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REF. NO. MW/90/29

COPY NO. 48 OF 48

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FROM: MISS M P WALLACE

DATE: 19 March 1990

MR CULPIN (FP)

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir J Anson
Mr Wicks
Mr Monck
Mr Odling-Smee
Mr Scholar
Mr Hardcastle
Mr A J C Edwards
Mr Riley
Mr Sedgwick
Mr Peretz
Mr Gieve
Mr Gilhooly
Mr Matthews
Mr Mowl
Mr O'Donnell
Mr Ritchie
Miss J C Simpson
Mr Deane
Miss James
Mr Macpherson
Miss Massie
Mr A Walker
Mrs Chaplin
Mr Tyrie
Mr Lightfoot

Sir A Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
Mr Bush - IR
Mr McNicol - IR (+1)

Mr Unwin - C&E
Mrs Strachan - C&E
Mr W Parker - C&E
Mr P Collins - C&E (+1)

BUDGET SPEECH: TAXATION SECTION

The Chancellor was grateful for comments on the last version of the Taxation Section, circulated with my minute of 15 March.

... I now attach his latest version, with the main amendments side-lined. In particular, he has re-written the Capital Disregards section extensively. You will also see that he has added a peroration, on which he would like views.

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2. There are a number of blanks and square brackets to be filled in. In addition, the Chancellor would be grateful for advice on the following points:

- (i) can we mention the Scots in the passage on TECs? If so, could the Revenue please provide a sentence or two;
- (ii) he would like, if possible, one more explanatory sentence on life-assurance;
- (iii) he feels the National Savings paragraph is rather thrown away, and it disrupts the link from CRT to the opening paragraph TESSA. Can anyone see any solutions to this?

3. Could advice on these points and all other final comments please reach me by 12.30 pm today, Monday.

Mpw.
MOIRA WALLACE

PS Extract from this,
as before, so 15
interested HM7 divisions.

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CONFIDENTIAL**DRAFT: 18.03.1990****TAXATION SECTION**

I now come to the detailed measures in this year's Budget. And I shall begin with the taxation of business.

2. Everyone in this country benefits from the success of British enterprise. Tax reform cannot create success but it can help and encourage it.

VAT

3. Within the tight fiscal position I judge necessary, I am able to make some changes that should help small and medium sized companies.

4. Cash flow is particularly important to new and growing companies of this size. To improve it, therefore, I have two measures that should help.

5. At present, traders pay Value Added Tax on all their sales, even if their customers do not actually pay the bill. They can only claim VAT relief for a bad debt when the debtor has been declared formally insolvent. As a result, the

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trader - who has dealt in good faith - can be out of pocket, in some cases for years, and often for large sums.

6. This has long been resented by businesses and the time has come to deal with it. I therefore propose that from April next year all debts which are over 2 years old and written off in the trader's accounts will qualify automatically for relief from VAT. This will be worth some £150 million to business next year.

7. I also propose to help smaller companies by simplifying the rules for traders registering for VAT. At present whether or not you have to register depends on quarterly and annual turnover thresholds. You only have to say this to realise how difficult it is. Businesses also have to peer into the future to see if these limits might possibly be exceeded within the next year.

8. This complication is unnecessary. So as from today, I propose a simple rule for VAT registration. This will be based on actual turnover in the preceding 12 months and not unknown turnover in the distant future. It will bring certainty and simplicity in place of uncertainty and complexity. And for businesses it has a second benefit: because they will, in general, register later than they

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otherwise would have, it will save them £35 million in 1990-91 and £75 million the year after.

9. I have two further VAT changes. First, I propose to increase the VAT threshold to £25,400, a modest sum, but the maximum permitted under European Community law.

10. The second change will affect companies which provide accommodation for their own Directors. As things stand, the company can deduct the VAT they pay on this, for something that is more a fringe benefit than a legitimate business cost. Frankly I do not believe this generous treatment is justified. I therefore propose that VAT paid on Directors' accommodation should no longer be deductible. This will take effect from [April 5 this year].

CORPORATION TAX

11. I also have some changes to Corporation Tax. While the main rate of corporation tax will remain at 35 per cent, I propose to reduce the burden of tax for companies with only small and medium sized profits.

12. At present companies with profits below £150,000 pay a reduced rate of Corporation Tax of 25 per cent. I propose to raise this ceiling by one third, to £200,000. This amounts

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X / to a doubling in two years of the profits levels for the reduced rate, and will mean all profits below £200,000 will be taxed at the minimum rate. This will be of special benefit to smaller growing companies.

13. For companies with profits above this limit, the average rate of tax gradually rises until their profits reach the upper profits limit of £³/₄ million a year. I propose to raise this limit, again by a third, to £1 million. This means that no single company will be liable for the full rate of Corporation Tax until its profits reach £1 million a year. These changes mean we will have the most favourable structure of corporation tax rates companies anywhere in the EC [? or in the G7 group of industrial nations. Please check].

TRAINING

14. I also have one specific tax change to help training.

15. One of the most welcome features of the last few years has been the massive amounts of money being invested in training throughout the economy by both large and small firms. The latest estimates suggest this has now risen to some £20 billion a year.

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16. All companies' expenditure on training is, of course, tax allowable, and in addition the Government is spending £2¹/₂ billion a year on training programmes. [The total support given by the Exchequer to training therefore now amounts to £X billion.] Over £2 billion of this will in future be spent through Training and Enterprise Councils or TECs, most of which will be coming into operation over the next year.

17. I have no doubt that TECs will do much to improve training in skills and that we shall see the benefits of this in future. They give employers a genuine opportunity to determine their own needs and will provide generous cash and tax help to meet them.

18. The Government has already promised to match local business donations to TECs pound for pound within certain limits. I now propose to encourage business to maximise the money they put into training by providing tax relief on business donations to TECs for five years until April 1995. I propose to extend the same concession to local enterprise agencies until the same date.

Mention The Scots?

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STAMP DUTY

19. My next announcement has implications for one in four of the adult population. For that is the number of people - nearly 11 million people - who now own shares in the UK. That remarkable figure - a new record - is published today in the annual Stock Exchange Survey of share ownership.

20. Over the next few months, the Stock Exchange will be taking crucial decisions on their plans for a new share-dealing system, affectionately known as TAURUS. This will cut costs and eliminate paper forms, and provide a modern computerised system for transferring shares. Decisions on the design of the new systems for TAURUS will have to be taken shortly. We need, therefore, to decide what stamp duty regime to apply to paperless transactions.

21. As we approach 1992 we can expect even sharper international competition in financial services, much of it from other European centres. Competitive and practical arguments point in the same direction. I have therefore decided to abolish stamp duty on securities late in 1991-92 to coincide as far as possible with the introduction of paperless dealing. [Add one sentence on SDRT.]

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22. Both the abolition of the tax and the introduction of a more modern dealing system will help to secure the UK's position as a leading financial centre in an increasingly competitive world market. They will also reduce transaction costs and permit higher returns for 11 million holders of occupational pension schemes, 3¹/₂ million personal pension holders as well as the many millions of people who hold life assurance policies or unit trusts. It will also be of particular benefit to small shareholders.

[pams reversed] ↗
23. The assumption in the Red Book is that abolition will be at the end of 1991, at a revenue cost of £120 million in 1991-92. This date will be subject to confirmation later when I have fuller information about the progress of TAURUS. However, although there is some flexibility about the timing, there is no doubt whatsoever about the decision to abolish stamp duty on shares. I have made the announcement now for two reasons: to remove uncertainty and make clear that there is no need to plan for stamp duty within TAURUS. I should add, for the avoidance of doubt, that stamp duty on land and property will be unaffected by this measure.

LIFE ASSURANCE

24. The Finance Bill will also include a number of measures on Life Assurance, announced by my HF the Financial Secretary

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last December. These measures which flow from the changes in the 1989 Finance Act followed extensive consultation with the industry. They put the taxation of life-assurance companies' unit trust holdings on a sounder footing and make a number of technical improvements. They will yield £50 million in 1990-91.

BANKS

25. I also have a measure to announce which will clarify the tax regime for banks.

26. Tax relief is rightly available to banks as it is to other lenders for bad and doubtful debts. But it has given rise to two problems. First, in recent years the banks have increased very substantially the amounts written off for their lending to Third World countries. That has been widely welcomed, but sudden increases do have an adverse impact on the public finances. Over time, the tax cost of the 1989 increases could amount to going on for £1 billion.

27. Second, although the principle is clear, it is less clear how to implement it in practice. This is because the relief available depends on the extent to which the debts are estimated to be irrecoverable - and that is often far from clear-cut. This difficulty is magnified when the debts in

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question are those of sovereign nations rather than individuals or firms.

28. This is an extremely unsatisfactory position for the banks, for the Inland Revenue, and for the taxpayer. I have therefore decided to resolve it, and remove the uncertainties in the present law. Banks will continue to be able to offset their losses on sovereign loans fully against tax, but under a clearer mechanism than previously, which will be broadly based on the Bank of England's present guidelines. There will be a limit on future increases in the cost of this tax relief between years.

29. For next year, banks' tax relief on such provisions will be limited to the same high proportion of debts as this mechanism indicates for 1989. Thereafter, the ceiling will be increased in steps of 5 per cent a year, so that the banks will, in time, get all the tax relief to which they are entitled. If the banks sell their debt to a third party and crystallise their losses, their tax relief on them will be similarly phased. But where the debt is sold back to the foreign state, to reduce its debt once and for all, then tax relief on that loss will be available in full and immediately.

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30. This measure produces a yield of around £200 million in 1991-92, compared with what might be expected if I took no action. This will unwind in later years.

TAXES ON SPENDING

31. I now turn to taxes on spending. Given the need to keep a tight fiscal position, I have decided that, taken as a whole, the excise duties must rise broadly in line with inflation. Within that overall constraint, however, I have some modest adjustments to make.

32. First, Vehicle Excise Duty. I propose a number of changes in VED to remove anomalies in the taxation of different types of lorries. These changes will also dramatically reduce the present vast number of different VED rates. Last year's Budget removed 80 different VED rates, and I propose to eliminate a further 188 today. This will greatly simplify the system.

33. Vehicle Excise Duty on cars - the tax disc - will be unchanged once again this year at £100. Nor will there be any change in VED for public or private sector buses, coaches, taxis and many lorries.

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34. I will recoup the cost of this by increasing petrol and DERV duties by rather more than strict revalorisation would justify. These will rise by 10 per cent. This will add 9p to a gallon of DERV and almost 11 pence to a gallon of leaded petrol.

35. For unleaded petrol the cash increase will be smaller at around 9 pence per gallon. This will widen the tax differential even further in favour of unleaded petrol. This will now amount to almost 16 pence a gallon. The market share of unleaded petrol has increased fivefold, to 30 per cent, since the changes in the last Budget. I hope and expect to see it increase even further.

36. For alcohol, with one exception, I propose to raise the duties in line with inflation. This will put 7p on a bottle of table wine, but only tuppence on a pint of beer. Spirits, however, have enjoyed a duty standstill since 1985. I propose therefore an increase of 10 per cent, which will increase the price of a bottle of spirits by 54p.

37. Cigarettes also were not increased last year. This year I propose a 10 per cent increase in duty, which will put 10p on a packet of 20. The duty on cigars will rise similarly and will add 5p to the cost of a packet of five small cigars. But I do not this year propose any increase in duty on pipe

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tobacco. This at least will be one measure which will command the support of the Leader of the Opposition.

FOOTBALL

38. I now turn to football.

39. The tragedies at Bradford and Hillsborough Football grounds shocked us all. The Report by Lord Justice Taylor made recommendations to improve comfort and safety in our football league grounds over the next ten years.

40. Implementing the programme of work envisaged in the Taylor Report will place a significant burden on football clubs, which many of them will find extremely hard to bear. For many are in a very weak financial position, and only a handful are profitable. I recognise this problem, but I believe there is an acceptable way to overcome it. The first priority is to ensure that vital improvements in safety and comfort can be made. And the second is to avert what would otherwise be the closure of many of our grounds. If we help football now, I am confident football will contribute itself to the improvements in facilities that are necessary.

41. Let me say first that much of the expenditure required to meet the Taylor recommendations is eligible for capital

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/ allowances or for full offset against tax. I know there has been some confusion about this, and I have asked the Inland Revenue to provide urgent guidance to clarify the tax position.

42. But tax allowances cannot help where there is no profit to set costs against. This is the case with many clubs. I have therefore reviewed the rate of Pool Betting Duty - the tax which is paid by the pools companies on the stakes they receive. This currently stands at $42\frac{1}{2}$ per cent. I propose to reduce it to 40 per cent on the clear understanding that the full amount saved is passed by the pools promoters to the Football Trust, and is used by them to improve the safety and comfort of fans at English and Scottish football league grounds.

43. I am confident that such an arrangement can be negotiated with the pools promoters and the football authorities. Provided that we do so, the duty will be reduced, in the first instance for 5 years. At the end of that period, we shall review the position again.

44. This reduction will yield around £100 million for football over five years. This is in addition to the £75 million that the Football Trust have already said will be available over the next ten years. These sums represent very

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large contributions towards making sure that football league clubs can implement the Taylor recommendations and bring their grounds up to the safety standards both we - and they - want to see.

45. Millions of people watch football every year. With better and safer grounds I hope many more will join them.

INCOME TAX

46. Next, I deal with income tax.

47. I have no change to announce to either the basic or the higher rate of tax. They will remain at 25p and 40p respectively. But I do re-affirm our objective of moving towards a basic rate of 20p when it is possible to do so.

48. I turn now to personal tax allowances. This year I do propose to uprate the main income tax allowances by the statutory indexation factor of 7.7 per cent, rounded up.

49. The personal allowance will rise by £220 to £3,005. The new married couple's allowance will be set at £1,720, as will the additional personal allowance for single parents, and the widow's bereavement allowance. But the basic rate limit, the level at which higher rate liability begins, will be

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unchanged, at £20,700 of taxable income. [This means a married man with 2 children and a mortgage of £30,000 would begin to pay higher rate tax at £X.]

50. The allowances for the elderly will similarly be fully uprated in line with inflation. For those aged 65 to 74, the personal allowance goes up by £270 to £3,670 and the married couples' allowance by £160 to £2,145. For those aged 75 and over, the personal allowance goes up by £280 to £3,820 and the married couples' allowance will rise to £2,185. The income limit for these allowances will also be fully indexed to £12,300. [Add thought that this necessary to keep marginal rates below 40 per cent? Check.]

51. I also propose to raise the IHT threshold by £10,000 to £128,000 in line with inflation.

52. The Capital Gains Tax exemption - that is, the amount of Capital Gains free of tax in one year - currently stands at £5,000. However, from April, the introduction of independent taxation means married couples will be entitled to not one but two exempt amounts rather than having to share one between them as at present. I have therefore decided to leave the exempt amount at £5,000 per person and £10,000 for a married couple.

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COMPANY CARS

53. I also have to set the scales for the taxation of the private use of company cars. The tax treatment of this benefit remains generous, though less so than previously, as a result of the significant increases in these scales in recent Budgets. I therefore propose an increase - but a smaller one than in previous years, at 20 per cent. The yield from this will be £160 million in 1990-91. There will be no change in the fuel scales.

BLIND ALLOWANCE

54. In the tax system there is one allowance - the tax allowance for the blind - that although anomalous has long been accepted as a proper recognition of the special difficulties faced by blind people. The allowance is modest, but welcome, at £540 a year. I propose to make it less modest and more welcome, and double it. Next year it will stand at £1,080.

WORKPLACE NURSERIES

55. Before I leave income tax, I have a supply side measure to announce, which will help the labour market to work better.

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56. We have always made it clear that it is not for the Government to encourage or discourage women with children to go out to work. That is rightly a decision for them to take, and one in which the Government would be wise not to interfere.

57. But it is undeniable that an increasing number of mothers do want to return to work. And many employers - in private industry, and in public services such as health and education - are keen to encourage them to do so.

58. However, at present, if an employer provides a nursery for his staff in order to recruit and retain skilled people, any employee who benefits and who earns more than £8,500 a year is required to pay tax on the assessed value of the benefit in kind. Many employers have argued that this has created recruitment difficulties for them, and many women see this as an obstacle to the growth of childcare provision and a positive disincentive to return to work.

59. For these reasons, therefore, I have decided to exempt the value of workplace nurseries and playgroups from taxation as a benefit in kind. This will take effect from 6 April this year.

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60. I indicated at the beginning of this speech that this Budget would include incentives both to save and to give. I will come to saving in a moment, but I want to deal with giving first.

61. We are by instinct a generous nation to causes that appeal to us. The tax system already offers a great deal of help to charities. It offers reliefs on their income and on their expenditure. And it provides incentives to encourage charitable giving. There is a relief for charitable covenants that has now been in operation for many years, and is worth nearly £200 million to charities every year. The arrangements for charities and donors who wish to give through charitable covenants are not, however, as simple as they might be and the Inland Revenue will therefore today be issuing new guidance to simplify them.

62. Since 1987 relief for covenants has been complemented by the payroll giving scheme, a very user-friendly way to relieve regular giving from tax. This scheme has been doing well since its launch and I now propose to increase the annual limit from £480 to £600.

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63. These reliefs are focused mainly on regular giving, which is of great importance to charities. But they are ill-suited to encourage the one-off gift which, for a variety of reasons, many people find more convenient. Over the years, this has been a persistent source of concern to charities. This year, I propose to go some way to meet those concerns.

64. I propose a Gift Aid scheme which for the first time will give tax relief for large single money donations. It is simply not practical to operate a relief for all small one-off gift. And in any event, such a relief might undermine regular giving through the payroll scheme and covenants, which are very important to some Charities. The lower qualifying limit for Gift Aid will therefore be £600 per donation - the new ceiling for payroll giving. The relief will be available on one-off gifts up to an annual ceiling of £5 million per individual donor. The tax relief will be reclaimable by the Charity, and payable to them at basic rate. [As with covenants, the higher rate relief is due to the donor - check.]

65. This relief, which will apply to gifts by both individuals and companies, will come into operation from 1st October this year. I am confident that it will maintain and strengthen the growth of charitable giving, and I very

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much hope that charities will promote it actively. It will, of course, be open to the whole range of registered charities from social causes to those whose activities are devoted to the arts.

66. I have one measure to help charities. This is a package of ~~further~~ ^{new} VAT reliefs giving help especially to organisations engaged in sea rescue, medical care and research. These will come into effect on 1 May and give an additional benefit of about £5 million a year to charitable work. Full details are set out in a Customs and Excise press release than is issued today.

SAVINGS

67. I now turn to the taxation of savings where I have a number of measures to announce. As I do so I am conscious that the majority of personal savings are the fruits of earnings which have already been taxed.

68. I start with saving in shares.

69. The development of the personal equity plan, which stands to the immense credit of my RHF, Blaby, has been an important boost for share-ownership. I am pleased to report to the House that last year was a record one for PEPs, with

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over 300,000 plans taken out, to the value of some £750 million.

70. To build on this success I propose to raise the overall annual limit on investment in PEPs by a quarter, from £4,800 to £6,000. Within that, the annual limit on investment in unit and investment trusts will be increased by the same percentage, to £3,000.

71. I am also sympathetic to the problems investment and unit trusts face in qualifying for PEP treatment. This arises from the requirement that 75 per cent of their portfolio should be invested in ordinary UK equities. I propose therefore to relax this rule, to 50 per cent. I also propose to raise the PEP limit for those trusts that do not satisfy this rule, from the present £750 to £900.

72. Last year, my RHF put employee share-ownership plans, or ESOPs, as they are known, on the statute book. ESOPs are a vehicle for giving employees a direct stake in the business for which they work. I believe they are an attractive option and deserve further encouragement. One impediment to their growth has been that the transfer of shares to the workforce can mean that the company owner faces an immediate tax charge. To prevent this happening I propose to introduce a rollover relief from capital gains tax for sales of shares to

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ESOPs. I believe this will remove an obstacle to the development of ESOPs and give this form of employee share ownership the fillip it deserves.

INDEPENDENT TAXATION

73. In a moment, I will turn to some new and significant tax changes for savers. But first, I wish to turn to a reform which was announced in the 1988 Budget and comes into effect next month - independent taxation for women. There is too little understanding yet of what this change will mean. It will fundamentally change the financial affairs of women.

74. At present the taxation of married women's income is wholly inconsistent with their role in society. In tax law their income is still considered to belong to their husbands. The effect of this is twofold. It denies married women any privacy or independence in tax matters. And too often it results in heavier taxation than is fair. Frankly it is time for this system to go, and go it will from April.

75. In future, a husband and wife will be taxed entirely separately. Every married woman will have a tax allowance of her own to set against her income - whether this income is from earnings, pension or savings.

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76. Three and three quarter million people will gain, of whom 2 million have incomes of less than £5,000 a year. One million elderly married couples will pay less tax, with 200,000 pensioner couples taken out of tax altogether.

77. No one will be sorry to see the old system go. One of its worst features was its treatment of the savings of married women. Whether they had other income or not, the interest on their savings was added to their husband's income and taxed at his rate. This was a clear penalty on thrift. But from April all that will end. This may well be the area where the reform has its greatest effect and will be most welcomed.

COMPOSITE RATE TAX

/ 78. However, independent taxation has thrown into sharp relief another aspect of the tax system that affects all savers, and which no longer deserves to survive.

79. Some women will see the benefit of independent taxation automatically, if they have their money invested in national savings, or other accounts which pay interest gross of tax. But many women, particularly those with only small savings, prefer to save with High Street banks or building societies. And so, frankly, do many other small savers. For all these

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savers, income tax - or rather a proxy for it, the so-called composite rate - is deducted before the interest ever gets to the saver, and whether or not the saver is liable to pay tax.

80. Composite rate tax was introduced originally in 1894, and put on the statute book in 1951. It currently stands at just under 22 per cent. It is deducted at source. It cannot be reclaimed in any circumstances. This means that basic rate taxpayers gain by 3 per cent - the difference between the composite rate and the basic rate of income tax, which is what they should pay. And it means that non-taxpayers are worse off by 22 per cent.

81. The attraction of composite rate has always been that it allows small amounts of tax to be collected with ease from very large numbers of people. It is very convenient and very cost-effective. But the fact remains that with CRT, we tax people on low incomes who should not be taxed.

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82. It has, of course, always been possible for these people to avoid taxation, by saving in accounts that pay interest gross or where tax can be reclaimed. But the convenience of using banks and building societies has meant that they have not done so.

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83. The scale of the problem is compelling. Once Independent Taxation is implemented there will be 14 million people - nearly one quarter of the population - who have savings income that does not merit taxation, but which will be taxed under present legislation.

84. They include some 5 million married women with little or no other income of their own, 4 million pensioners, $2\frac{1}{2}$ million other adults, and $2\frac{1}{2}$ million children with small savings accounts - often funded with small gifts of money from grandparents, or savings from pocket money.

85. There is no way out of this problem other than to abolish composite rate tax entirely. This I propose to do with effect from 6 April 1991, the earliest practicable date. From then on tax will fall on those who should pay it, and will not fall on those who should not pay it.

86. We shall discuss with the banks and building societies how to effect this change. I envisage a scheme of self-certification that will allow non-taxpayers to be paid their interest without deduction of tax. For other savers, tax will continue to be deducted at source, but at basic rate. However, unlike composite rate tax any tax deducted will be reclaimable by any non-taxpayers who, for any reason, may not have been able to self-certify for gross payment.

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87. This change will reduce significantly the amount of tax paid by millions of married women, pensioners, children, and others with small savings. It will relieve them of tax which they should never pay. And by removing the penalty of composite rate tax it will play an important part in encouraging the savings habit.

NATIONAL SAVINGS

88. Meanwhile, I am announcing today a 1 per cent increase in the interest rates paid on National Savings Investment Account and Income Bonds where interest is already paid gross. This too will help encourage saving, particularly by non-taxpayers. The Department for National Savings will also be introducing later this year a new Series of the [popular] Capital Bond, with simpler arrangements for paying tax on interest.

TESSA

89. However, as well as removing the tax impost for non-taxpayers, I do wish to do more to encourage the saving habit among taxpayers - all of them.

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90. In the 11 years we have been in office, a series of Budgets have removed penal rates of tax, abolished the investment income surcharge and introduced important new schemes to encourage saving and investment. I intend now to build further on those measures. And that means going beyond the incentives to saving that we have built up so far. These schemes have been immensely successful in spreading share ownership, and will continue to be so in the future. But I now want to extend savings incentives to the mass of ordinary taxpaying savers - and potential savers - who prefer to put their money in the familiar security of High Street banks and building societies.

91. My next measure is addressed precisely to them. I propose to introduce a wholly new tax incentive which will reward saving and encourage people to build up a stock of capital.

92. The scheme will work as follows. Every adult will be entitled to one Tax Exempt Special Savings Account, TESSA for short. This account can be held at any bank or building society. The essence of the scheme is to encourage people to save regularly over a 5 year period. The incentive for them to do so is that all the interest earned on their capital will be entirely free of tax, provided only that the capital itself is left undisturbed over the 5 years.

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93. The annual limit on the amount that can be invested will be £1,800, or £150 a month. In the first year, anyone who has capital that they are willing to tie up for longer can put this money in their account from the outset, up to a limit of £3,000. But the overall limit of £9,000 for the whole plan applies nonetheless.

94. To cope with the circumstances of many small savers - particularly pensioners - who use the interest on their savings for their everyday expenses, it will be possible to withdraw interest as it accrues, but only up to the net-of-tax level. At the end of the 5 years, the depositor then gets a bonus representing the money which would otherwise have gone in tax. The depositor will get this provided none of the capital has been withdrawn before the five years is up. They can, of course, withdraw the capital at any time, but without tax relief. [Should we add: It will, of course, be possible for the banks and building societies to offer additional bonuses for term deposits, but that is a matter for them.]

95. This scheme is convenient, flexible and simple. It extends PEP treatment to ordinary savings. It caters for those who want to save monthly, annually, or in irregular amounts. It represents a substantial incentive to save, and

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I am confident that TESSA will play its part in reviving the culture of thrift. I also believe it is both desirable and fair to reduce tax on small savings.

96. This new relief will be available from next January. Its cost will depend on take-up but could be around £200 million in the first full year, rising in the longer-term.

CAPITAL DISREGARDS

97. This Budget has contained a whole range of savings incentives. It has done so because I believe it is economically right to encourage savings. And because I believe also it is socially right - not least because of the independence and security it offers to savers as they build up capital of their own. But there is little point in encouraging savings if you leave in the system an over severe penalty for doing so. I turn therefore, to the social security system, and what has become known as the capital disregard rule.

98. As the House knows, people with more than a certain level of savings - £6,000 in the case of income support and family credit and £8,000 in the case of housing benefit and community charge benefit, become completely ineligible for

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all means-tested benefits, however low their weekly or monthly income may be.

99. This rule is widely resented as a penalty on thrift and self-provision. This is strongly felt by elderly people who have some capital but who use the interest on it for living expenses, and cannot afford to run it down. They also face the problem that, having retired, they are less able to replace their savings, which they see as essential for the security.

100. Although there must, of course, be some upper limit for benefits, I understand why people do not want to lose their nest egg. I have therefore reviewed the present limits, with my RHF, the Secretary of State for Social Services, and have decided that they should be raised.

101. The limit for income support and family credit will rise from £6,000 to £8,000. But the problem is most acute ^{for} ~~from~~ housing benefit and community charge benefit. I propose therefore to increase the capital cut-offs for both of these benefits from £8,000 to £16,000. The new limit will apply both to couples and to single people [so that widows and widowers will not face the loss of their social security help at a time when it may be most needed]. This measure will benefit around $\frac{1}{4}$ million people in all two thirds of them

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pensioners, who are at present wholly excluded from benefit. It will cost £120 million next year which will be met from the Reserve and will not increase the public expenditure totals.

102. To avoid delay, my RHF is laying the necessary regulations today so that limits will be increased when benefits are uprated at the beginning of April. He will discuss the operational implications of this change with local authorities immediately.

PERORATION

103. Mr Speaker, that concludes the package of measures I have to announce.

104. The Budget I have presented today takes no risks with inflation. It further strengthens the public finances. Where it has raised taxation, it has done so in the right way. It is firm but fair. It will be accompanied by tight monetary policy until inflation turns down.

105. It has re-affirmed our intention to the ERM. It has made sweeping changes to the taxation of savings. It has removed unfair impositions in the tax and social security systems. It ushers in a better deal for women. It has

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offered help to charities and sport. It has abolished two taxes and reduced the tax burden on growing companies.

106. It is the right Budget for this year, and it sets the right course for the '90s.

107. I commend it to the House, and the country.

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