budget. Last year the Government didn't need to borrow at all and I mean to keep it that way.

Balancing the budget hasn't been easy, and it hasn't always been popular but it means that we won't be loading a burden of debt onto future generations and meanwhile along with all out measures to liberate initiative and to reward enterprise it has produced outstanding results for Britain. The best single measure of any country's economic achievement is it's total national output. If you go back to nineteen seventy you see how Britain's output rose to a peak in nineteen seventy three and then it dropped back, then it rose to another peak in nineteen seventy nine, and then it dropped back again but since nineteen eighty one we have had seven successive years of uninterupted economic growth, that is an astonishing record in itself and there is something that makes it even more astonishing because side by side with this remarkable growth in output there has been a dramatic fall in inflation. Again, you have to go back to nineteen seventy to see the full picture, it rose to a terrible peak, nearly twenty five percent in nineteen seventy five and then it fell back, and then it rose to another peak in nineteen eighty but since then it has fallen dramatically, down to the lowest for twenty years.

Those two charts are tremendously significant but you only see their real significance when you put the two of them side by side, then you see that inflation was always the spectre of the feast. The peak in nineteen seventy three was paid for by the inflation of nineteen seventy four and nineteen seventy five, the peak of nineteen seventy nine was paid for by the inflation that surged again up to nineteen eight, in other words, the growth couldn't last, inflation always killed it. In fact, that had been the story of what was called the British disease for many many years before nineteen seventy but look at the story in the nineteen eighties.

Year after year of steadily rising output but for the first time, inflation falling, falling dramatically and staying low while output rose and that is the picture which really tells the story of Britain's newly found success.

There is no mystery about how we have done it, it is the result of a consistent economic policy over nine years, a commitment of controlling inflation, to removing the shackles on business and enterprise and to liberating the creative energies of the British people. It means letting people keep as much as possible of what they themselves earn and if you look at what that means for a married man on average earnings, with two children, you can

NIGEL LAWSON MP CONT'D: see the result. Take home pay, even corrected for inflation bumped up and down through the stop go years but since nineteen eighty one it has risen year after year until now living standars are way above what they have ever been before and unemployment is coming down fast in every region of the country and last year it fell faster than in any other major nation.

Of course there is still a long way to go but it is now clear to everyone that we are going in the right direction and today's measures will help us further along that road.

In my budget today I have once again been able to cut income tax, bringing the basic rate down to twenty five pence in the pound, just as we promised we would do in the election and people will be able to earn more before they start paying tax in the first place. As a result of this budget a married man on average earnings will take home almost five pounds a week extra and I have brought down the higher rates of tax too because we have seen what happens if you tax top managers and engineers too heavily. Too many either opt for the quiet life or go abroad where tax rates are lower so what I have done will mean better managed businesses and more jobs and at the end of the day higher tax revenues as a result. But at the same time, I have doubled the tax on company cars, I know it won't be popular but I believe it is right that those who have company cars should pay their fair share of tax.

And I have made this a tax reform budget too, in particular I am changing the income tax system to give married a fair deal for the first time ever. Instead of their income being taxed as if it belonged to their husband, as it has been for the past two hundred years, it will at long last be truly their own so this budget brings not only lower taxes to encourage people to give of their best but better taxes too and that is an essential ingredient in Britain's continuing economic success for it is only by having a more successful economy that we can afford better public services. That is why last autumn, I was able to announce big increases in Government spending for the coming year, especially on priority areas, like education, law and order, and of course the health service so it has been a hat trick, higher Government spending, lower taxes and the complete elimination of Government borrowing.

What I have been able to tell you this evening is a story of success, the story of a transformation of Britain's fortunes which has also transformed out standing in the world. If you look at the European economic growth league you can see just how, in the nineteen sixties we were right at the bottom of the league table, in the nineteen seventies we were still bottom of the table but in the nineteen eighties we have been right at the top of the league. All the same, it doesn't mean we can sit back and relax, we don't control the world economy but we are still very much a part of it so we have to be prepared for storms ahead and that is why we have to keep the British economy strong and sound. If it hadn't been so strong the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage, instead we sailed through them all, virtually unscathed and that is why we have to hold to our course and keep a firm hand on the wheel but so long as we stick with the policies that have served us so well these past nine years we can look forward to a level of security and prosperity, for ourselves and for our children far higher than any of us have ever known.

002

RESOLUTIONS TO BE MOVED BY THE CHANCELLOR OF THE EXCHEQUER

15th MARCH 1988

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*) Beer (motion No. 2)

(*b*) Wine and made-wine (motion No. 3)

(*c*) Cider (motion No. 4)

(*d*) Tobacco Products (motion No. 5)

(*e*) Hydrocarbon oil (motion No. 6)

(*f*) Vehicles excise duty (motion No. 7)

(*g*) Vehicles excise duty (exceptional loads, etc.) (motion No. 8).

ARRANGEMENT OF WAYS AND MEANS RESOLUTIONS

1. Amendment of the law.
2. Beer.
3. Wine and made-wine.
4. Cider.
5. Tobacco products.
6. Hydrocarbon oil.
7. Vehicles excise duty.
8. Vehicles excise duty (exceptional loads, etc.).
9. Vehicles excise duty (recovery vehicles).
10. Value added tax (registration).
11. Income tax (charge and rates for 1988–89).
12. Income tax (personal reliefs).
13. Corporation tax (charge and rate for financial year 1988).
14. Corporation tax (small companies).
15. Income tax (minor personal allowances).
16. Covenants and maintenance, etc.
17. Relief for interest (limit for 1988–89).
18. Relief for interest (home loans).
19. Relief for interest (home improvements).
20. Relief for interest (dependent relative's residence).
21. Benefits in kind (cars).
22. Woodlands.
23. Business expansion scheme.
24. Payments on termination of employment, etc.
25. Oil licences.
26. Company residence and migration.
27. Charities.
28. Entertainment expenses.
29. Premiums for leases, etc.
30. Underwriters.
31. Foreign public revenue dividends.
32. Employee share acquisitions.
33. Capital allowances.
34. Capital gains tax (rates).
35. Capital gains (assets held on 31st March 1982).
36. Capital gains (married couples).
37. Capital gains (annual exempt amount).
38. Capital gains (dependent relative's residence).
39. Capital gains (indexation).
40. Transfers within a group.
41. Personal equity plans.
42. Investment trusts.
43. Assessment procedure.
44. Oil allowance.
45. Stamp duty (abolition of capital duty).
46. Stamp duty (abolition of unit trust instrument duty).
47. Stamp duty (paired shares).
48. Stamp duty reserve tax.
49. Relief from tax (incidental and consequential charges).

177603 A2

1. Amendment of the law

That it is expedient to amend the law with respect to the National Debt and the 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. Beer

That, as from 6 o'clock in the evening of 15th March 1988, the rates of duty specified in section 36 of the Alcoholic Liquor Duties Act 1979 shall be increased—

(*a*) from £25.80 for each hectolitre to £27.00 for each hectolitre; and

(*b*) from £0.86 for each additional degree of original gravity exceeding 1030 degrees to £0.90 for each such additional degree.

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. Wine and made-wine

That, as from 6 o'clock in the evening of 15th March 1988, the rates of duty under sections 54 and 55 of the Alcoholic Liquor Duties Act 1979 shall be as follows—

Description of wine or made-wine	Rates of duty per hectolitre
	£
(1) Wine or made-wine of a strength not exceeding 15 per cent and not being sparkling	102.40
(2) Sparkling wine or sparkling made-wine of a strength not exceeding 15 per cent	169.10
(3) Wine or made-wine of a strength exceeding 15 per cent but not exceeding 18 per cent	176.60
(4) Wine or made-wine of a strength exceeding 18 per cent but not exceeding 22 per cent	203.70
(5) Wine or made-wine of a strength exceeding 22 per cent	203.70 plus £15.77 for every 1 per cent or part of 1 per cent in excess of 22 per cent.

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.

4. Cider

That, as from 6 o'clock in the evening of 15th March 1988, the rates of duty specified in section 62(1) of the Alcoholic Liquor Duties Act 1979 shall be increased from £15.80 per hectolitre to £17.33 per hectolitre.

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.

177603 B*

5. Tobacco products

That, as from 18th March 1988, the rates of duty on cigarettes, cigars and hand-rolling tobacco specified in Schedule 1 to the Tobacco Products Duty Act 1979 shall be increased—

(*a*) in the case of cigarettes, to an amount equal to 21 per cent of the retail price plus £31.74 per thousand cigarettes;

(*b*) in the case of cigars, to £48.79 per kilogram; and

(*c*) in the case of hand-rolling tobacco, to £51.48 per kilogram.

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.

6. Hydrocarbon oil

That, as from 6 o'clock in the evening of 15th March 1988—

(1) The rates of duty specified in section 6(1) of the Hydrocarbon Oil Duties Act 1979 shall be increased—

(*a*) in the case of light oil, from £0.1938 to £0.2044 a litre; and

(*b*) in the case of heavy oil, from £0.1639 to £0.1729 a litre.

(2) The rate of rebate of duty specified in section 13A of that Act (rebate on unleaded petrol) shall be increased from £0.0096 to £0.0202 a litre.

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. Vehicles excise duty

That the Vehicles (Excise) Act 1971 ("the 1971 Act") and the Vehicles (Excise) Act (Northern Ireland) 1972 ("the 1972 Act") shall have effect, in relation to licences taken out after 15th March 1988, 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 of Schedule 1 to each Act (annual rate of duty on motor bicycles etc.), in paragraph 2 (concession for certain bicycles first licensed before 1933 or, in Northern Ireland, 1935)—

(*a*) in sub-paragraph (a), for the words "for which a licence was taken out before the beginning of the year" there shall be substituted the words "constructed before"; and

(*b*) in sub-paragraph (b), for the words "224 pounds" there shall be substituted the words "101.6 kilograms".

(2) In Part II of Schedule 4 to the 1971 Act (annual rates of duty on goods vehicles), for Tables A, A(1) and A(2) (rates for rigid goods vehicles having plated gross weight exceeding 12 tonnes) there shall be substituted the Tables set out below:

TABLE A

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

GENERAL RATES

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	410	320	320
13	14	570	340	340
14	15	740	340	340
15	17	1,130	340	340
17	19	—	540	340
19	21	—	730	340
21	23	—	1,000	490
23	25	—	1,780	690
25	27	—	—	1,110
27	29	—	—	1,630
29	30.49	—	—	2,680

TABLE A(1)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

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	680	205	205
17	19	—	325	205
19	21	—	440	205
21	23	—	600	295
23	25	—	1,070	415
25	27	—	—	665
27	29	—	—	980
29	30.49	—	—	1,610

177603 B*2

TABLE A(2)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

RATES FOR SHOWMEN'S 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	105	90	90
13	14	145	90	90
14	15	185	90	90
15	17	285	90	90
17	19	—	135	90
19	21	—	185	90
21	23	—	250	125
23	25	—	445	175
25	27	—	—	280
27	29	—	—	410
29	30.49	—	—	670

(3) The Tables set out above shall also be substituted for Tables A, A(1) and A(2) in Part II of Schedule 4 to the 1972 Act, but modified for that purpose by the substitution for any reference to a plated gross weight of a reference to a relevant maximum weight.

(4) In Part II of Schedule 5 to each Act (annual rates of duty on motor cars etc.), in column 1, for paragraph 1 (vehicles first registered before 1947) there shall be substituted—

"1. Vehicles constructed before 1947."

8. Vehicles excise duty (exceptional loads, etc.)

That the Vehicles (Excise) Act 1971 ("the 1971 Act") and the Vehicles (Excise) Act (Northern Ireland) 1972 ("the 1972 Act") shall have effect, as from 1st June 1988, 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 section 1(2) of each Act (charge of duty), for the words "the first five Schedules" there shall be substituted the words "Schedules 1 to 5".

(2) In Part I of Schedule 3 to each Act (annual rates of duty on tractors etc.), in paragraph 6 (definition of "haulage vehicle"), after the words "other than one" there shall be inserted the words "to which Schedule 4A to this Act applies or which is".

(3) In Part I of Schedule 4 to each Act (annual rates of duty on goods vehicles), in paragraph 15—

(*a*) in sub-paragraph (1), in the definition of "goods vehicle", after the word "means" there shall be inserted the words "subject to sub-paragraph (1A) below"; and

(*b*) after that sub-paragraph there shall be inserted—

"(1A) In this Schedule 'goods vehicle' does not include a vehicle to which Schedule 4A to this Act applies."

(4) After Schedule 4 to the 1971 Act there shall be inserted—

"SCHEDULE 4A

ANNUAL RATES OF DUTY ON VEHICLES USED FOR CARRYING OR DRAWING EXCEPTIONAL LOADS

1. This Schedule applies to a vehicle—

(*a*) which is a heavy motor car used for the carriage of exceptional loads; or

(*b*) which is a heavy locomotive, light locomotive or motor tractor used to draw trailers carrying such loads,

and which, when so used, is authorised for use on roads by virtue of an order under section 42 of the Road Traffic Act 1972.

2. The annual rate of duty applicable to a vehicle to which this Schedule applies shall be £1,600.

3. Where a vehicle—

(*a*) to which this Schedule applies; and

(*b*) which would, but for paragraphs 5 and 15(1A) of Schedule 4 to this Act, be a goods vehicle of a description to which a higher rate of duty is applicable under this Act,

is at any time used on roads otherwise than as mentioned in paragraph 1 above, section 18 of this Act shall apply as if that vehicle were then being used in a manner or for a purpose which brings it within that description of vehicle.

4. In this Schedule—

'exceptional load' means a load which—

(*a*) by reason of its dimensions, cannot be carried by a heavy motor car or trailer, or a combination of a heavy motor car and trailer, which (in either case) complies in all respects with requirements of regulations under section 40 of the Road Traffic Act 1972; or

(*b*) by reason of its weight, cannot be carried by a heavy motor car or trailer, or a combination of a heavy motor car and trailer, which (in either case) has a total laden weight of not more than the specified amount and complies in all respects with such requirements;

'specified amount' means—

(*a*) in relation to any time before 1st October 1989, 32,520 kilograms;

(*b*) in relation to any time on or after that date, 38,000 kilograms;

and other expressions which are also used in the Road Traffic Act 1972 have the same meanings as in that Act."

(5) The provisions set out in paragraph (4) above shall also be inserted after Schedule 4 to the 1972 Act, but modified for that purpose by the substitution for any reference to the Road Traffic Act 1972, or to section 40 or 42 of that Act, of a reference to the Road Traffic (Northern Ireland) Order 1981, or to Article 28 or 29(3) of that Order.

(6) Section 2(1)(c) of the 1971 Act and section 2(1)(c) and (d) of the 1972 Act (seven day licences) shall cease to have effect.

9. Vehicles excise duty (recovery vehicles)

That provision may be made amending paragraph 8 of Part I of Schedule 3 to each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

10. Value added tax (registration)

That provision may be made as to registration and the cancellation of registrations under the Value Added Tax Act 1983.

177603 C*

11. Income tax (charge and rates for 1988–89)

That—

(1) Income tax shall be charged for the year 1988–89—

(*a*) at the basic rate of 25 per cent, and

(*b*) in respect of so much of an individual's total income as exceeds £19,300, at the rate of 40 per cent.

(2) The additional rate of income tax for the year 1988–89 shall be 10 per cent.

(3) Section 1(4) of the Income and Corporation Taxes Act 1988 (indexation) shall not apply for the year 1988–89.

(4) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 203 of that Act (pay as you earn) before 15th June 1988.

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. Income tax (personal reliefs)

That—

(1) In section 257 of the Income and Corporation Taxes Act 1988 (personal reliefs)—

(*a*) in subsection (1)(a) (married allowance) for "£3,795" there shall be substituted "£4,095";

(*b*) in subsections (1)(b) (single allowance) and (6) (wife's earned income relief) for "£2,425" there shall be substituted "£2,605";

(*c*) in subsection (2)(a) (married allowance: age 65 to 79), for "£4,675" there shall be substituted "£5,035";

(*d*) in subsection (2)(b) (single allowance: age 65 to 79), for "£2,960" there shall be substituted "£3,180";

(*e*) in subsection (3)(a) (married allowance: age 80 and over), for "£4,845" there shall be substituted "£5,205";

(*f*) in subsection (3)(b) (single allowance: age 80 and over), for "£3,070" there shall be substituted "£3,310";

(*g*) in subsection (5) (income limit for age allowance), for "£9,800" there shall be substituted "£10,600".

(2) Section 257(9) of that Act (indexation) shall not apply for the year 1988–89.

(3) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 203 of that Act (pay as you earn) before 15th June 1988.

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. Corporation tax (charge and rate for financial year 1988)

That corporation tax shall be charged for the financial year 1988 at the rate of 35 per cent.

14. Corporation tax (small companies)

That—

(*a*) the small companies rate for the financial year 1988 shall be 25 per cent; and

(*b*) the fraction mentioned in section 13(2) of the Income and Corporation Taxes Act 1988, and in section 95(2) of the Finance Act 1972, shall be one fortieth.

15. Income tax (minor personal allowances)

That—

(1) Sections 258, 263 and 264 of the Income and Corporation Taxes Act 1988 (housekeeper allowance, dependent relative allowance and son's or daughter's services allowance) shall not have effect for the year 1988–89 or any subsequent year of assessment.

(2) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 203 of that Act (pay as you earn) before 15th June 1988.

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.

16. Covenants and maintenance, etc.

That—

(1) The following sections shall be inserted at the beginning of Part IX of the Income and Corporation Taxes Act 1988—

"General rule.

347A.—(1) A payment to which this section applies shall not be a charge on the income of the person liable to make it, and accordingly—

(a) his income shall be computed without any deduction being made on account of the payment, and

(b) the payment shall not form part of the income of the person to whom it is made or of any other person.

(2) This section applies to any annual payment made by an individual which would otherwise be within the charge to tax under Case III of Schedule D except—

(a) a payment of interest;

(b) a covenanted payment to charity (within the meaning given by section 660(3));

(c) a payment made for bona fide commercial reasons in connection with the individual's trade, profession or vocation; and

(d) a payment to which section 125(1) applies.

(3) This section applies to a payment made by personal representatives (within the meaning given in section 701(4)) where—

(a) the deceased would have been liable to make the payment if he had not died, and

(b) this section would have applied to the payment if he had made it.

(4) A maintenance payment arising outside the United Kingdom shall not be within the charge to tax under Case V of Schedule D if, because of this section, it would not have been within the charge to tax under Case III if it had arisen in the United Kingdom; and for this purpose "maintenance payment" means a periodical payment (not being an instalment of a lump sum) which satisfies the conditions set out in paragraphs (a) and (b) of section 347B(5).

(5) No deduction shall be made under section 65(1)(b) on account of an annuity or other annual payment which would not have been within the charge to tax under Case III of Schedule D if it had arisen in the United Kingdom.

Qualifying maintenance payments.

347B.—(1) In this section "qualifying maintenance payment" means a periodical payment which—

(a) is made under an order made by a court in the United Kingdom, or under a written agreement the proper law of which is the law of a part of the United Kingdom,

(b) is made by one of the parties to a marriage (including a marriage which has been dissolved or annulled) either—

(i) to or for the benefit of the other party and for the maintenance of the other party, or

(ii) to the other party for the maintenance by the other party of any child of the family,

(c) is due at a time when—

(i) the two parties are not a married couple living together, and

(ii) the party to whom or for whose benefit the payment is made has not remarried, and

(d) is not a payment in respect of which relief from tax is available to the person making the payment under any provision of the Income Tax Acts other than this section.

(2) Notwithstanding section 347A (1) (a) but subject to subsections (3) and (4) below, a person making a claim for the purpose shall be entitled, in computing his total income for a year of assessment, to deduct an amount equal to the aggregate amount of any qualifying maintenance payments made by him which fall due in that year.

(3) The amount which may be deducted under this section by a person in computing his total income for a year of assessment shall not exceed the amount of the difference between the higher (married person's) relief and the lower (single person's) relief under subsection (1) of section 257 as it applies for the year to a person not falling within subsection (2) or (3) of that section.

(4) Where qualifying maintenance payments falling due in a year of assessment are made by a person who also makes other maintenance payments attracting relief for that year, subsection (3) above shall apply as if the limit imposed by it were reduced by an amount equal to the aggregate amount of those other payments.

(5) The reference in subsection (4) above to other maintenance payments attracting relief for a year is a reference to periodical payments which—

(a) are made under an order made by a court (whether in the United Kingdom or elsewhere) or under a written or oral agreement, and

(b) are made by a person—

(i) as one of the parties to a marriage (including a marriage which has been dissolved or annulled) to or for the benefit of the other party to the marriage and for the maintenance of the other party, or

(ii) to any person under 21 years of age for his own benefit, maintenance or education, or

(iii) to any person for the benefit, maintenance or education of a person under 21 years of age,

and in respect of which the person making them is entitled otherwise than under this section to make a deduction in computing his income for the year.

(6) The reference in subsection (1) above to a married couple living together shall be construed in accordance with section 282 (1), but section 282 (2) shall not apply for the purposes of this section.

(7) In this section—

(a) "child of the family", in relation to the parties to a marriage, means a person under 21 years of age—

(i) who is a child of both those parties, or

(ii) who (not being a person who has been boarded out with them by a public authority or voluntary organisation) has been treated by both of them as a child of their family; and

(b) "periodical payment" does not include an instalment of a lump sum."

(2) The following sections shall be inserted at the beginning of Part II of the Income and Corporation Taxes Act 1970—

"General rule.

51A.—(1) A payment to which this section applies shall not be a charge on the income of the person liable to make it, and accordingly—

(a) his income shall be computed without any deduction being made on account of the payment, and

(b) the payment shall not form part of the income of the person to whom it is made or of any other person.

(2) This section applies to any annual payment made by an individual which would otherwise be within the charge to tax under Case III of Schedule D except—

(a) a payment of interest;

(b) a covenanted payment to charity (within the meaning given by section 434(2) below);

(c) a payment made for bona fide commercial reasons in connection with the individual's trade, profession or vocation; and

(d) a payment to which section 48(1) of the Finance Act 1977 applies.

(3) This section applies to a payment made by personal representatives (within the meaning given in section 432(4) below) where—

(a) the deceased would have been liable to make the payment if he had not died, and

(b) this section would have applied to the payment if he had made it.

(4) A maintenance payment arising outside the United Kingdom shall not be within the charge to tax under Case V of Schedule D if, because of this section, it would not have been within the charge to tax under Case III if it had arisen in the United Kingdom; and for this purpose "maintenance payment" means a periodical payment (not being an instalment of a lump sum) which satisfies the conditions set out in paragraphs (a) and (b) of section 51B(5) below.

(5) No deduction shall be made under section 122(1)(b) below on account of an annuity or other annual payment which would not have been within the charge to tax under Case III of Schedule D if it had arisen in the United Kingdom.

Qualifying maintenance payments.

51B.—(1) In this section "qualifying maintenance payment" means a periodical payment which—

(a) is made under an order made by a court in the United Kingdom, or under a written agreement the proper law of which is the law of a part of the United Kingdom,

(b) is made by one of the parties to a marriage (including a marriage which has been dissolved or annulled) either—

(i) to or for the benefit of the other party and for the maintenance of the other party, or

(ii) to the other party for the maintenance by the other party of any child of the family,

(c) is due at a time when—

(i) the two parties are not a married couple living together, and

(ii) the party to whom or for whose benefit the payment is made has not remarried, and

(d) is not a payment in respect of which relief from tax is available to the person making the payment under any provision of the Income Tax Acts other than this section.

(2) Notwithstanding section 51A(1)(a) above but subject to subsections (3) and (4) below, a person making a claim for the purpose shall be entitled, in computing his total income for the year 1987–88, to deduct an amount equal to the aggregate amount of any qualifying maintenance payments made by him which fall due in that year.

(3) The amount which may be deducted under this section by a person in computing his total income for the year 1987–88 shall not exceed £1,370.

(4) Where qualifying maintenance payments falling due in the year 1987–88 are made by a person who also makes other maintenance payments attracting relief for that year, subsection (3) above shall apply as if the limit imposed by it were reduced by an amount equal to the aggregate amount of those other payments.

(5) The reference in subsection (4) above to other maintenance payments attracting relief for the year 1987–88 is a reference to periodical payments which—

(a) are made under an order made by a court (whether in the United Kingdom or elsewhere) or under a written or oral agreement, and

(b) are made by a person—

(i) as one of the parties to a marriage (including a marriage which has been dissolved or annulled) to or for the benefit of the other party to the marriage and for the maintenance of the other party, or

(ii) to any person under 21 years of age for his own benefit, maintenance or education, or

(iii) to any person for the benefit, maintenance or education of a person under 21 years of age,

and in respect of which the person making them is entitled otherwise than under this section to make a deduction in computing his income for the year.

(6) The reference in subsection (1) above to a married couple living together shall be construed in accordance with section 42(1) above, but section 42(2) above shall not apply for the purposes of this section.

(7) In this section—

(a) "child of the family", in relation to the parties to a marriage, means a person under 21 years of age—

(i) who is a child of both those parties, or

(ii) who (not being a person who has been boarded out with them by a public authority or voluntary organisation) has been treated by both of them as a child of their family, and

(b) "periodical payment" does not include an instalment of a lump sum."

(3) This Resolution shall have effect in relation to any payment falling due on or after 15th March 1988 unless it is made in pursuance of an existing obligation.

(4) In paragraph (3) above "existing obligation" means a binding obligation—

(a) under an order made by a court (whether in the United Kingdom or elsewhere) before 15th March 1988, or before the end of June 1988 on an application made on or before 15th March 1988;

(b) under a deed executed or written agreement made before 15th March 1988 and received by an inspector before the end of June 1988;

(c) under an oral agreement made before 15th March 1988, written particulars of which have been received by an inspector before the end of June 1988; or

(d) under an order made by a court (whether in the United Kingdom or elsewhere) on or after 15th March 1988, or under a written agreement made on or after that date, where the order or agreement replaces, varies or supplements an order or agreement within this subsection;

but subject to paragraph (5) below.

(5) An obligation within paragraph (4)(d) above is an existing obligation only if—

(a) it is an obligation to make periodical payments (not being instalments of a lump sum) which are made by a person—

(i) as one of the parties to a marriage (including a marriage which has been dissolved or annulled) to or for the benefit of the other party to the marriage and for the maintenance of the other party, or

(ii) to any person under 21 years of age for his own benefit, maintenance or education, or

(iii) to any person for the benefit, maintenance or education of a person under 21 years of age, and

(b) the order or agreement replaced, varied or supplemented provided for such payments to be made for the benefit, maintenance or, as the case may be, education of the same person.

(6) Section 351 of the Income and Corporation Taxes Act 1988 and section 65 of the Income and Corporation Taxes Act 1970 shall not apply to any payment in relation to which this Resolution has effect.

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.

17. Relief for interest (limit for 1988–89)

That, for the year 1988–89, the qualifying maximum referred to in sections 357 and 365(3) of the Income and Corporation Taxes Act 1988 (limit on relief for interest on certain loans) 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.

18. Relief for interest (home loans)

That provision may be made about relief for interest paid in relation to any land, caravan or house-boat used or to be used as an only or main residence.

19. Relief for interest (home improvements)

That—

(1) In relation to payments of interest made on or after 6th April 1988 section 355 of the Income and Corporation Taxes Act 1988 (limitations on relief for loans for purchase or improvement of land etc.) shall have effect with the insertion of the following subsections after subsection (2)—

"(2A) Section 354 shall not apply by virtue of subsection (1) (a) above where the interest is paid on a home improvement loan unless the loan was made before 6th April 1988.

(2B) In subsection (2A) above "home improvement loan" means—

(*a*) a loan to defray money applied in improving or developing land or buildings on land, otherwise than by the erection of a new building (which is not part of an existing residence) on land which immediately before the improvement or development began had no building on it, or

(*b*) a loan replacing (whether directly or indirectly) a loan within paragraph (a) above.

(2C) Where it is proved by written evidence that a loan made on or after 6th April 1988 was made in pursuance of an offer made by the lender before that date and that the offer either was in writing or was evidenced by a note or memorandum made by the lender before that date, the loan shall be deemed for the purposes of subsection (2A) above to have been made before that date."

(2) In relation to payments of interest made on or after 6th April 1988 section 356 of that Act (job-related accommodation) shall have effect with the insertion of the following subsection after subsection (1)—

"(1A) Subsection (1) above shall not apply where the interest is paid on a home improvement loan (as defined in section 355(2B)) unless the loan was made before 6th April 1988; and section 355 (2C) shall have effect for the purposes of this subsection as for those of section 355 (2A)."

(3) Interest paid by a housing association on a home improvement loan made on or after 6th April 1988 shall not be relevant loan interest for the purposes of Part IX of that Act; and for the purposes of this paragraph—

(*a*) "housing association" means a housing association for the time being approved for the purposes of section 488 of that Act or a self-build society for the time being approved for the purposes of section 489,

(*b*) "home improvement loan" has the same meaning as in subsection (2B) of section 355 of that Act, and

(*c*) subsection (2C) of that section shall have effect as it does for the purposes of subsection (2A) of that section.

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. Relief for interest (dependent relative's residence)

That—

(1) In sections 355(1) (a) and 357(2) (a) of the Income and Corporation Taxes Act 1988 the words "or of a dependent relative or former or separated spouse of his," shall not have effect in relation to payments of interest made on or after 6th April 1988.

(2) Paragraph (1) above shall not apply where the interest is paid on a loan made before 6th April 1988 if interest paid on it at a relevant time was eligible for relief under section 353 of that Act only because the land, caravan or house-boat concerned was used as the only or main residence of the same dependent relative or former or separated spouse.

(3) In paragraph (2) above "relevant time" means—

(*a*) the last time when interest was paid on the loan before 6th April 1988, or

(*b*) if no interest was paid on it before that date, any time within the period of 12 months (or any longer period substituted in relation to the case under section 355(2) of that Act) after the date on which the loan was made;

but sub-paragraph (*b*) above shall not apply if at any time after the date on which the loan was made and before the date on which the land, caravan or house-boat was first used as mentioned in paragraph (2) above, the land, caravan or house-boat was used for any other purpose.

(4) In section 358(4) (a) of that Act (relief where borrower deceased) the words "or of any dependent relative of the deceased" shall not have effect in relation to payments of interest made on or after 6th April 1988 unless—

(*a*) the deceased died before that date, and

(*b*) the land, caravan or house-boat was used as the only or main residence of the dependent relative before that date.

(5) Where it is proved by written evidence that a loan made on or after 6th April 1988 was made in pursuance of an offer made by the lender before that date and that the offer either was in writing or was evidenced by a note or memorandum made by the lender before that date, the loan shall be deemed for the purposes of this Resolution to have been made before that date.

(6) Interest paid by a housing association shall not be relevant loan interest for the purposes of Part IX of that Act where by virtue of this Resolution it would not be relevant loan interest if paid by a member of the association; and in this paragraph "housing association" means a housing association for the time being approved for the purposes of section 488 of that Act or a self-build society for the time being approved for the purposes of section 489.

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. Benefits in kind (cars)

That—

(1) For the year 1988–89 and subsequent years of assessment, Schedule 6 to the Income and Corporation Taxes Act 1988 (taxation of directors and others in respect of cars) shall have effect with the substitution for Part I (tables of flat rate cash equivalents) of the following—

PART I

TABLES OF FLAT RATE CASH EQUIVALENTS

TABLE A

Cars with an original market value up to £19,250 and having a cylinder capacity

Cylinder capacity of car in cubic centimetres	Age of car at end of relevant year of assessment	
	Under 4 years	4 years or more
1400 or less	£1,050	£700
More than 1400 but not more than 2000	£1,400	£940
More than 2000	£2,200	£1,450

TABLE B

Cars with an original market value up to £19,250 and not having a cylinder capacity

Original market value of car	Age of car at end of relevant year of assessment	
	Under 4 years	4 years or more
Less than £6,000	£1,050	£700
£6,000 or more but less than £8,500	£1,400	£940
£8,500 or more but not more than £19,250 ...	£2,200	£1,450

TABLE C

Cars with an original market value of more than £19,250

Original market value of car	Age of car at end of relevant year of assessment	
	Under 4 years	4 years or more
More than £19,250 but not more than £29,000	£2,900	£1,940
More than £29,000	£4,600	£3,060

(2) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 203 of the Income and Corporation Taxes Act 1988 (pay as you earn) before 15th June 1988.

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. Woodlands

That provision may be made about the commercial occupation of woodlands.

23. Business expansion scheme

That provision may be made amending Chapter III of Part VII of the Income and Corporation Taxes Act 1988 and the corresponding enactments repealed by that Act.

24. Payments on termination of employment, etc.

That provision may be made abolishing relief under paragraphs 4 to 7 of Schedule 11 to the Income and Corporation Taxes Act 1988.

25. Oil licences

That provision may be made with respect to the application of—

(*a*) the Capital Gains Tax Act 1979 and any enactment which falls to be construed as one with that Act,

(*b*) certain provisions of the Capital Allowances Act 1968, and

(*c*) section 55 of and Schedules 13 and 14 to the Finance Act 1986 (capital allowances in respect of mineral extraction),

in relation to certain disposals (including part disposals) of licences under the Petroleum (Production) Act 1934 and the Petroleum (Production) Act (Northern Ireland) 1964, being disposals occurring before as well as after the passing of this Resolution.

26. Company residence and migration

That charges to corporation tax may be imposed by provisions for determining whether or not a company is to be regarded as resident in the United Kingdom, and provisions relating to companies ceasing to be resident there.

27. Charities

That, for the year 1988–89 and subsequent years of assessment, section 202(7) of the Income and Corporation Taxes Act 1988 (which limits to £120 the deductions attracting relief) shall have effect with the substitution of "£240" for "£120".

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.

28. Entertainment expenses

That provision may be made repealing section 577(2) of the Income and Corporation Taxes Act 1988.

29. Premiums for leases, etc.

That provision may be made abolishing relief under Schedule 2 to the Income and Corporation Taxes Act 1988.

30. Underwriters

That provision (including provision for the years of assessment 1985–86, 1986–87 and 1987–88) may be made about underwriters.

31. Foreign public revenue dividends.

That provision may be made about dividends payable out of any public revenue, within the meaning of Part III of the Income and Corporation Taxes Act 1988, other than the public revenue of the United Kingdom.

32. Employee share acquisitions

That provision (including provision having retrospective effect) may be made about the acquisition of shares or interests in shares by directors or employees (or prospective or former directors or employees).

33. Capital allowances

That provision may be made with respect to allowances under the Capital Allowances Act 1968 or Chapter I of Part III of the Finance Act 1971.

34. Capital gains tax (rates)

That provision may be made about the rates at which capital gains tax is chargeable and for related purposes.

35. Capital gains (assets held on 31st March 1982)

That provision may be made as to the taxation of capital gains and losses on the disposal of assets acquired on or before 31st March 1982, and as to related matters.

36. Capital gains (married couples)

That provision may be made about chargeable gains of husbands and wives.

37. Capital gains (annual exempt amount)

That provision may be made as to the operation of section 5 of the Capital Gains Tax Act 1979 for the year 1988–89.

38. Capital gains (dependent relative's residence)

That provision may be made removing the relief given by section 105 of the Capital Gains Tax Act 1979.

39. Capital gains (indexation)

That provision (including provision having retrospective effect) may be made removing indexation allowance in the case of shares in building societies and industrial and provident societies and of certain disposals by companies of shares or debts.

40. Transfers within a group

That provision may be made excluding certain cases from the operation of section 273 of the Income and Corporation Taxes Act 1970.

41. Personal equity plans

That provision may be made enabling regulations under section 149D of the Capital Gains Tax Act 1979 to secure, in relation to disposals on or after 18th January 1988, that losses are in certain circumstances disregarded for the purposes of capital gains tax.

42. Investment trusts

That provision may be made amending the definition of "investment trust" in the Income and Corporation Taxes Act 1988 and treating section 93(6) of the Finance Act 1972 as not having been repealed.

43. Assessment procedure

That provision may be made about assessments relating to income arising in the year for which the assessments are made.

44. Oil allowance

That provision may be made reducing the oil allowance under section 8 of the Oil Taxation Act 1975 in respect of certain oil fields.

45. Stamp duty (abolition of capital duty)

That the following provisions shall have effect for the period beginning with 22nd March 1988 and ending 31 days after the earliest of the dates mentioned in section 50(2) of the Finance Act 1973—

(1) The stamp duties chargeable by virtue of section 47 of the Finance Act 1973 and Article 8 of the Finance (Miscellaneous Provisions) (Northern Ireland) Order 1973 (stamp duties on documents relating to chargeable transactions of capital companies) are abolished; and accordingly—

(*a*) that section, section 48 of that Act and Schedule 19 to that Act; and

(*b*) that Article, Article 9 of that Order and Schedule 2 to that Order,

shall cease to have effect.

(2) Paragraph (1) above shall have effect in relation to—

(*a*) any transaction occurring on or after 22nd March 1988;

(*b*) any transaction occurring on or after 16th March 1988 in respect of which the relevant document is not stamped before 22nd March 1988;

(*c*) any exempt transaction occurring before 22nd March 1988 in respect of which a relevant event occurs on or after 22nd March 1988; and

(*d*) any exempt transaction occurring before 16th March 1988 in respect of which a relevant event occurs on or after 16th March 1988 and the relevant duty is not paid before 22nd March 1988.

(3) For the purposes of section 14(4) of the Stamp Act 1891 (instruments not to be given in evidence etc. unless stamped in accordance with the law in force at the time of execution), the law in force—

(*a*) in a case falling within paragraph (2)(b) above, at the time of execution of the relevant document; or

(*b*) in a case falling within paragraph (2)(d) above, on the date on which the relevant event occurs,

shall be deemed to be that as varied in accordance with this Resolution.

(4) In this Resolution—

"exempt transaction" means a transaction which is exempt by virtue of paragraph 10(1) of Schedule 19 to the Finance Act 1973;

"relevant document" has the meaning given by section 47 of that Act;

"relevant duty" means the duty payable under paragraph 10(4) of Schedule 19 to that Act;

"relevant event" means such an event as is mentioned in paragraph 10(3)(a) or (b) of Schedule 19 to that Act,

and any reference in this paragraph to section 47 of or Schedule 19 to that Act includes a reference to Article 8 of or Schedule 2 to the Finance (Miscellaneous Provisions) (Northern Ireland) Order 1973.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of section 50 of the Finance Act 1973.

46. Stamp duty (abolition of unit trust instrument duty)

That the following provisions shall have effect for the period beginning with 22nd March 1988 and ending 31 days after the earliest of the dates mentioned in section 50(2) of the Finance Act 1973—

(1) The stamp duty chargeable by virtue of the heading in Schedule 1 to the Stamp Act 1891 "Unit Trust Instrument" is abolished; and accordingly that heading and the following enactments, namely—

(*a*) section 53 of the Finance Act 1946;

(*b*) section 24 of the Finance (No. 2) Act (Northern Ireland) 1946;

(*c*) section 30 of the Finance Act 1962; and

(*d*) section 3 of the Finance Act (Northern Ireland) 1962,

shall cease to have effect.

(2) Paragraph (1) above shall have effect in relation to—

(*a*) any trust instrument executed on or after 22nd March 1988;

(*b*) any trust instrument executed on or after 16th March 1988 which is not stamped before 22nd March 1988;

(*c*) any property becoming trust property on or after 22nd March 1988; and

(*d*) any property becoming trust property on or after 16th March 1988 in respect of which the trust instrument is not stamped before 22nd March 1988.

(3) For the purposes of section 14(4) of the Stamp Act 1891 (instruments not to be given in evidence etc. unless stamped in accordance with the law in force at the time of execution), the law in force—

(*a*) at the time of execution of a trust instrument falling within paragraph (2)(b) above; or

(*b*) on the day on which property falling within paragraph (2)(d) above becomes trust property,

shall be deemed to be that as varied in accordance with this Resolution.

(4) In this Resolution "trust instrument" and "trust property" have the meanings given by section 57 of the Finance Act 1946 or section 28 of the Finance (No. 2) Act (Northern Ireland) 1946.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of section 50 of the Finance Act 1973.

47. Stamp duty (paired shares)

That provision (including provision having retrospective effect) may be made with respect to stamp duty in cases where shares in a company incorporated in the United Kingdom and shares in a company not so incorporated may not be transferred except in units each comprising one share in each company.

48. Stamp duty reserve tax

That charges to stamp duty reserve tax may be imposed by provisions (including provisions having retrospective effect) relating to that tax.

49. 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 RESOLUTION

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 about the taxation of persons who are or have been married,

(*b*) provisions about the application of Chapter I of Part VII of the Income and Corporation Taxes Act 1988 to individuals not resident in the United Kingdom,

(*c*) provisions about relief under section 259 of that Act,

(*d*) provisions reducing the percentages specified in sections 266(5)(a) and 274(3)(a) of, and paragraph 3(3)(a) of Schedule 14 to, that Act, and

(*e*) provisions amending the Taxes Management Act 1970.

FINANCE (No. 2) BILL [MONEY]: *Queen's Recommendation signified*

That, for the purposes of any Act resulting from the Finance (No. 2) Bill, it is expedient to authorise the making out of money provided by Parliament of payments to General Commissioners acting for divisions in Northern Ireland and payments to or in respect of clerks and assistant clerks to such Commissioners.

BUDGET SNAPSHOT : 15 MARCH 1988

1. TAX PROPOSALS

(i) Income Tax

Allowances

Main Allowances increased by twice rate of inflation. (RPI increase in year to December 1987 was 3.7 per cent).

Allowances (£)	1987-88	1988-89
Married Man's	3795	4095
Single (and wife's earned income)	2425	2605
Additional Personal (and widow's bereavement)	1370	1490
Aged: married		
age 65-79	4675	5035
age 80 and over	4845	5205
Aged: single		
age 65-79	2960	3180
age 80 and over	3070	3310
Aged income limit	9800	10,600

Unmarried couples with children to be limited to one additional personal allowance between them from April 1989.

Basic rate reduced from 27 per cent to 25 per cent.

Government's new aim is ultimately to reduce basic rate to 20 per cent.

Basic rate limit increased by twice rate of inflation.

Higher rates

Single higher rate of 40 per cent; rates of 45 per cent to 60 per cent abolished.

Rate of tax (per cent)	Taxable income 1987-88	1988-89
40	17,901-20,400	over 19,300
45	20,401-25,400	
50	25,401-33,300	
55	33,301-41,200	
60	over 41,200	

Additional rate on income of discretionary trusts reduced from 18 per cent to 10 per cent.

(ii) **Mortgages and home improvement loans**

Mortgage interest relief (MIR) limit to remain at £30,000 for 1988-89.

MIR to be changed to apply to residence instead of to individual or married couple; so unmarried sharers will get equal portions of ceiling (from 1 August 1988).Tax relief for home improvement loans to be abolished (from 6 April 1988). In both cases existing loans unaffected.

(iii) **Company cars**

Scale charges for private use of company cars to be doubled for 1988-89 over 1987-88 levels. For example 1987-88 scale charge of £700 on a 1.6 litre car, worth at least £3000 to an employee, will rise to £1400 in 1988-89. (Subsumes 1987 Budget announcement on 1988-89 scale charges).

Car **fuel** scale charges - No change

(iv) **Forestry**

Subject to transitional arrangements, commercial woodlands to be wholly removed from income and corporation tax.

Special Schedule B for income from woodland to be abolished (from 6 April 1988).

Parallel increases in planting grants for commercial woodlands.

(v) **Excise duties**

On	Unit	Duty increase (per cent)	Price increase including VAT (pence)	Comes into effect
Beer*	pint	4.7	1	6pm
Table wine	75cl	4.5	3.8	15 March 1988
Cider	pint	9.7	1	
Spirits (Whisky etc)	75cl	No Change		
Fortified wine (port, sherry etc)	70cl	4.5	6.1 sherry 7.1 port	
Cigarettes	20 King size	3.7	3.4	midnight 17-
Cigars	5 small	3.7	1.9	18 March 1988
Pipe tobacco		No Change		
Leaded petrol	gallon	5.5	5.5	6pm
Unleaded petrol		No Change		15 March 1988
Derv	gallon	5.5	4.7	

* Minimum duty charge on beer to be abolished (from 1 October 1988)

Differential in favour of unleaded petrol therefore doubled; should give it 6p price advantage over 4-star leaded.

Lower strength mixed drinks (eg 'coolers') to be subject to duty according to strength on a scale related to table wine duty. To be introduced later in 1988 following consulations.

(vi) **Vehicle Excise Duty** (VED)

No change in £100 VED on cars and light vans.
No change for most lorries; but VED increased for some very heavy goods vehicles.

(vii) **Value Added Tax** (VAT)

No change in 15% rate.

Registration threshold (annual turnover below which traders are not obliged to register) up from £21,300 to £22,100.

Clarification of VAT treatment of confectionery; main effect to bring to all cereal bars into tax (from 1 May 1988).

(viii) **Maintenance payments**

Maintenance payments under new court orders and agreements to be tax-free for recipients.

Maintenance payments under new court orders and agreements will qualify for tax relief only to separated or divorced spouses up to a new limit equal to difference between single and married allowance (£1490 in 1988-89) (from 15 March 1988).

Transitional arrangements for existing orders and agreements.

(ix) **Covenants**

For new non-charitable covenants, tax relief for donor and tax liability for recipient abolished (from 15 March 1988). Existing covenants unaffected.

Parallel reduction in parental contribution scale for new students.

(x) **Charities**

No change for covenants to charities. Limit on donations under payroll giving scheme doubled to £240 a year or £20 a month.

(xi) **Personal Equity Plans** (PEPs)

Limit to be increased from £2400 to £3000 for PEP year 1988.

Limit on investment in unit and/or investment trusts to be £540, (up from £420), or 25 per cent of subscription if higher.

Limit on cash in PEPs to be £300 (up from £240), or if greater, 10 per cent of market value of plan investments.

(xii) **Capital Gains Tax** (CGT)

Gains accrued before 31 March 1982 to be exempt: new base date to be applied to disposals made from 6 April 1988. Eliminates entirely taxation of inflationary gains.

Annual exempt amount down from £6600 to £5000 for individuals, and from £3300 to £2500 for most trusts.

Gains to be taxed at marginal rates of income tax (ie either 25 per cent or 40 per cent) as if marginal slice of income.

Retirement relief extended to half of gains between present full retirement relief limit of £125,000 and £500,000.

Retirement relief extended to half of gains between present full retirement relief limit of £125,000 and £500,000.

(xiii) **Independent taxation and marriage**

Major reform of taxation of husband and wife giving privacy and independence to married women from earliest practicable date of April 1990.

Husbands and wives to be given full independence in their own tax affairs.

Each partner to have own annual Capital Gains Tax threshold (transfers between spouses to remain entirely tax free).

(xiv) **Inheritance Tax** (IHT)

Threshold up from £90,000 to £110,000 (from 15 March 1988).

Present four rates replaced by a flat rate of 40 per cent.

(xv) **Corporation Tax** (CT)

Main CT rate of 35 per cent unchanged.

Small companies' rate of CT - down from 27 per cent to 25 per cent.

Advance Corporation Tax (ACT) rate reduced in line with basic income tax rate.

Tax on pre-1982 capital gains abolished.

(xvi) **Business Expansion Scheme** (BES)

BES to be targetted on smaller companies by new £500,000 limit on total amount of investment in a company in any 12 month period (£5 million for ship chartering companies)

BES extended to individuals investing in companies specialising in letting houses or flats on assured tenancies: relief available to 1993 with a limit on total investment in a company of £5 million in any 12 month period.

(xvii) **Stamp duties**

One per cent Capital Duty on share issues - abolished.

0.25 per cent Unit Trust Instrument Duty on property put into unit trusts - abolished.

No change to main Stamp Duty and Stamp Duty Reserve Tax rates.

(xviii) **Business entertainment**

The exception to the direct tax rules which allows expenditure on the entertainment of, or gifts to, overseas customers to be allowable for tax, to be removed (from 15 March 1988). Similar exception to VAT rules for expenditure of overseas customers to be removed (from 1 August 1988).

(xix) **Company migration**

Requirement for Treasury consent to company migration abolished. New test of company residence based upon incorporation in UK. Companies not incorporated here will continue to be resident if centrally managed and controlled in UK. Companies which migrate from UK to pay tax on accrued gains.

(xx) **North Sea**

A number of changes include a new regime for Southern Basin and on-shore fields: will mean end to royalties for all future (ie post-1982) oil and gas fields.

(xxi) **Building societies**

Package of measures designed to eliminate unintended tax obstacles for societies wishing to convert from mutual status to become public limited companies (Plcs).

(xxii) **Lloyd's**

Arrangements for assessment and collection of tax from Lloyd's members to be reformed and simplified.

2. DIRECT REVENUE EFFECTS OF BUDGET MEASURES

£ million	1988-89 Change from non-indexed base	1988-89 Change from indexed base
Income tax: allowances	-1530	- 765
basic rate	-2570	-2570
higher rates	-1025	- 965
Excise Duties	+ 575	+ 20
Other changes	+ 275	+ 295
	-4275	-3985

3. PUBLIC SECTOR FINANCES (PSBR)

The public sector borrowing requirement (PSBR) set at minus £3 billion (ie net repayment) in 1988-89 equal to minus ¾ per cent of GDP. 1987-88 outturn expected to be net repayment of £3 billion, minus ¾ per cent of GDP.

PSBR for rest of Medium Term Financial Strategy period up to 1991-92 assumed to be zero (or borrowing of 1 per cent of GDP if privatisation proceeds are excluded).

CHANCELLOR OF THE EXCHEQUER'S BUDGET STATEMENT

15 MARCH 1988

INDEX

SECTION	PAGE	TITLE
A	1	INTRODUCTION
B	2- 4	THE ECONOMIC BACKGROUND
C	5	MONETARY POLICY
D	6- 7	PUBLIC SECTOR FINANCES
E	8	TAX REFORM
F	9-10	INDEPENDENT TAXATION
G	11-14	BUSINESS TAXATION
H	15-17	COVENANTS AND MAINTENANCE
J	18-19	TAXES ON SPENDING
K	20-22	TAXES ON CAPITAL
L	23-27	INCOME TAX
M	28	PERORATION

CHANCELLOR OF THE EXCHEQUER'S BUDGET STATEMENT 1988

A INTRODUCTION

I am reliably informed that my Budget speech last year was the shortest this century. My Budget speech this year is likely to have a different claim to a place in the history books. Not, the House will be glad to learn, as the longest Budget speech this century, but as the last untelevised Budget speech.

As I once again present the first Budget of a new Parliament, the British economy is stronger than at any time since the War. As the British people recognised last June, this has not happened by chance. It has happened because, for almost nine years now, we have followed the right policies and stuck to them. I reaffirm those policies today. In particular, there will be no letting up in our determination to defeat inflation.

I shall begin, as usual, with the economic background to the Budget. I shall then deal with monetary policy, and with the public finances this year and next, and indeed for the remainder of this Parliament. Finally, I shall propose a number of measures designed to improve the performance of the economy still further, by changing the structure of taxation. For this will be a tax reform Budget.

As usual, the Financial Statement and Budget Report, together with a number of press releases filling out the details of my tax proposals, will be available from the Vote Office as soon as I have sat down.

B. THE ECONOMIC BACKGROUND

I start with the economic background.

The strength and durability of the economic upswing has now exceeded all post-War records. We are about to enter our eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. And even without looking to 1988, the six years to 1987 have been the longest period of steady growth, at a rate averaging 3 per cent a year, for half a century.

This performance compares favourably not only with our own past, but also with the economic performance of other countries. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies. During the 1980s, our growth rate has been the highest of all the major European economies.

In 1987 as a whole, output grew by getting on for 4½ per cent, rather more than the rate of inflation which averaged 4.2 per cent. At the same time unemployment fell faster than in any other year since the War, in every region of the country, and more than in any other major nation.

The plain fact is that the British economy has been transformed. Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise.

Nowhere has this transformation been more marked than in manufacturing, where output rose last year by 5½ per cent. This outstanding performance was founded on a further big improvement in productivity. In the 1980s, output per head in manufacturing has gone up faster in Britain than in any other major industrial country, and we led the way once again last year. This is in stark contrast to the 1960s and 1970s, when in the growth of manufacturing productivity, as in so much else, we were bottom of the league.

The current account of the balance of payments is now estimated to have been in deficit last year by a little over £1½ billion, after seven successive years of surplus. This is well below the deficit I forecast at the time of last year's Budget, despite growth turning out stronger than forecast. The reason for the smaller deficit was the better than expected performance of visible trade, with exports of manufactures up by 8½ per cent. This continues the pattern of the 1980s, with British manufacturers maintaining their share of an expanding world trade - the crucial test of competitiveness - after decades during which Britain's share was steadily declining.

Looking ahead, I expect 1988 to be yet another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year.

The pace of non-oil growth is likely to ease from now on, returning to the underlying trend of the past few years. Output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by 3½ per cent. Business investment is forecast to grow particularly strongly, with a rise of 9 per cent.

As last year, inflation is forecast to end the year at 4 per cent. While this is still too high, it is a testimony to the soundness of our policies that the present strong and sustained upswing, unlike almost all its predecessors, has not led to a resurgence of inflation.

With growth in the UK economy likely to continue to outpace that of most other major countries, particularly in continental Europe, and with our oil surplus falling as North Sea oil production declines, the current account of the balance of payments is forecast to remain in deficit this year, by some £4 billion, equivalent to less than one per cent of GDP. Given the strength of the economy in general, and of our public finances in particular, not to mention our massive net overseas assets, I foresee no difficulty in financing a temporary current account deficit of this scale.

But the outlook both for exports and for jobs will depend critically on employers keeping their costs firmly under control. Unit labour costs in manufacturing scarcely rose at all in 1987. It is vital that employers do not let this slip, and keep a tight grip on all their costs, not least pay.

In my Budget speech last year, I warned that:

> "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."

That remains the case. The dramatic collapse in the world's equity markets last October was not the second coming of 1929 and the harbinger of a 1930s-style world slump, as so many feared at the time - although it could have been a great deal nastier had the authorities in the major nations not responded in a prompt and appropriate way. It was essentially an overdue market correction which did little more than reverse the rapid rise in share prices of the previous year. Certainly, business confidence does not seem to have been greatly affected, and growth in the seven major industrial countries as a whole this year is likely to be only slightly lower than last year.

But Black Monday was also a warning. The world's three largest economies - the United States, Japan and Germany - have made a number of the policy adjustments necessary to reduce the imbalances which have for so long afflicted them, and there is evidence that the measures they have taken are starting to bear fruit. But there is still a long way to go; and meanwhile there is the constant danger that the process of adjustment, and with it the world economy as a whole, could be gravely damaged either by further wild gyrations in the dollar exchange rate or by a lurch into protectionism.

Success in reducing these imbalances depends on countries putting the right fiscal and monetary policies in place, and keeping them there. But the necessary adjustments are much more likely to be achieved if the objective of greater exchange rate stability is given an explicit role in the process of international co-operation, as has been the case for well over two years now. I can assure the House that we shall continue to play our full part.

C. MONETARY POLICY

Meanwhile, the maintenance of sound money and prudent public finances will keep us in the best possible position to weather any storms we may face, either at home or abroad.

The Medium-Term Financial Strategy, now entering its ninth year, will continue to provide the framework for reducing the growth of money GDP, and hence inflation, over the medium term. These will be achieved by maintaining firm monetary discipline, buttressed by a prudent fiscal stance.

Achieving the gradual eradication of inflation requires a steady reduction in monetary growth in the medium term. While I shall continue to take account of broad money, or liquidity, as last year there will be no explicit target. For narrow money, MO, the target range for 1988-89 will be 1-5 per cent, as foreshadowed in last year's MTFS.

Short term interest rates remain the essential instrument of monetary policy. Within a continuous and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure downward pressure on inflation.

Exchange rates play a central role in domestic monetary decisions as well as in international policy co-operation. I believe that most businessmen have welcomed the greater exchange rate stability over the past year. It is important that they also accept the financial discipline inherent in this policy.

D. PUBLIC SECTOR FINANCES

As I pointed out a moment ago, a sound monetary policy needs to be buttressed by a prudent fiscal stance.

At one time, it was regarded as the hallmark of good government to maintain a balanced budget; to ensure that, in time of peace, government spending was fully financed by revenues from taxation, with no need for government borrowing. Over the years, this simple and beneficent rule was increasingly disregarded, culminating in the catastrophe of 1975-76, when the last Labour Government had a budget deficit, or Public Sector Borrowing Requirement, equivalent in today's terms to some £40 billion.

This profligacy not only brought economic disaster and the national humiliation of a bail-out by the IMF. It also added massively to the burden of debt interest, not merely now but for generations to come.

Thus one of our main objectives, when we first took office in 1979, was to bring down government borrowing. We steadily reduced the Public Sector Borrowing Requirement from the 5¼ per cent of GDP we inherited to only three quarters of one per cent in 1986-87. Today I am able to tell the House that in 1987-88, the year now ending, we are set to secure something previously achieved only on one isolated occasion since the beginning of the 1950s: a balanced budget.

Indeed, we have gone even further. It looks as if the final outturn for 1987-88 will be a budget surplus of £3 billion. Instead of a PSBR, a PSDR: not a Public Sector Borrowing Requirement, but a public sector debt repayment.

And, incidentally, even if there had been no privatisation proceeds at all, the resulting PSBR, at a half of one per cent of GDP, would still have been the lowest in all but one year since the beginning of the 'fifties.

Some two thirds of this substantial undershoot of the PSBR I set at the time of last year's Budget is the result of the increased tax revenues that have flowed from a buoyant economy; while the remaining third is due to lower than expected public expenditure, again the outcome of a buoyant economy: less in benefits for the unemployed, higher receipts from council house sales, and improved trading performance by the nationalised industries.

A balanced budget is a valuable discipline for the medium term. It represents security for the present and an investment for the future. Having achieved it, I intend to stick to it. In

other words, henceforth a zero PSBR will be the norm. This provides a clear and simple rule, with a good historical pedigree.

In the very nature of things, there are bound to be fluctuations on either side from year to year. It is in this context that I have to set the precise fiscal stance for the year ahead, 1988-89.

I have already announced, in the Autumn Statement last November, a £2½ billion increase in public expenditure plans for 1988-89, with resources allocated to programmes up by over £4½ billion. This means that over the coming year we will be spending at least £1,100 million more on health than in the year now ending, at least £900 million more on education, and at least £500 million more on law and order.

These large increases in public expenditure programmes for the coming year will be financed partly from the saving in debt interest resulting from the reduction in Government borrowing. Debt interest payments now account for about three quarters of a percentage point less of GDP than they did only three years ago. This may not sound very much, but it implies a saving of some £3 billion a year. And the balanced budget path I have set out in this year's MTFS will help to reduce debt interest payments still further.

We have thus secured an enviable virtuous circle in public finance: lower borrowing and lower tax rates create both the scope and the incentive for the private sector to expand. And the private sector then generates higher revenues which permit further reductions in borrowing or tax.

But even so, the increased public spending now planned for 1988-89 inevitably implies less scope for reducing taxation. Moreover, I have decided that for the year immediately ahead, the path of prudence and caution is to budget for a further surplus of the same size as this year's expected outturn - that is to say, a further public sector debt repayment of some £3 billion.

What this means is that it will not be possible in this Budget to reduce the burden of taxation; that is to say, to reduce taxation as a share of GDP.

However, the House may be pleased to know that, with a strong and healthy economy, a constant burden of taxation implies a reduction in tax rates.

E. TAX REFORM

I indicated at the outset that this will be a radical, tax-reforming Budget.

Over the past few years there has been increasing recognition, throughout the industrialised world, of the importance of tax reform in improving economic performance. And for us in this country, the lesson is underlined by the success of the reform of business taxation I announced in my first Budget, at the start of the last Parliament.

But while tax reform is a simple matter for the armchair critic, it is very much more difficult in practice. It is difficult technically and difficult politically - since any tax system, however it arose, creates powerful vested interests in favour of the status quo. Nor, indeed, is it right that change should be too violent. People have a right to expect a reasonable degree of stability in the framework within which they order their affairs. But change there has to be.

So the tax-reforming Chancellor must tread a careful path. That I have sought to do in this Budget. The proposals I shall be making today amount to a substantial and coherent package which will be of increasing benefit to the taxpayer and the economy as a whole in the years to come.

I have been guided by four basic principles. First, the need to reduce tax rates where they are clearly too high. Second, the need to reduce or abolish unwarranted tax breaks. Third, the need to make life a little simpler for the taxpayer. And, fourth, the need to remove some manifest injustices from the system.

F. INDEPENDENT TAXATION AND TAX PENALTIES ON MARRIAGE

My first reform concerns the taxation of marriage.

The present system for the taxation of married couples goes back 180 years. It taxes the income of a married woman as if it belonged to her husband. Quite simply, that is no longer acceptable.

This is a matter on which there has already been extensive consultation. The time has come to take action.

I therefore propose a major reform of personal taxation, with two objectives. First, to give married women the same privacy and independence in their tax affairs as everyone else. And second, to bring to an end the ways in which the tax system can penalise marriage.

I have decided to introduce, at the earliest practicable date, April 1990, a completely new system of independent taxation.

Under this new system, a husband and wife will be taxed independently, on income of all kinds. All taxpayers, male or female, married or single, will be entitled to the same personal allowance, which will be available against all income, whether from earnings, pensions or savings.

In addition, there will be a married couple's allowance, equal to the difference under the present system between the married man's allowance and the single allowance. This new allowance will go in the first instance to the husband, so that his tax threshold does not fall. But if he does not have enough income to use it in full, he will be able to transfer any unused portion to his wife, to set against her income.

This ensures that the tax system will continue to recognise marriage, as it should do. At the same time, from 1990 married women will pay their own tax, on the basis of their own income, and have their own tax return, when one is necessary. There will, of course, be nothing to stop married women from asking their husbands to handle their tax affairs, or vice versa, as before; and many will no doubt do so. But what matters is that, for the first time ever, married women will have the right to complete independence and privacy so far as tax is concerned.

In the same way, a husband and wife will be taxed independently on any capital gains they may have, with an annual exemption each, instead of one between them, as now. But

transfers of capital between husband and wife will continue to be entirely free of any liability to tax.

As I have said, the new system will come into force in 1990. This is much sooner than would have been possible for most of the alternatives that have been canvassed. The necessary legislation will be contained in this year's Finance Bill. The cost of this historic reform, which for the first time ever gives a fair deal to married women, will be a little over £½ billion in 1990-91.

I mentioned a few moments ago the tax penalties on marriage. It is clearly wrong that some couples should find themselves paying more tax, simply because they are married. I propose to put that right.

Independent taxation by itself will remove the most common penalty - the taxation of a married woman's income at her husband's marginal rate. But there are other tax penalties on marriage, and I propose to abolish all of them. These changes need not await the introduction of Independent Taxation.

Under the present system an unmarried couple can get twice as much mortgage interest relief as a married couple. This has attracted increasing - and justified -criticism. I propose to put a stop to it as from August this year. Thereafter, the £30,000 limit on mortgage interest relief will be related to the house or flat, irrespective of the number of borrowers. This was the solution put forward in the 1986 Green Paper on Personal Taxation, and it was widely welcomed. Existing mortgages will be unaffected.

Another anomaly is that an unmarried couple with children can each claim the Additional Personal Allowance intended for single parents, and thus get more tax relief than a married couple in the same position. I propose to confine them to a single Additional Personal Allowance, with effect from April 1989.

Thus this Budget will not only, for the first time ever, give married women a fair deal from the tax system. It will also eliminate, for all practical purposes, all the other tax penalties which, under the present system, can arise on marriage.

G. BUSINESS TAXATION

I turn now to business taxation.

The major reform of business taxation, which I introduced in 1984, and which was completed in 1986, has given us one of the lowest Corporation Tax rates in the world. This has encouraged overseas companies to invest in Britain and, most important of all, has greatly improved the quality of investment by British firms. It is a crucial part of an environment in which company profitability has recovered to its highest level for some twenty years. It has succeeded in its objectives.

I do not therefore propose any further changes to the structure of Corporation Tax. And the main Corporation Tax rate for 1988-89 will be unchanged at 35 per cent.

But I do have some changes to propose to specific aspects of business taxation.

British exporters have done extremely well in recent years, thanks to major improvements in efficiency and quality. But no exporter could honestly claim that his success hinges on the fact that the cost of entertaining overseas customers is tax deductible, whereas business entertainment generally is not. I therefore propose to simplify the system by making all business entertainment non-deductible for tax purposes, including for VAT.

In conjunction with my rt. hon. Friend the Secretary of State for Energy, I propose to restructure the tax regime for the new generation of Southern basin and onshore fields, so as to relate tax liability more closely to profitability. Accordingly, my rt hon Friend will shortly be bringing forward legislation to abolish royalties, from 1 July, for all such fields. At the same time, I propose to reduce the Petroleum Revenue Tax oil allowance for these fields. This will mean the end of royalties for all future fields.

The 1986 Building Societies Act gives Building Societies the power to convert themselves into companies, if they so wish. At present, however, they would face a heavy, and unintended, tax charge if they did so. I propose to rectify this.

I have two changes to propose to the tax arrangements for Lloyd's. The first meets the only point Lloyd's have raised on last year's legislation on reinsurance to close. The second will benefit both Lloyd's and the Inland Revenue by simplifying the administrative arrangements for taxing Lloyd's members.

I also propose to simplify the Section 482 rules for companies who wish to migrate overseas, so as to bring them broadly into line with most of our major competitors. In future, companies will be resident in the UK if they are incorporated here. Subject to that, instead of having to ask for Treasury consent, companies will be free to migrate, provided only that they pay their tax first.

I now turn to a number of proposals to give further help to small businesses and new businesses, whose encouragement is a central theme of Government policy. The rate of new business formation, net of failures, has averaged 500 a week since 1979. This shows beyond any doubt the continuing vigour of this sector, which is such an important source of enterprise, innovation, and new jobs.

Many new businesses have been greatly assisted by the Business Expansion Scheme, which has now been running for nearly five years. During that time it has enabled new and expanding companies to raise equity finance amounting to some £150 million a year.

However, the rapid growth of the venture capital market since 1983 has meant that companies seeking relatively large amounts of equity investment can now raise these readily, while smaller companies looking for more modest amounts can still find it difficult to do so.

To improve the targeting of the BES, I therefore propose to introduce a limit of half a million pounds on the amount any company can raise under the scheme in any one year. Investment should thus be better directed at the smaller and newer businesses, particularly those outside the South-East of England, which can still find it hard to raise equity finance in other ways. In the special circumstances of the ship chartering industry, however, the limit will be £5 million.

I have one further proposal affecting the Business Expansion Scheme.

One of the key reasons for our economic transformation has been the reform of the supply side of the economy.

The tax relief I introduced last year for profit-related pay will, in time, help to increase pay flexibility and improve the working of the labour market. But if successful firms are to expand further, and create still more jobs, we also have to make it easier for people to move to where the new jobs are.

For years, the shortage of private rented accommodation has been an obstacle to labour mobility. The Government's proposals to deregulate new rents are already going through the House. Deregulation will, over time, substantially increase the supply of housing for rent. But this will not happen overnight, and there is a case for a special incentive to speed up the process in the early years.

I therefore propose to extend the Business Expansion Scheme to include companies specialising in the letting of residential property on the new assured tenancy basis.

The BES is well suited to this task. Since full tax relief is given immediately, it should bring forward new investment straight away. And we will be building on success.

The limit for this type of investment will be £5 million a year for any one company. Since the relief is specifically designed to provide an extra stimulus in the early years of deregulation, it will run only for investments made before the end of 1993.

This change will powerfully reinforce the impact of decontrol in reviving the private rented sector of housing in Britain.

In last year's Budget I raised the ceiling for capital gains tax retirement relief from £100,000 of gain to £125,000. But I believe it is necessary to do more to help the small businessman whose wealth is tied up in his business and who is faced with the disincentive of a heavy capital gains tax bill when he sells up on retirement. I therefore propose to extend capital gains tax retirement relief so that, on top of the exemption, half of any gain between £125,000 and £500,000 will also be completely free of tax.

While on the subject of capital gains tax, I propose to extend rollover relief to a group of assets whose common characteristic is that they barely existed when the present list of qualifying assets was drawn up. They are milk quotas, potato quotas, satellites and spacecraft. I know that this will be warmly welcomed in the farming and extra-terrestrial communities alike.

Lastly, on the small business front, I propose to increase the VAT threshold to £22,100, the maximum permitted under existing European Community Law.

Throughout my time as Chancellor, I have been on the look-out for taxes to abolish. Abolition is clearly the simplest variety of reform. I have already abolished the National Insurance surcharge, the Investment Income surcharge, Development Land Tax, and the tax on lifetime gifts.

At present, companies have to pay a Capital Duty of 1 per cent whenever they raise new capital - whenever, for example, a new company is formed or an existing company sells new shares to the public. This is undesirable on two counts. It is a burden on companies who need to secure external finance for expansion. And it discriminates against equity capital as compared with debt finance and bank borrowing.

Capital Duty is a relatively recent impost which had to be introduced in 1973 in compliance with our obligations under European Community Law. But the relevant Community Directive has now been amended. Accordingly, I propose to abolish Capital Duty with effect from midnight tonight.

At the same time, I propose to get rid of the Unit Trust Instrument Duty, a similar though much less substantial tax, which is levied at the rate of ¼ per cent on all assets put into a unit trust. I know the unit trust movement will welcome this minor relief, and I trust the benefit will be fully passed on to investors.

The cost of abolishing these two taxes will be of the order of £100 million in 1988-89. Not counting minor imposts, the demise of Capital Duty brings the number of taxes I have abolished up to five: an average of one a Budget.

H. COVENANTS AND MAINTENANCE

I now turn to an important area of personal taxation which is ripe for reform and simplification: the taxation of payments made under deeds of covenant and maintenance arrangements.

Covenants to charity will be wholly unaffected by the changes I am about to propose.

Other covenants, and maintenance arrangements, are essentially ways of transferring income from one individual to another, usually from one member of a family to another, whether it is a parent or grandparent covenanting to a child, or a husband paying maintenance to an ex-wife. Most of the financial transfers that take place within families are rightly and properly outside the scope of the tax system altogether. I propose, as far as is practicable, to take covenants and maintenance out as well. This will greatly simplify an unnecessarily complex part of the tax system.

First, covenants. Charitable covenants apart, I propose to take all new covenants made by individuals on or after today out of the tax system altogether. In other words, people receiving payments under covenants will not be liable to tax on them, and those making the payments will not be able to claim tax relief on them. The tax treatment of existing covenants will continue unchanged.

The largest single group of people affected by this change will be students, together with their parents, many of whom nowadays choose to make their contribution to the student maintenance grant by covenant. This has arisen as an unintended by-product of the reduction in 1970 of the legal age of majority from 21 to 18.

As I have already indicated, those who have already made such covenants will continue to benefit from tax relief. For new students, the parental contribution to the maintenance grant will be assessed on a new and more generous scale, to reflect the withdrawal of tax relief on new covenants. My rt hon Friends the Secretaries of State for Education and Science and for Scotland will be publishing the details tomorrow.

One desirable side-effect of this reform is that future students will no longer be deterred from taking vacation jobs because their covenant income has already absorbed their personal allowance.

Student covenants apart, there will be no compensation for the loss of tax advantage arising from these proposals. But once rates of income tax are set at reasonable levels, this is precisely the sort of tax shelter it is right to dispense with.

Next, maintenance. Here, too, we tax the recipient, only to give tax relief to the payer. The present rules can be complex and confusing for people going through separation and divorce. The tax system ought to intrude as little as possible, though it is reasonable that there should be some recognition of the fact that an ex-husband is continuing to support his ex-wife, or vice versa.

Accordingly, I propose that, for new maintenance arrangements, recipients will not be liable to any tax whatever on maintenance payments. Relief to the payer will be restricted to payments to a separated or divorced spouse, up to a limit equal to the difference between the married and single allowances.

For existing maintenance arrangements, the present rules will continue to apply in 1988-89, except that a separated or divorced spouse will be exempt from tax on receipts up to the difference between the married and single allowances. Full relief will continue for all those who are making payments under existing Court Orders or agreements. The same protection will also apply to those who have already applied for Court Orders, provided these are made by 30 June. From April 1989 there will be special transitional rules to continue protection for existing arrangements.

While the transitional provisions are inevitably somewhat complex, the new system will be very much simpler than the old, for all concerned. It will reduce the tax relief that can be obtained by the better-off payers of large amounts of maintenance, but for most couples the ex-husband will continue to enjoy full tax relief while the ex-wife will not be taxed.

The reform of the tax treatment of maintenance I am proposing today will also remove one of the lesser known tax penalties on marriage. At present, an unmarried couple can make large payments either between themselves or to their young children, and get tax relief that would not have been available had they been married. My proposed reform will put an end to that.

As I have said, this reform and simplification of the taxation of covenants and maintenance in no way affects covenants to charity. Indeed, I have a proposal to help charities further.

The payroll giving scheme has now been running for nearly a year. I am glad that so many employers have already set up schemes, and I hope as many employees as possible will take

advantage of them. In order to give further encouragement to charitable giving, and to assist the growth of the payroll giving scheme, I propose to double the annual limit on tax-allowable donations under the scheme to £240, or £20 a month.

J. TAXES ON SPENDING

I now turn to the taxation of spending.

I have one change to propose today affecting the coverage of Value Added Tax, which will remain at 15 per cent. Confectionery was brought in to VAT by the rt hon Member for Leeds East in 1974, and the legal definition of confectionery goes back further still to the days of purchase tax. The emergence of new products has rendered this definition somewhat obsolete. In particular, recent legal decisions mean that some cereal bars are subject to VAT, while others are not. I propose to clarify the law so that all cereal bars are taxed.

I propose to raise the excise duties as a whole broadly in line with inflation, but to make some modest adjustments within the total. The duty on cigarettes and hand-rolling tobacco will be increased, by the equivalent, including VAT, of between threepence and fourpence for a packet of 20 cigarettes. This will take effect from midnight on Thursday. The duty on a packet of five small cigars will rise by twopence, but that on pipe tobacco will remain unchanged.

As to the alcohol duties, I propose increases which, including VAT, will put about a penny on the price of a pint of average-strength beer and cider, fourpence on a bottle of table wine, and sixpence on a bottle of sparkling or fortified wine. There will once again be no increase in the duty on spirits. These changes will take effect from 6 o'clock tonight.

The existing duty structure is inhibiting sales of drinks known as 'coolers' which are mixtures of an alcoholic drink and a soft drink. I propose to introduce new lower rates of duty for these products, so as to encourage the young in particular to change to drinks with a lower alcohol content. For the same reason, I propose from 1 October to abolish the minimum duty charge on beer, which will encourage the promotion of lower-strength beers.

I propose once again to leave the main rates of Vehicle Excise Duty unchanged. To recover the revenue forgone, I propose increases in petrol and derv duty over and above the rate of inflation, which, including VAT, will raise the price of petrol by between fivepence and sixpence a gallon, and that of derv by a little under fivepence a gallon. These changes will take effect from 6 o'clock tonight.

In my Budget last year, I sought to promote the use of lead-free petrol, with all the environmental benefits it brings, by introducing a duty differential in its favour. As a result, the number of garages selling lead-free petrol has more than trebled. But consumption remains disappointingly low.

Accordingly, I propose to double the duty differential in its favour by exempting it altogether from the duty increase I have just announced for leaded petrol. This means that, despite the higher production costs, the pump price of unleaded petrol should in future be below that of ordinary 2-star petrol. I very much hope the petrol companies will now reinforce this concession by vigorously promoting the use of lead-free petrol.

K. TAXES ON CAPITAL

I now turn to taxes on capital.

The emergence of the capital-owning democracy has been one of the most remarkable features of the 1980s. Encouraged by Government policy, more than 2½ million families have bought their homes, bringing the total to nearly two households in three. And our proposals for personal pensions, which come in to effect in July, will give a new dimension to pension ownership.

But the most dramatic change has been in share ownership. In last year's Budget, I announced the results of a joint Treasury/Stock Exchange survey of the number of shareholders in this country. This revealed that some 8½ million people - one adult in five - owned shares, about three times the number in 1979.

A similar survey has been carried out this year. Despite all the stories of people taking quick profits on privatisation shares, and despite the stock market collapse, the results show that the number of individual shareholders has if anything risen further over the past 12 months, to very nearly 9 million. This illustrates in a quite remarkable fashion how wider share ownership is now taking root.

I have two proposals to encourage share ownership still further to announce today.

First, Personal Equity Plans are off to a successful start. Over a quarter of a million people took out PEPs in 1987, and subscribed nearly £½ billion between them. To give further encouragement to this form of investment, I propose to increase the annual limit from £2,400 to £3,000. The new higher limit will apply to all plans taken out this year.

Second, measures to encourage employee share ownership have featured in seven out of the last eight Budgets. As a result, the number of approved all-employee share schemes has risen from 30 in 1979 to over 1400 today, involving well over 10,000 companies, and providing shares and options for well over 1½ million employees.

Following extensive consultation, including the publication of draft clauses, I propose to relax the provisions of Section 79 of the 1972 Finance Act. This will make it easier for companies to provide shares to their employees outside the approved schemes without giving rise to an undue charge to tax. This will be of particular benefit to subsidiary companies and their employees.

In previous Budgets I have already substantially reformed the taxation of capital, with the replacement of Capital Transfer Tax by Inheritance Tax. But I believe this process can and should be taken further. Last year, I reduced the number of inheritance tax rates from seven to four. This year, I propose to simplify the tax still further by levying it at a flat rate of 40 per cent.

At the same time I propose to raise the threshold from £90,000 to £110,000.

The increase in the threshold will reduce the number of estates liable to tax by a quarter, allowing many more people to inherit the family home free of tax. And the flat rate of 40 per cent means that for the family business, enjoying 50 per cent business relief, the effective rate of tax can never exceed 20 per cent, one of the lowest inheritance tax rates in the industrialised world.

The cost of these changes will be £100 million in 1988-89.

Lastly, Capital Gains Tax. Strictly speaking, this should not be a tax on the original capital at all. Nor is it, so far as gains which have arisen since 1982 are concerned, thanks to the indexation provisions introduced by my predecessor in 1982, and extended in my 1985 Budget.

But for gains that arose before 1982, the tax falls largely on purely paper profits resulting from the rampant inflation of the 'seventies. In other words, it bites deeply, and capriciously, into the capital itself.

This has long been recognised as manifestly unjust. Indeed, from the time I first entered this House I have argued that Capital Gains Tax should fall only on real gains, and not on paper gains. I have therefore looked hard to see if the indexation provisions could be applied right back to the inception of the tax in 1965. Unfortunately, they cannot. The necessary information is in many cases no longer available.

Accordingly, I have decided to bring the base date for the tax forward from 1965 to 1982. That is to say, for all disposals on or after 6 April, that part of any capital gain which arose before April 1982 will be exempt from tax altogether, for individuals and companies alike.

This Budget thus ends once and for all the injustice of taxing purely inflationary gains. This will benefit the economy by unlocking assets which have been virtually sterilised because of the penal tax that would have arisen on any sale. And it will help many small businessmen and farmers in particular.

At present, the first £6,600 a year of capital gain is tax free. The relatively high level of this threshold stems from the substantial increase my predecessor made in 1982, explicitly as rough and ready partial compensation for the continued taxation of pre-1982 paper gains. Now that I have taken pre-1982 gains out of tax altogether, I propose to reduce the capital gains tax threshold to £5,000. It should also be borne in mind that, with the introduction of independent taxation in 1990, a husband and wife will each have their own threshold for capital gains tax as well as for income tax.

Rebasing the tax so as to produce a fully indexed system makes it possible to bring the taxation of gains closer to that of income. In principle, there is little economic difference between income and capital gains, and many people effectively have the option of choosing to a significant extent which to receive. And, insofar as there is a difference, it is by no means clear why one should be taxed more heavily than the other. Taxing them at different rates distorts investment decisions and inevitably creates a major tax avoidance industry.

Moreover, at present, with capital gains taxed at 30 per cent for everybody, higher rate taxpayers face a lower - sometimes much lower - rate of tax on gains than on investment income, while basic rate taxpayers face a higher rate of tax on gains than on income. This contrast is hard to justify.

I therefore propose a fundamental reform. Subject to the new base date, capital gains will continue to be worked out as now, with the present exemptions and reliefs. In particular, the principal private residence will remain tax-free. But the indexed gain will be taxed at the income tax rate that would apply if it were the taxpayer's marginal slice of income. In other words, I propose in future to apply the same rate of tax to income and capital gains alike.

These changes will not take effect until 6 April.

Taxing capital gains at income tax rates makes for greater neutrality in the tax system. It is what we now do for companies. And it is also the practice in the United States, with the big difference that there they have neither indexation relief nor a separate capital gains tax threshold.

The changes I have announced represent a thoroughgoing reform of capital gains tax which will benefit the economy and eradicate a major injustice. They will sharply reduce the damaging effects of the tax, while ensuring that capital gains remain properly taxed and the yield of income tax adequately protected.

They are expected to cost a little over £200 million in 1989-90.

L. INCOME TAX

Finally, I turn to income tax.

The way to a strong economy is to boost incentives and enterprise. And that means, among other things, keeping income tax as low as possible.

Income tax has now been reduced in each of the last six Budgets - the first time this has ever occurred. And the strength of the economy over that period speaks for itself.

However, reforming income tax is not simply a matter of cutting the rates. I also have to look at all the various allowances and reliefs to ensure that they are still justified.

With this in mind, I have a number of proposals to announce.

First, forestry. I accept that the tax system should recognise the special characteristics of forestry, where it can take anything up to a hundred years between the costs of planting and the income from selling the felled timber.

But the present system cannot be justified. It enables top rate taxpayers in particular to shelter other income from tax, by setting it against expenditure on forestry, while the proceeds from any eventual sale are effectively tax free.

The time has come to bring it to an end. I propose to do so by the simple expedient of taking commercial woodlands out of the income tax system altogether. That is to say, as from today, and subject to transitional provisions, expenditure on commercial woodlands will no longer be allowed as a deduction for income tax and corporation tax. But, equally, receipts from the sale of trees or felled timber will no longer be liable to tax.

It is, perhaps, a measure of the absurdity of the present system that the exemption of commercial woodlands from tax will, in time, actually increase tax revenues by over £10 million a year.

At the same time, in order to further the Government's objectives for the rural areas, I have agreed with my rt hon. Friends who have responsibilities for forestry and the environment that, in parallel, there should be increases in planting grants. Full details of the new grant scheme will be announced next week.

The net effect of these changes will be to end an unacceptable form of tax shelter; to simplify the tax system, abolishing the archaic Schedule B in its entirety; and to enable the Government to secure its forestry objectives with proper regard for the environment, including a better balance between broad-leaved trees and conifers.

One of the legacies of the years of penal top tax rates is the complicated special relief for large redundancy payments. This is no longer justified. I propose to increase the exemption limit for these payments from £25,000 to £30,000, and to abolish the additional relief for larger amounts.

Next, benefits in kind - perhaps better known as perks. One of the biggest tax-induced distortions in the economy today is the growing tendency to provide remuneration in kind rather than in cash. It must be right to move towards a system of lower taxes all round and fewer tax breaks of this kind.

Far and away the most widespread benefit in kind is the company car, which is substantially undertaxed. Independent studies, based on figures supplied by the AA, suggest that an employee with a typical company car may be taxed on only about a quarter of its true value.

This discrepancy is too great to be allowed to continue. On the other hand, the scale of the undertaxation is so great that it cannot be put right in a single year. But in a Budget when I am able to reduce tax rates, there is a strong case for a substantial increase in the taxation of these benefits. I therefore propose to double the car scales for 1988-89. This increase replaces the 10 per cent increase which I had already announced for 1988-89. The yield will be £260 million in 1988-89.

The scales for the taxation of car fuel adequately reflect the value of the benefit, and I propose to leave them unchanged for 1988-89.

However, the taxation of the benefit of free car parking threatens to become an administrative nightmare. I propose to exempt this particular benefit from tax altogether.

Next, mortgage interest relief. This Government is committed to the further spread of home ownership. Mortgage interest relief has an important role to play in achieving that aim.

However, in addition to the decision to apply the £30,000 limit to the house or flat, which I have already announced, and which will remove the most widely-resented tax penalty on marriage, I have a further reform to propose in this area.

This concerns the parallel tax relief for home improvement loans. Most of these loans are for fittings such as double glazing, and have played a significant part in the recent growth of consumer credit without in any way contributing to the expansion of home ownership. This may be partly due to the substantial scope for abuse, as loans ostensibly taken out for home improvements are used for other purposes, a matter which was the subject of a recent report from the Public Accounts Committee.

I propose, therefore, to end tax relief for all new home improvement loans taken out after 5 April. Existing home improvement loans will be unaffected. This is expected to yield £80 million in 1988-89.

Finally, I turn to income tax itself.

The statutory indexation formula means that I should increase all the principal income tax allowances and bands by the increase in the RPI over the year to last December, or 3.7 per cent, rounded up. I propose to do more than that; indeed twice as much.

Thus the single allowance will go up not by £90, as required by indexation, but by £180, to £2605; and the married allowance will go up not by £150 but by £300, to £4095. The additional personal allowance and widow's bereavement allowance will thus rise by £120 to £1490. Similarly the single age allowance will rise by £220 to £3180 and the married age allowance by £360 to £5035. The higher allowances for taxpayers aged 80 and over, which I introduced in the last Budget, will correspondingly be increased by £240 and £360 to £3310 and £5205 respectively, and the new age allowance income limit will be £10,600. The upper limit of taxable income for the basic rate band will be increased to £19,300.

The increases I have just announced mean that the basic tax thresholds will be fully 25 per cent higher, in real terms, than they were in 1978-79, Labour's last year. Indeed, the married man's tax threshold will be at its highest level in real terms for nearly half a century.

Given these substantial increases in the main allowances, I am taking the opportunity to simplify the system by abolishing three minor personal allowances which have been unchanged, in cash terms, for over twenty years: the housekeeper allowance, the dependent relative allowance, and the son's or daughter's services allowance.

In our general election manifesto last year, we committed ourselves to reducing the basic rate of income tax to 25 pence in the £ as soon as it was prudent to do so. This pledge followed a reduction of twopence in the £ to 27 pence in last year's Budget.

At the time, this was regarded with some scepticism, not to say cynicism, by the Opposition, who no doubt recalled that Labour Governments used to reduce tax only in front of an election, and at all other times increased it. Indeed, shortly before last year's Budget the rt hon Gentleman the deputy leader of the Labour Party said this:

> "I must advise the Chancellor of something that he already knows: whichever party wins the general election, the tax cuts he makes in this Budget will be reversed."

The time has come to put the rt hon Gentleman out of his misery. So far from reversing the 1987 Budget tax reductions, I propose to take this, the first opportunity since the general election, to fulfil our manifesto pledge. The basic rate of income tax for 1988-89 will be 25 pence in the pound.

The small companies' rate of corporation tax will similarily be reduced to 25 per cent. This means that the basic rate of income tax, and the corporation tax rate for small companies, will both be at their lowest level since the War.

Life Assurance premium relief remains in place for policies taken out before the 1984 Budget. It has traditionally been given at half the basic rate of income tax. I therefore propose to reduce it from 15 per cent to 12½ per cent. But, to give life offices time to adjust, this change will not take effect until 6 April 1989.

I also propose to reduce the additional rate which applies to the income of discretionary trusts and for certain other purposes from 18 per cent to 10 per cent.

It is now nine years since my predecessor, in his first Budget in 1979, reduced the top rate of tax from the absurd 83 per cent that prevailed under Labour to 60 per cent, where it has remained ever since.

At that time, this was broadly in line with the European average for the top rate of tax. It is now one of the highest. And not only do the majority of European countries now have a top rate of tax below 60 per cent, but in the English-speaking countries outside Europe - not only the United States and Canada, but Labour Australia and New Zealand, too - the top rate is now below 50 per cent, sometimes well below.

The reason for the worldwide trend towards lower top rates of tax is clear. Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenue, over time they actually raise less.

By contrast, a reduction in the top rates of income tax can, over time, result in a higher, not a lower, yield to the Exchequer. Despite the substantial reduction in the top rate of tax in 1979, and the subsequent abolition of the investment income surcharge in 1984, the top five per cent of taxpayers today contribute a third as much again in real terms as they did in 1978-79, Labour's last year; while the remaining 95 per cent of taxpayers pay about the same in real terms as they did in 1978-79.

After nine years at 60 per cent I believe the time has come to make a further reduction in the top rate of income tax. At present there are no fewer than five higher rates of income tax: 40 per cent, 45 per cent, 50 per cent, 55 per cent, and 60 per cent. I propose to abolish all the higher rates of tax above 40 per cent.

This major reform will leave us with one of the simplest systems of income tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. And, indeed, a system of personal taxation in which there is no rate anywhere in excess of 40 per cent.

I believe that 40 per cent is an acceptable top rate of tax. But, bearing in mind that the basic rate of income tax is also the starting rate, 25 per cent is still too high.

Since we first took office in 1979, we have reduced the basic rate of income tax from 33 per cent - one third - to 25 per cent - a quarter. Our aim should now be to get it down to a fifth - a rate of 20 pence in the pound - as soon as we prudently and sensibly can.

Meanwhile, I have today been able to reduce income tax at all levels, with increases in both the personal allowances and the basic rate limit, and reductions in both the basic and higher rates. The tax reduction for a married man on average earnings will be worth nearly £5 a week. The changes will take effect under PAYE on the first pay day after 14 June. They will cost £4¼ billion in 1988-89 over and above statutory indexation, of which three quarters represents the cost of increasing tax thresholds and reducing the basic rate.

The total cost of all the measures in this year's Budget, again on an indexed basis, is a shade under £4 billion.

M. PERORATION

Mr Deputy Speaker, in this Budget, I have reaffirmed the prudent policies which have brought us unprecedented economic strength. I have announced a radical reform of the taxation of marriage, which for the first time ever will give married women a fair deal from the tax system. I have eliminated the long-standing injustice of taxing inflationary gains, and abolished a fifth tax. I have radically reformed the structure of personal taxation, so that there is no rate anywhere in the system in excess of 40 per cent.

After an Autumn Statement which substantially increased public spending in priority areas, I have once again cut the basic rate of income tax, fulfilling our manifesto pledge of a basic rate of 25 pence in the £ and setting a new target of 20 pence in the £.

And I have balanced the Budget.

I commend this Budget to the House.