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FROM: S J PICKFORD

DATE: 14 MARCH 1989

TO BE RETAINED

TO ALL BUDGET BRIEF RECIPIENTS

BUDGET BRIEF 1989

I attach a revised copy of the following pages of the Budget brief:

C3.3

D1.5.

All changes have been sidelined.

2. Please insert the revised page in place of the original.

Steve Pickford

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- In terms of percentage of income taken in tax (average tax rate) gains are larger for lower paid, particularly when restructuring of NICs from October 1989 taken into account.
- Even with indexation of basic rate limit number of higher rate taxpayers will be at record level in 1989-90.

(v) Should have cancelled last year's reductions in higher rates?

- Cut in top rate necessary to reduce disincentives to effort and enterprise.
- Important for UK to cut top rate to remain competitive with other countries - world-wide trend to cut tax rates, especially top rates.
- Cost of reduction in top rates (just over £1 billion in 1988-89) can have had little impact on growth in domestic economy.
- Despite reductions in top rates both in 1979 and 1988, top 5 per cent will still pay significantly larger proportion of total income tax yield than in 1978-79.
- In real terms, income tax paid by top 5 per cent up by 35 per cent in 1989-90 compared with 1978-79 while total for rest up by only 5 per cent.

(vi) Should have raised basic limit by more than indexation to reduce number of higher rate taxpayers

- General reductions in income tax inconsistent with prudent cautious Budget. Higher rate threshold for married man some 17 per cent higher in real terms than in 1978-79.

(vii) Why no exemption from tax for work place nurseries?

A valuable benefit - working mothers without it have to pay child care costs from taxed income. Present tax treatment in line with that of other expenses which enable people to work. No evidence that tax treatment deters women from working.

- Profits growth exceptionally high in recent years; return to more normal performance and build up of capital allowances will see reduction in corporation tax receipts as percentage of money GDP.
- This offsets automatic tendency for income tax to rise faster than income as real income rises.

(c) Tax burden* (See also CC3).

	1988-89	1989-90	1990-91	1991-91	1992-93
Ratio of total taxes and NICs to money GDP	37½	37½			
Ratio of non-oil taxes and NICs to non-oil GDP	37½	37½	36¾	36	35½

* From 1990-91 onwards post fiscal adjustment

(vi) Fiscal adjustment: Shows extent to which there would be room for lower taxes or higher spending if economy develops as assumed.

		<u>£ billion, cash</u>			
		1989-90	1990-91	1991-92	1992-93
1989 MTFS:	Annual fiscal adjustment	not app	1	2	3
	Cumulative fiscal adjustment	not app	1	3	6
1988 MTFS:	Annual fiscal adjustment	3	1	1	not app
	Cumulative fiscal adjustment	3	4	5	not app

Figures suggest room to cut taxes by £6 billion over 1990-91 to 1992-93.

But experience shows such projections should be taken with great caution.

(vii) Debt - income ratio

(a)

	per cent of money GDP (rounded to nearest 1 per cent)							
	1975	1979	1983	1985	1986	1987	1988	1989
UK net public sector debt (31 March)	60	51	46	46	45	42	39	32

Source: Bank of England (1989 is Treasury estimate)

(b) For international comparison, see CC2.

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