

file 13

BUDGET SECRET



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 March 1990

Dear John,

THE BUDGET PACKAGE

The Prime Minister was grateful for the Chancellor's further minute of 13 March. She agrees with his proposal, which she regards as the best solution.

*Yours,
Paul*

PAUL GRAY

John Gieve, Esq.,
HM Treasury.

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REF NO. J6/90/20
COPY NO. 1 OF 5Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

Prime Minister

Content

Yes - the

best solution

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I have been reflecting further on the balance of the Budget. There is a case for some further tightening if only to affect the appearance of the Budget and improve its reception in the markets.

2. I have considered again, therefore, the best way of raising a little more revenue in the coming two years. As you know, all the options have disadvantages but the best is to freeze the basic rate limit. This currently stands at £20,700 of taxable income. Taking account of personal allowances and mortgage relief, people typically start paying higher rate tax at gross incomes of between £25,000 and £30,000. The effect of freezing the limit will be to increase the numbers paying higher rate tax and to reduce the gains to higher rate payers compared with full indexation by about £4.62 a week. It will also produce a number of cash losers especially when combined with the increase in company car scales that we are planning.

3. It will add £215 million to the yield of the Budget in 1990-91 and £390 million in 1991-92 giving overall effects of +£390 million and +£880 million respectively.

4. Politically the change is not attractive but there is no painless solution and I am satisfied that this is the best

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6.
available option. Subject to any comments you have, therefore, I plan to make the change and will instruct the Inland Revenue accordingly at lunchtime.

[J.M.]

13 March 1990