



S 5(A-B)

10 DOWNING STREET

From the Principal Private Secretary

Paul.

Meeting with Chancellor.

The Prime Minister gave an account of the meeting with Ch/Sec. As expected he said he would be going to give a very slightly more and still retain a sound fiscal position. He set out the options

(1) 1p of income tax. This still seems his preference.

PM said she was against it. Psychology is wrong. Looks like cutting taxes to achieve present target even with cashiers not right.

(2) Maclean indexation of allowances. Favoured by PM. She told him that if allowances went up by 6.8p per cent they would be out of date even before people had seen the benefit. She also told the point that prices only indexation you after you reduce relative price value of threshold. It was agreed to consider this closer near the Budget.

(3) Cut in CT. They agreed that this was likely to fuel wage increases.

(4) Abolish income tax on state retirement pension and scrap the earnings rule. On former they agreed there was an intellectual case as contributions are not tax allowable. But

(a) biggest benefit goes top rate tax payers (while ~~with~~ earnings rule benefits the younger (lower pensioners) poorer get least $\therefore$ likely to lead to higher public expenditure

(b) inconsistent with treatment of long-termist other contributory benefits

They agreed not to proceed - would look good on Day 1 but holes would then appear. Did agree to scrap earnings rule

(5) (I am not sure that adjusting NICs was pressed, other than in context of smoothing the cliff edge as 9% rate is reached).

BUDGET - SECRET

B



10 DOWNING STREET

From the Principal Private Secretary

She told him there must be no easing of monetary policy. This was not contested. No mention of putting down a paper but will can still tell Alex she did.

She mentioned some problems over Lloyd's but tax rules prevent accumulation of adequate reserves.

She agreed the paper was too complacent at 60 points or indicated. (has marked a couple of extra points she mentioned).

AT

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