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Treasury Chambers, Parliament Street, SW1P 3AG
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17 February 1989

Paul Gray Esq
10 Downing Street
LONDON SW1

Dear Paul

I attach an aide memoire on the Budget. You will have received a copy of the Budget Security Instructions and I should stress that the aide memoire should not be shown to anyone other than the Prime Minister and yourself.

Yours
A C S

A C S ALLAN
Principal Private Secretary

BUDGET - SECRET

(A-F)

AIDE MEMOIRE ON BUDGET

Income tax and NICs

For the purposes of the figuring in the attached table, it has been assumed that personal allowances and the basic rate limit are indexed; that there is no change in the basic rate; and that there are no changes to NICs. A NICs reform is still under consideration.

Excise duties

2. No change in any of the main excise duties. The duty on unleaded petrol reduced to produce a pump price differential of 2p a litre (approximately 9p a gallon) with 4 star leaded petrol; a surcharge on 2 star leaded petrol to bring it up to the same price as 4 star. Increased VED for coaches and rigid heavy goods vehicles (agreed with DTp).

VAT

3. Implement the changes resulting from the European Court of Justice decision, as already announced; the bulk of the additional yield comes from the public sector (the impact of this on public expenditure was taken into account in the Autumn Statement). No other changes in VAT coverage.

Company cars

4. Car scales (which determine amount of taxable benefit from company cars) to be increased by 20 per cent.

375

Corporation tax

assume this is within
European maximum.

5. Thresholds for the small companies' rate increased by 50 per cent; rate itself assumed to remain at 25p.

Stamp duty on shares

Seems to
have
changed
from 1/1/90
PRC6.

6. Abolish stamp duty on share transactions, probably from 1 April 1990. Announcement and legislation needed now to enable the Stock Exchange's new paperless transactions system ('TAURUS') to be planned and implemented on this basis.

Life assurance

7. Maintain the existing structure of taxation. Reduce the tax rates on policyholder's income and gains to 25 per cent (from 35 per cent and 30 per cent respectively). Ring-fence life offices' pension business, so that expenses there cannot be set off against income on life business. Abolish life assurance premium duty. (Life offices will also gain about £100 million a year from the abolition of stamp duty on shares: this is included in the costings of that measure). Allow selling expenses to be deducted from taxable income and gains only over seven years, instead of being offset in full against income and gains in the first year; phase this change over four years.

Unit trusts

8. Reduce the Corporation Tax rate on unfranked income (principally dividends on gilts) from 35 per cent to 25 per cent from January 1990.

This is below Pension free level. However

when indexed it will soon be rather a low sum.

Pensions

9. For final salary schemes, place a limit on tax privileged pensions. Deregulate, so that the Revenue no longer lay down how much pension someone can be paid, but only how much tax-privileged pension. Pensions will be payable from tax privileged funds on earnings of up to £60,000 a year. This translates into limits of £40,000 a year on the total pension and £90,000 on the tax-free lump sum. These limits will apply only to new pension scheme members, and will be indexed to prices. Employers will be free to pay additional amounts without tax privilege.

10. For personal pensions, increase the percentage of earnings which may be contributed with tax relief, subject to a cash limit.

PEPs

11. The limit on the total annual investment to be raised from £3,000 to £4,800; and within that the limits on investments in unit and investment trusts from £750 to £2,400. Rules greatly simplified.

Employee share schemes and ESOPs

12. Various increases in the limits for employee share schemes. And to enable the development of ESOPs, Corporation Tax relief on company contributions.

CGT

13. Abolition of the tax deferral on gifts (but not to charities, or on business assets, or between husband and wives). This was introduced in [1980] to avoid the double charge to CGT and CTT on lifetime gifts, but the CTT charge has since been abolished. The

D.

exemption limit for CGT to be frozen, pending the effective doubling (for married couples) when independent taxation comes in next year.

Pensioners' Earnings Rule

14. Pensioners' earnings rule to be abolished. Gross public expenditure cost of about £½ billion to be met from the reserve. Retain the option to defer pensions in return for higher pension later. ✓

Deregulation/Simplification

15. A number of measures of deregulation and simplification: additional VAT bad debt relief; simplification of VAT registration rules; changing Schedule E to be charged on a receipts basis; a radical simplification the rules on close investment companies: unincorporated businesses to be allowed to set capital gains against trading losses; the Control of Borrowing Order to be abolished.

Other proposals

16. Other proposals include:

- (i) converting the higher age allowance for the over-80s to one that covers all those over 75; and reducing the marginal withdrawal rate for age allowances to below 40 per cent;
 - (ii) increasing the PRP limits to £4000, and other simplifications to the PRP rules;
- profit-related pay*

E.

— See separate note below.

- (iii) increasing the Payroll Giving limit from £240 to £480;
- (iv) implementing the tax relief for private health insurance for the elderly.

TABLE 1.1 THE BUDGET MEASURES¹

	£ million 1988-90	Changes from a non-indexed base	Changes from an indexed base	yield (+)/cost (-) 1990-91
Income Tax				
personal allowances and basic rate limit indexed	-1465	-	-	-
car benefit scales increased	+ 90	+ 90	+ 90	+ 110
Schedule E put on receipts basis	- 60	- 60	- 60	- 80
Excise duties				
petrol, derv etc	-	- 545	- 545	- 580
duty on unleaded petrol reduced, surcharge added to 2 star petrol	- 30	- 30	- 30	- 75
vehicle excise duty	+ 40	- 150	- 150	- 170
tobacco	-	- 235	- 235	- 250
alcohol	-	- 255	- 255	- 280
Value Added Tax				
non-domestic construction etc	+ 315	+ 315	+ 315	+ 540
bad debt relief, reform of registration rules etc	- 105	- 105	- 105	- 270
Stamp duty on shares abolished	-	-	-	- 850
Life assurance businesses' tax regime reformed	- 20	- 20	- 20	+ 45
Reforms to pensions, personal equity plans, share schemes and unit trusts	- 5	- 5	- 5	- 10
Corporation Tax				
small companies' rate threshold increased	*	*	*	- 35
Petroleum revenue tax				
incremental investment relief introduced	- 10	- 10	- 10	- 20
Other tax changes	- 65	- 30	- 30	+ 40
Total	-1315	-1040	-1885	

¹ These measures, and the basis of the costings shown, are described in detail in chapter 4.

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850	995
145	270
995	1265

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