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PART B

BUDGET BRIEFING 1983

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PART B

CLOSED
CONTINUED ON:-
PART C

2-57

Covering Secret

(pmp)

FROM: M E CORCORAN
DATE: 2 FEBRUARY 1983

1 MR KEMP
2. CHANCELLOR

CABINET ON 3 FEBRUARY: BUDGET REPRESENTATIONS FROM COLLEAGUES

You might like to have by you for tomorrow's meeting of Cabinet the Budget representations which you have received from colleagues. I attach copies of these, with an index, as well as the letters you have received from the CBI and the Bank.

2. If any points arise on them you might like to say that you are considering all the representations which colleagues have made.

M E Corcoran

M E CORCORAN

AM

BUDGET REPRESENTATIONS FROM COLLEAGUES

INDEX

FLAG		letter of
A	Mr Jenkin	6 December
	Mr Jenkin	12 January
	Mr Jenkin	27 January
	Mr Jenkin	? January
B	Mr Lawson	10 January
C	Lord Cockfield	29 October
	Lord Cockfield	12 January
D	Mr Howell	? January
E	Mr Prior	17 January
F	Earl Ferrers	21 January
G	Mr Younger	26 January
	Lord Mansfield	12 January
H	Mr Stanley	12 October
	Mr Heseltine	6 January
	Lord Bellwin	18 January
I	CBI	25 January
	Bank of England	13 January

4.35

FMP

cc:
PS/CST
PS/FST
Sir D Wass
Sir A Rawlinson
Mr Kemp
Mr Monger

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 February 1983

Mrs Carole Souter
Private Secretary to the
Secretary of State for Social Services

Dear Carole,

DHSS BUDGET REPRESENTATIONS

I spoke to your office last week, enquiring when your Secretary of State intended to send the Chancellor his proposals for this year's Budget and explaining that we should need them early this week if they were to be taken into account before Treasury Ministers reached final decisions. We are now rapidly approaching our deadlines and we need your representations very urgently indeed. Could you let us have them as soon as possible, even if you need to come back to us again on some of the detail?

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

Dopia

CONFIDENTIAL

1|3

FROM: MISS M O'MARA

DATE: 11 February 1983

We assume you're happy to see Mr Jenkin. By Friday, you'll have discussed all the industrial package. On Alvey, you'll see that CST + MST(R) recommend no quick decision

MOM 14/2

cc PS/Chief Secretary
PS/Financial Secretary
Mr Middleton
Mr Kemp
Mr Lovell
Mr Moore
PS/IR
Mr Battishill - IR

MR BAILEY

MEETING WITH SECRETARY OF STATE FOR INDUSTRY: BUDGET REPRESENTATIONS

The Secretary of State for Industry has asked to see the Chancellor to discuss his Budget representations and in the Chancellor's absence, we have fixed a meeting provisionally for Friday 18 February at 11.30 a.m.

2. The Department of Industry tell me that Mr Jenkin would like the discussion to cover the Government's general macro-economic stance, the NIS and measures to encourage innovation, enterprise and assistence to small firms. In addition, I understand that the Secretary of State would like an urgent word about the issues raised by Alvey and is concerned that the discussion we have arranged in the Health of Industry Group for 1 March would be too late. I understand that his officials will be contacting Mr Lovell about timing and should be grateful if he could let me know what is decided.

3. Could briefing reach this office by 6.00 p.m. on Thursday 16 February please?

MOM

MISS M O'MARA

1|3

CONFIDENTIAL

From: B H POTTER
Date: 14 February 1983

MR BAILEY

cc Mr Lovell
Mr Chivers
Mr Gordon
Mr Halligan
Miss Young

HEALTH OF INDUSTRY GROUP MEETING

We agreed last week that a meeting of the Health of Industry group should be arranged before the Budget to consider:

(i) the Alvey report on advanced information technology;

(ii) the car industry.

2. We have fixed the meeting for 5.45 pm on 1 March. This is the earliest date when all the necessary participants can be present. I have spoken to Mr Lovell who confirmed that this date was acceptable.

3. A paper by DOI officials, with a covering letter from Mr Jenkin, on the Alvey report is expected later this week. This had been intended to provide the basis for a bilateral discussion with the Chancellor. But providing IA2 are satisfied with its content, the paper can serve as the basis for the HIG discussion; there is, however, time to seek changes in the paper if necessary.

4. The paper on the car industry has of course already been prepared.

5. Perhaps Mr Halligan could let me have copies of the papers on both items when they are ready. I will arrange briefing in due course.

Barry H Potter

BARRY H POTTER
IA3 Division

The car housing the Avery part.

Room 5.45 Hut Tea for at

March

TEL. NO. & EXTN.	Date 21 A.M.	P.M.	Date 22 A.M.	P.M.	Date 23 A.M.	P.M.	Date 28 A.M.	P.M.	Date 18 A.M.	P.M.	Date 2 A.M.	P.M.	Date 3 A.M.	P.M.	Date 4 A.M.	P.M.	CONFIRMATION Date and Time
	12		2-	4	✓	3.30 4.30	11,12		9,10	✓	2-	4.30	2-	4	✓	✓	
	✗		to	2-45 4		✓	✓		✓	✓		4-30		✓	✗	✗	
Andrew 2760							✗			5.45							
2590				✗		4-30	✓		✓	✓		4-30		✗			
Sue 2488						✗	11-30		✗	✓		✗		✗			
Lynn 1572						4.30	✓		✗	5.15		✓		4			
1460										✓							
2188																	
2765																	

1st Mar

pvp

NOTE OF A MEETING ON WEDNESDAY 16 FEBRUARY, 1983 AT 4.30PM
IN THE CHANCELLOR'S ROOM HM TREASURY

Present: Chancellor of the Exchequer (in the chair)
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (R)
Sir Anthony Rawlinson
Mr Middleton
Mr Kemp
Mr Monger
Mr Moore
Ms Seammen
Mr Robson
Mr Kerr
Mr French

Mr O'Leary)
Mr Fawcett) Inland Revenue
Mr Spence)

THE CARING PACKAGE

The meeting had before it the Chief Secretary's minute of 14 February 1983.

2. The following decisions were taken:

(i) It was agreed that the widow's bereavement allowance should be extended into the year after her husband's death. This would help with the problem that under the present system many widows got no benefit at all from the widow's bereavement allowance.

(ii) It was agreed that there should be a real increase in mobility allowance as proposed by the Chief Secretary.

(iii) It was agreed that there should be a real increase in the theraputic earnings limit as proposed in the Chief Secretary's minute.

/The Financial Secr

The Financial Secretary was concerned about the limit on earnings of wives of disabled pensioners. The Chancellor asked for a note on this.

(iv) The abolition of the £25,000 ceiling for CTT exemption on gifts to charities had already been agreed at the meeting on the capital taxes.

(v) It was agreed to increase the ceiling for higher rate relief from £3,000 to £5,000 on deeds of covenant for the grade.

(vi) The new war pensioners mobility supplement was agreed.

(vii) It was agreed to increase the supplementary benefit capital disregards as proposed in the Chief Secretary's minute.

(viii) It was noted that the Inland Revenue saw objections in principle to tax relief for staff seconded by companies to voluntary bodies, but the Chief Secretary thought that the benefit of this move would be disproportionately high in relation to its cost. It was agreed.

(ix) Some concern was expressed about the number of additional staff required in allowing invalidity pensioners to receive the long term rate of supplementary benefit.
Ms Seammen pointed out that the DHSS had agreed that the whole of the caring package as proposed would only have a net staff cost of 10.
Mr Monger pointed out that the DHSS would

/meet the cost of this

meet the cost of this item from savings from housing benefit. Mr Kemp thought there might be a problem vis à vis the long term unemployed but the Chief Secretary thought it would be perfectly defensible. This measure was agreed.

(x) The Chancellor expressed concern about item 10, a real increase in housing benefit children's needs allowance. He thought this sort of measure tended to exacerbate the problem vis à vis child benefit. Mr Monger pointed out that this would be met out of housing benefit savings. The Chief Secretary proposed an alternative of offering items 11 and 12. The Chancellor did not favour item 12 the extension of war widow's pension to widows of all pensioners with 100% disablement. He thought it was over complicated. He would leave the final decisions on items 10 and 11 until his meeting with the Secretary of State for Social Services.

3. The Chancellor stressed that all the above decisions were conditional on the decision on the uprating adjustment.

4. The Chancellor agreed the strategy on announcements put forward in the Chief Secretary's minute. He thought there was a case for no DHSS announcement on upratings because any such announcement would be conditional on the passage of the Adjustment Bill. The Minister of State (C) pointed out that once the caring package had been announced it would be very difficult to withdraw it even if the Adjustment Bill ran into problems in the House of Commons, which is a not unlikely scenario. The FST agreed. The Chancellor said this was another point he would wish to discuss with Mr Fowler.

/5. There was a

5. There was a brief discussion on the earnings rule. The <u>Chancellor</u> thought it would be useful to have a note, which could be used with Mr Fowler. He noted that the proponents of the earnings rule tended to argue that its abolition would have no net cost.

JKR

JILL RUTTER
17 February 1983

Distribution
Those present

Sir Douglas Wass
Mr Wilding
Mr Cassell
Mr Mountfield

FROM: E P KEMP
3 February 1983

PRINCIPAL PRIVATE SECRETARY (PWP)

cc PS/Chief Secretary

CABINET TODAY

One last note about Cabinet today.

2. By way of briefing we have let you have some notes on specific points that might come up (Mr Norgrove's minute of 1 February) and a speaking note which went forward with that; a note on suggestions that might arise about "more give away in the Budget" following publication of the Public Expenditure White Paper (my minute of yesterday); copies of representations etc from other colleagues (Mr Corcoran's minute of yesterday) and a note on the handling of individual proposals that might be put forward, suggested by the idea that Mr Tebbit might raise TSTWCS (my minute of yesterday evening).

3. I have not presumed to try to set out any kind of "line to take", as one might normally do, given the Chancellor's familiarity with the subject and the nature of this particular exercise - essentially consultative. The one point he will have in his mind, of course, is the need to steer the right course between on the one hand giving his colleagues a sufficiently satisfying discussion of the prospects for the Budget that they do not feel they should press for another collective discussion nearer the time; and on the other hand avoiding any firm decisions or even "guidance" of a relatively binding nature which might foreclose his freedom of action or become difficult to manage if things change substantially between now and the Budget (as of course they may - for instance oil prices). This sort of thought was set out in paragraph 10 of his minute to the Prime Minister of 26 January, which he may like to have by him - copy attached for convenience. The sort of conclusion we would like to get from the Cabinet would be an "invitation to the Chancellor in framing his Budget to take note of the points made in discussion".

4. I take this opportunity of attaching a copy of the CPRS Budget representation of 26 January which I fear may have been omitted from Mr Corcoran's

bundle of yesterday. The Chancellor (and his colleagues) will also have seen the lead story in today's Times - copy attached - reporting what is described as an emerging consensus that the world should be on the brink of recovery. There has not been time to look into this in detail but the Chancellor might find reference to it helpful, especially if there is also reference to today's poor unemployment figures and the TUC Budget representations, also appearing today. (The Chancellor has notes on these).

EPK

E P KEMP

c. Mr Green
Mr Isaac
Mr Gracey
Mr Rogers
Mr Hall (Slr)
Mr D Moore (Tsy)
Mr P Kemp (Tsy)
~~Miss~~ O'Mara (Tsy)
Mr Mace
Mr Marshall
Mr Lewis (Press Officer)
Mr Kuczys
Miss Dyall
Mr Ridley
Mr Sims
Mr Willmer
Miss Hay

CENTRAL DIVISION

UNDER SECRETARIES, ASSISTANT SECRETARIES AND CHIEF STATISTICIANS IN POLICY, CENTRAL AND STATISTICS DIVISION

MR MARTIN)
MR REED) Tsy
MR CORCORAN)

BUDGET AND FINANCE BILL CO-ORDINATION

1. This note describes how work on co-ordinating Revenue aspects of the Budget and Finance Bill will be divided within Central Division.

2. The arrangements will broadly be the same as last year. CD 1 (Mr Kuczys and Mr Willmer) will be responsible for co-ordinating Revenue comments on drafts of the Budget Speech and in addition to their current work on the Budget Starters List will take miscellaneous items such as the Budget Snapshot and the usual Economic Progress Report article. CD 2 (myself and Mr Sims) will co-ordinate Revenue contributions to the Budget Brief and (in liaison with the Press Office) will handle Budget and Finance Bill Press Releases. We shall also be responsible for circulating drafts of the Budget Resolutions and pre-publication prints of the Finance Bill, and for co-ordinating the Revenue contributions to Lobby Notes. Some detailed points on particular aspects of the procedures are below.

DRAFT BUDGET SPEECH

3. Drafts of the Budget Speech will be circulated by Private Office. (Comments on the drafts should, however, go direct to Mr Kuczys.) We should be grateful if, as in other years, Treasury Central Unit could arrange for us to get 4 copies of each draft, addressed 2 to PS IR, 1 to Mr Painter and 1 to Mr Kuczys. There is inevitably some delay in copies reaching us from the Treasury, and the extra copies help us to offset this to some extent.

No 5
CR

BUDGET DAY PRESS RELEASES

4. Mr Corcoran may like to note that I will act as the Revenue point of contact with the Treasury.

BUDGET RESOLUTIONS

5. Although CD 2 will be responsible for distributing these, in view of the very tight deadlines any comments should be made direct to Parliamentary Counsel.

NOTES ON CLAUSES

6. Questions about Notes on Clauses should go to Mr Ridley in the Private Office.

CH

MRS C B HUBBARD
4 February 1983

CONFIDENTIAL

John has the original. M 16/2

07 FEB 1983

From: P E MIDDLETON
4 February 1983

Chancellor of the Exchequer

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Sir Douglas Wass
Mr Burns
Mr Littler
Mr Byatt
Mr Unwin
Mr Cassell
Mr Evans
Mr Kemp
Mr Lavelle
Mr Odling-Smee
Mr Barber
Mr Bottrill
Mr Peretz
Mr Riley
Mr Horton
Mr Powell
Mr Ridley
Mr Hall

ECONOMIC EFFECTS OF LOWER OIL PRICES

I attach a paper by MP2 and EF2 Divisions on the effects, both on the world and UK economies, of a fall in the nominal world oil price to $25 a barrel by the second quarter of this year. The paper has an introduction setting out the immediate prospects for oil prices.

2. The effects of lower oil prices on the UK economy will depend on the stance of monetary and fiscal policies not only abroad, but also in the UK. It is impossible to give more than broad orders of magnitudes about the effects. But, on the assumption that monetary growth remains unchanged at the rate assumed in the January forecast, the paper estimates that the effect would be to:

a. raise the level of output in the UK by about ¼ per cent after about a year and by as much as ½ per cent after two years, compared with the January forecast;

b. reduce the rate of inflation by about ½ a point initially; subsequently, with the exchange rate lower and output higher, inflation is higher than in the forecast but not markedly so. And the price level is always below what it would otherwise have been - at least over the period examined.

c. reduce North Sea revenues by about £1½ billion in 1983-84 and to raise the PSBR by about £1¼ billion.

3. Uncertain as they are, these results are not significantly different from those which were contained in the papers sent to you last March and May.

4. This is by way of an interim report. We are doing more work in conjunction with the Department of Energy, including a look at the effects on the energy markets and on the energy nationalised industries. We intend to examine the consequences of a larger drop in prices - to $20 a barrel. Because this would be likely to have proportionately greater implications for the world financial system than a $25 a barrel case, we shall be seeking the Bank's advice. We would hope to complete the work in about two weeks.

5. This is an analytical note. It does not answer the question you raised earlier today about whether our presentation of the implications of a fall in the oil price is getting over, though it does confirm that our briefing has been on the right lines. One possibility would be to find an occasion to make a short speech on the subject - possibly supported by the publication of some of these results.

E. K. Clarke

pp P E MIDDLETON

Enc

THE ECONOMIC EFFECTS OF LOWER OIL PRICES

INTRODUCTION

1. This note examines the economic consequences of the world price of oil falling from its end 1982 level of $32.50 per barrel by the second quarter of this year. The effects of this scenario are considered in relation to what would happen if oil prices follow the profile adopted in the January forecast which assumes that the world oil price falls to just over $30 by the second quarter. However, because there is a possibility that we may have to adopt a lower oil price profile in the Budget update than in the January forecast, Annex 1 shows some of the results of this paper converted into the form of a ready reckoner for a 10 per cent change in the world oil price.

THE PROSPECTS FOR OIL PRICES

2. Last March we also submitted a note which examined a fall in the world oil price to $25 per barrel. That paper argued that it was always expected that the 1979-80 oil price hike would lead to a period of glut and downward pressure on prices. However, the onset of the inevitable reaction was delayed by the effects of the Iran-Iraq war and by the fact that the oil companies under estimated the speed at which the demand for oil products was falling. However, the delay mainly served to intensify the strength of the reaction when it came. By last March prices of non-OPEC crudes were already falling sharply and the structure of OPEC prices was beginning to crumble. A sharp fall in the world price of oil seemed imminent - in the 1982 MTFS projections we assumed that the average price of OPEC oil would fall to $29 per barrel by the middle of 1982.

3. In the event prices did not fall as predicted. OPEC met in Vienna and agreed a set of quotas which would limit their production to 17.5 million barrels per day (mbpd). This was sufficient to prevent a fall in the official world price of oil (that of Saudi Arabian light crude, the 'marker' crude) and the price of North Sea Oil recovered. Nevertheless, the oil market remained weak. Demand for oil in the industrial countries continued to fall and oil companies and consumers continued to run down stocks. A number of OPEC countries have been offering discounts which have enabled them to increase their production above the agreed quotas. As a result the average nominal OPEC price (as opposed to the official marker) fell by around $1 per barrel during the last three quarters of 1982. However, because of a sharp rise in the effective exchange rate of the dollar the effective price of oil to consumers outside the USA actually rose.

4. OPEC now appears to face a much more serious crisis than the one it staved off last March (once again the delaying of an adjustment in the oil market makes the required size of the adjustment greater). The maintenance of high oil prices during 1982 and delayed recovery of the world economy has depressed oil demand. Moreover, an unexpectedly mild winter has left oil companies with more oil on their hands than they need and there are reports that oil consumers are reducing stocks by more than is normal for the time of year. Fears of a sharp fall in the price is also providing a powerful incentive to reduce stocks to a minimum.

5. By contrast the cohesion of OPEC is under considerable strain. Bickering and cheating over prices and quotas and the political dispute between Iran and the Arabs is making it difficult for OPEC either to sustain the Vienna agreement or replace it with another set of quotas. The OPEC meeting in Geneva on 23-24 January failed to agree on a new set of quotas to limit production to 17.5 mbpd. This has created the widespread expectation that official OPEC

prices (including the marker which remains at the $34 per barrel to which it was raised on 1 October 1981) must now fall. Participants in the oil market are now said to be holding off waiting for something to happen.

6. The problem facing OPEC is that in current market conditions if oil prices were allowed to find their own level they could fall a very long way indeed because supply and demand adjust only very slowly. Some commentators in the USA (where there has always been marked hostility to OPEC in certain quarters) have been quoting a world oil price as low as $13 per barrel. Such a prediction must be seen in terms of the current very high value of the dollar; but, even allowing for this, it would still imply the reversal of the whole of the 1979-80 price hike in real terms. If the dollar fell, as we expect it will do, $13 per barrel would leave real oil prices lower even than before 1973-74. In either case, we do not think that oil prices could remain as low as $13 per barrel for very long though the possibility that the oil market may overshoot (as it did in 1979-80) cannot be discounted.

7. In the last couple of days, there have been rumours that Saudi Arabia and its Gulf Allies would be prepared to defend a marker price of $30 per barrel. If they attempted to do this by themselves without the assistance of the rest of OPEC they may have to restrict themselves to very low levels of output indeed. Saudi output will fall to very low levels anyway unless they reduce their prices relative to those of most other oil producers. If the Saudis cut their prices fear of a free fall may then drive most of the OPEC producers to co-operate in defending the oil price albeit at a lower level than obtains now. However, defending a lower level of oil prices will be no easy task. One major oil company told us two days ago that total OPEC oil production of not more than 16 mbpd (compared with willing production of 26 mbpd) may be required to stabilise the market in current circumstances.

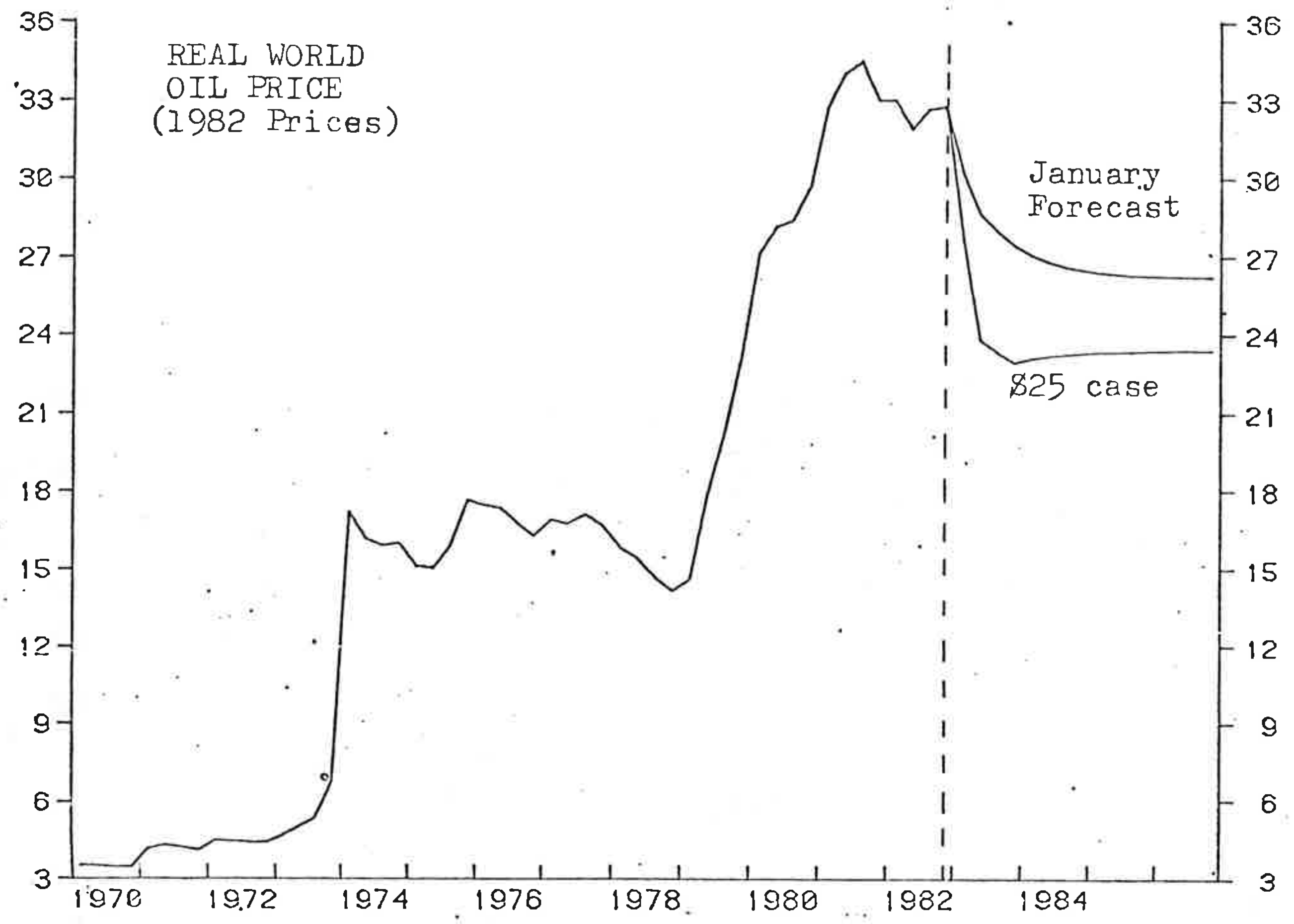
8. On balance we think that OPEC, or a sufficient part of it, will succeed in stabilising the oil price at some lower level. In the January forecast we assumed that the marker bottomed out at $31 per barrel and the average OPEC price at a little above $30 per barrel – implying the persistence of some discounting. In this note we consider the case where both the marker price and the average price of OPEC oil falls to $25 per barrel and discounting is eliminated.

9. Table 1 below shows both the January forecast of oil price and the $25 oil price case in both current and 1982 prices:-

	World Oil Price in Current US $			World Oil Price in Constant 1982 US $		
	January Forecast	$25 Variant	% Change	January Forecast	$25 Variant	% Change
1982	32.6	32.6	-	32.6	32.6	-
1983 Q1	31.4	28.7	-8.6	30.3	27.7	-8.4
Q2	30.2	25.0	-17.2	28.7	23.8	-16.9
Q3	30.2	25.0	-17.2	28.0	23.3	-16.6
Q4	30.2	25.0	-17.2	27.5	22.9	-16.5
1984	31.8	27.3	-14.3	26.8	23.2	-13.4
1985	34.9	30.6	-12.3	26.4	23.4	-11.4
1986	37.0	32.7	-11.7	26.2	23.4	-10.9

In both cases the nominal oil price remains unchanged throughout the last three quarters of 1982. In the $25 case it is assumed that thereafter OPEC succeed in maintaining the oil price in real terms. In the January forecast OPEC was only assumed to achieve full indexation in 1985 when discounting had been eliminated. This difference in assumption explains why some of the difference in nominal prices between the two cases is eliminated during 1984. In real terms the two cases move even closer together because the general price level is lower in the $25 per barrel case.

10. The graph below shows the course of real oil prices since 1970. In terms of 1982 values the price of oil rose from just over $4 per barrel in 1972 to just over $15 per barrel in 1974. In then remained at around this level until 1979 when it soared to reach over $34 per barrel by 1981. The $25 case examined in this note has it returning to $23½ per barrel by 1986, thus reversing over half of the 1979-80 price hike.



11. Although the reduction in the world oil price assumed in this note is fairly sharp, it results in an early return to stability in the world oil market. In practice a fall in world oil prices could be much more messy than this. The oil price could fall in fits and starts over an extended period with several bouts of turmoil in the world oil market. The latter could well spill over into financial markets. For the world economy this could add to the adjustment costs of moving to a lower level of oil prices. For the UK it could mean that sterling would be subject to periods of uncertainty and weakness. It might also mean that, for short periods, the fall in North Sea oil prices may overshoot the fall in the average world price of oil. We do not think that any overshoot could persist for very long, but while it lasted the effects of falling oil prices on the UK would be less favourable than set out in this note.

THE EFFECT ON THE WORLD ECONOMY

12. The two large oil price increases of the 70s, 1973 and 1979, were major causes of the ensuing recessions and may have helped to lower the long term growth trend in the OECD economies. It would be a mistake, however, to blame those recessions entirely on the oil price rises because previous rapid growth and rising inflation, particularly in 1973, would in any case have brought about a cyclical down turn, at least to the extent that growth would have slowed. An estimate of the impact of the oil price hikes provides some helpful indications of the likely consequences of a fall in oil prices, though it is by no means true that the latter would simply undo the effects of the former. However, making such estimates is a hazardous business requiring the use of imperfect tools of economic analysis to rewrite the last ten years of world economic history.

13. When the oil price rises there are two main initial macro-economic effects. World prices rise and income is transferred to oil exporters from oil importing countries, both in OECD and the developing world. The bulk of/the impact falls on OECD countries. Within OECD the increase in oil prices stimulates inflation which reduces real income, erodes financial wealth, and reduces spending. At the same time, Governments take restrictive measures to contain the increase in inflation. The transfer of income shows up first as a current account imbalance - the OECD runs a deficit and OPEC a surplus - but these imbalances are gradually removed as the OECD begins to export more goods (mainly manufactures) and import less oil, while OPEC exports less oil and imports more manufactures. Resources in the OECD countries are shifted into the balance of payments to counteract the adverse effect on their terms of trade of the oil price rise.

14. So, in the short term, there are three effects on activity in OECD countries - the downward impact from lower real income and wealth, deflationary policy by governments and a growing expansionary impact from higher foreign demand. In the longer term,

there may be some small permanent loss in OECD output to the extent that technical change and its embodiment in the capital stock is dependent on the rate of growth, which will have been slower in the intervening period. The net result is an initial fall in OECD activity, which is magnified by the normal operation of economic multipliers but then is gradually reduced over time. Total world activity will also be lower, partly because of the reduction in OECD and non-oil LDS activity and partly because OPEC oil production will itself have to be held down to maintain the higher price. World trade is likely to decline, particularly in the short term, but within the total, more manufactures and less oil will be traded and more goods will be bought by oil producers, a particularly important market for the United Kingdom. While world trade as a whole may fall, therefore, the effect on UK weighted world trade in manufactures is unclear.

15. The rise in the price of oil between early 1979 and 1981, together with the consequent increase in inflation and the deflationary policy in response to that inflation is thought to have reduced OECD GNP by as much as 6 per cent.

16. A fall in oil prices should therefore be beneficial to the OECD, and, indeed it is. Unfortunately, however, a price fall is not as beneficial as a price rise is harmful. This is because both involve adjustment costs arising from the dislocation they cause to the world economy. This is mainly because when a large shift in income occurs, those who are made worse off, tend to adjust their spending more quickly than those who are made better off. Also, the redistribution of income, together with the change in relative prices, cause changes in the pattern of demand. Industries which suffer a drop in the demand for their products find themselves with excess capacity which may have to be scrapped before the end of what would otherwise have been its useful life. Those industries enjoying an increase in demand need to invest in additional capacity. Changes of this kind when they happen gradually are the very stuff of economic growth. When they happen suddenly, because of a sharp rise or fall in oil prices, they involve a waste of resources

through unemployment of both labour and capital and through premature scrapping of capital capacity. Additional adjustment costs may arise because of the changes which sharp oil price rises or falls may require in financial markets. However, because these markets can adjust very rapidly the costs involved may not vary significantly providing always that a financial 'crisis' can be avoided.

17. However, apart from these adjustment costs, the effects of an oil price reduction will be more or less the exact opposite of an oil price rise. Income will be transferred to oil importers from oil exporters and world inflation will fall. ?

18. In assessing the effect of an oil price rise on the world economy, we have had to make a number of assumptions. Firstly, we have assumed that other energy prices fall in response to the reduction in oil prices. Secondly, we assume that OECD governments adopt reflationary measures in response to a reduction in prices just as they adopted deflationary measures in response to an increase. This, together with income and wealth effects and multipliers, is assumed to keep the growth of nominal GDP virtually unchanged. However, more of the growth in nominal GDP is reflected in higher output and less in higher prices. Third, we assume that the initial fall in inflation causes a further fall in earnings growth. (There is some evidence that earnings growth has become less responsive to changes in inflation caused by oil price changes as the knowledge that these involve transfers of income between countries has spread. Thus, it is possible that this assumption also leads us to slightly overstate the benefits to inflation of an oil price reduction). Fourth, that the transfer of income does not cause any serious disruption in international financial markets.

No No No

19. The Table over shows the impact of the oil price fall on the OECD economies. We think that GNP this year would be raised by a little less than half a per cent and, next year, by a bit more than three-quarters of a per cent. This would raise OECD growth this year to around $1\frac{3}{4}$ per cent and 1984 growth to $3\frac{3}{4}$ per cent.

Inflation this year would be below 5 per cent, helped by the exaggerated effect of US interest rates on the consumer price index, and would only rise to 5½ per cent in 1984.

Percentage change from Winter Forecast

Major Seven Economies

	GNP	Consumer Price Inflation	Total OECD Imports
1983	+0.5	-0.4	+0.7
1984	+0.75	-0.4	+1.8
1985	+0.8	0	+1.9
1986	+0.7	+0.1	+1.8

20. The OPEC countries are assumed to take sufficient action to eliminate within 3 years over three-quarters of the initial worsening of their current account balance. They achieve this mainly by a reduction in imports although, of course, thee is some increase in the volume of their oil exports as oil consumption increases due to the fall in price. We have assumed sharp retrenchment by high absorbing countries such as Nigeria, Venezuela, Indonesia, Iraq and Algeria, as well as some downward revision of spending plans in the low absorbing countries. These adjustments are severe in individual cases - Nigerian imports, for instance, would fall by over a third this year.

21. The term 'non-oil developing countries' rather confusingly includes several oil exporters which do not happen to belong to OPEC. The group as a whole is probably now self-sufficient in oil but this is because it includes a major oil exporter, Mexico, and some minor ones such as Malaysia, Tunisia, Eygpt and Congo. These countries will obviously be hit hard by an oil price fall, especially Mexico, while a large number of other countries, notably Brazil, will

be benefited to a smaller extent. We have assumed that the serious adjustments that will be called for in these countries outweigh the increase in imports that would be directly caused in other countries, so that the overall increase in developing country imports is less than the increase in their exports to the OECD. In later years we assume the increase in their imports is comparatively small, and that LDCs choose to build up their reserves slightly.

22. The Table below adds these various import changes together (together with a slight fall in the imports of the centrally planned economies) to produce a rise in world trade of about ⅗ of a per cent next year and a little less than 1 per cent in 1985. Since OPEC is more important to the UK than to the world in general, world imports weighted by their significance as UK markets show a slight decline initially and a less than half per cent rise even in 1986. Since oil is now cheaper relative to manufactures more of what is traded is oil and less manufactures or, looked at another way, the OECD needs to export fewer manufactured goods while OPEC has to export more oil. The demand for manufactures in UK markets, therefore, is likely to contract, if anything, initially before returning to its previous level. The benefits to the UK are less than those for the OECD in general not only because it is an oil exporter but also because a relatively high proportion of UK exports consist of manufactures sold to OPEC countries.

Percentage Change from Winter Forecast

	OECD Imports	OPEC Imports	LDC Imports	World Imports	World Imports (UK weights)	UK weighted world trade in Manufactures
1983	0.7	-6.7	0.8	0.1	-0.4	-0.7
1984	1.8	-7.6	0.4	0.6	0	-0.4
1985	1.9	-6.0	0.2	0.9	0.5	0
1986	1.8	-5.5	0.2	0.8	0.5	0

23. A fall in oil prices will increase oil consumption and reduce the production of (Non-OPEC) oil and other fuels. However, these effects build up only over time. The effect of this build up on the demand for OPEC oil is shown in the following table:-

	Demand for OPEC Oil mbpd			OPEC Willing Production
	January Forecast	$25 Variant	Change	
1981	23.4	23.4	-	26.0
1982	19.0	19.0	-	26.0
1983	19.8	20.0	+0.2	26.5 - 28
1984	21.3	21.8	+0.5	27 - 30
1985	22.6	23.6	+1.0	27½ - 32
1986	23.6	27.4	+3.8	27½ - 33

24. The figures for OPEC willing production must be treated with considerable caution since they depend on factors such as when Iraq might return to full production and how the Saudis decide to use their large reserve of spare capacity. However, the table suggests there is a distinct possibility that a fall in the oil price to $25 per barrel could well be reversed sometime in the second half of the 1980s.

EFFECTS ON THE UK ECONOMY

The UK will clearly be affected by the impact of lower world oil prices on the world economy. But, as a net oil exporter over the next few years, we will also be affected directly. It is helpful, therefore, to describe with some care the various ways in which a lower world oil price affects the UK economy. The next section looks briefly at the theoretical long-run equilibrium effects and then at what might be expected to happen in the short term. The final section presents some estimates of the effects based on simulations using the Treasury Model.

26 Analytical Framework

(i) Long-run Effects

For most developed countries a fall in the real oil price entails a long-run improvement in their terms of trade and thus, if sustained, a higher level of real national disposable income compared with what it would otherwise have been. As a net oil exporter, the UK will by contrast suffer a deterioration in its terms of trade. And as an oil producer the real value of our GDP will be lower because of loss of economic rent from the North Sea. Both these will reduce real national disposable inoome in the long run.

However, for reasons which are discussed below, we would expect the UK to benefit in the short run from lower oil prices. Both GDP and possibly real national disposable income could be expected to be higher. In current circumstances, it would be a very long time - at least 5 and possibly 10 years - before any long-run effects begin to predominate. Also, by then the UK may be a net oil importer once again and our terms of trade would benefit from permanently lower oil prices. In these circumstances, it is sufficient to concentrate on the short-term effects of lower oil prices on the UK economy.

27 (ii) Short-run Impact

The initial impact of a fall in oil prices is to reduce import prices and through them, consumer prices in the oil-importing industrial countries. Real incomes, wealth and profits will be higher, leading to higher consumption and investment. So the level of output should be higher in the short-term, and this is likely to be associated with a higher volume of world trade.

28 The UK will be indirectly affected by the higher world demand, output and trade that could be expected to follow an oil price fall. But, as an oil exporter, we would also be affected directly by a lower oil price.

29 If the exchange rate is assumed fixed (for analytical purposes only), a lower world and North Sea oil price and lower world prices of other goods could be expected to result in a lower level of domestic prices. This may in turn lead to still lower prices in the UK if earnings are lower in response to lower prices. Output would be higher than it would otherwise have been, as consumers and the non-North Sea company sector react to higher real incomes, wealth and profits, although there might be some offset from lower North Sea investment.

30 If the exchange rate floats, the extent to which activity in the UK will be higher in the short-term in response to a lower oil price will depend on the behaviour of the exchange rate against those of other industrial countries. The ex ante effect of lower oil prices is to worsen the current account, both absolutely and relative to those of our main competitors. There may also be a short-term effect

on the capital account, for two reasons. Sterling may become a relatively unattractive currency to hold, as a result of our possession of North Sea oil. And there will tend to be a capital outflow as OPEC countries sell sterling assets. There is, therefore, likely to be an ex ante deterioration in both the current and capital accounts of the balance of payments.

31 The foreign exchange markets are likely to anticipate the longer run implications of a lower oil price on competitiveness. If it is free to float, the nominal exchange rate will therefore tend to fall initially compared with what would otherwise have happened. The exact size of the change will, however, depend on the conduct of domestic monetary policy. Other things being equal, the smaller the change in monetary growth in response to a lower oil price, the smaller will be the change in the nominal exchange rate.

32 A lower exchange rate will offset to a greater or lesser extent the fall in domestic prices as a result of lower oil prices and lower world prices of other goods. This will tend to reduce the expansionary effect on activity of lower prices. On the other hand, a lower exchange rate will tend to improve the UK's competitiveness and hence boost net exports and output. In the longer run, while the improvement in competitiveness could be expected to be sustained, output should be no higher than it would otherwise have been. The short term rise in output as a result of a lower exchange rate can be seen as a necessary part of the process by which resources are switched from producing non-traded to traded goods in order to make up for a permanently lower value of net oil exports.

33 A lower oil price will obviously reduce Government revenues from the North Sea. However, the effect will be mitigated to the extent that the exchange rate falls (since the change in revenues is dependent on the size of the change in oil prices in sterling). And the effect on the PSBR will be reduced to the extent that non-oil taxes are higher (in response to higher output) and public expenditure is lower (in response to lower prices).

34 To sum up, in the short run a lower oil price will have a direct and adverse effect on the UK's terms of trade and hence real national disposable income. If the exchange rate did not change, domestic costs and prices would be lower, partly because world costs and prices are lower. This, and the impact of a higher level of world output and trade in the short term, should lead to a higher level of domestic output. If, as seems more likely, the exchange rate fell, this would offset to some extent the beneficial impact of a lower oil price on the domestic price level, but it would also improve competitiveness. The higher level of output in the short term would probably offset the direct effect on real national disposable income. A lower oil price will reduce North Sea revenues and raise the PSBR, although probably not to the same extent. The change in oil prices will also change the internal distribution of income.

35 Quantitative Estimates

In examining the effect on the UK economy of a fall to $25 a barrel in the world oil price by the second quarter of this year, we made the following working assumptions about UK economic policy:

(i) the PSBR and the exchange rate are free to vary;

(ii) tax and benefit rates and allowances are unchanged in 1983-84; thereafter they are fully revalorised in line with the change in retail prices;

(iii) cash limits are held constant in 1983-84; in subsequent years half of any changes in pay and prices would be reflected in a lower or higher volume of public expenditure.

On monetary policy, we looked at two alternative assumptions:

(iv) the rate of growth of an average of narrow and broad money is unchanged from its value in the January forecast;

(v) that interest rates are unchanged from their base levels.

36 Table 2 summarises the effect on UK activity, inflation, the PSBR, etc. of the fall in the world oil price described earlier. For the purposes of the simulation it was assumed that the North Sea price (in dollars) falls in line with the world dollar oil price, maintaining a constant premium in proportionate terms. Thus we assume that the North Sea price falls from its forecast level of $31.50 a barrel in the second quarter of 1983 to about $26.

37 The table sets out the results on both assumptions about monetary policy. The discussion which follows concentrates on the fixed monetary growth case, since this seems the closer representation of Government policy. In this case the main effects on the UK economy of a fall to $25 a barrel in the oil price are:

(i) to reduce <u>inflation</u> initially by about ½ percentage point; in subsequent years, with the exchange rate lower and output higher, inflation is somewhat higher than in the base, but not markedly. The direct effects of lower oil product prices and world prices is sufficient almost to offset the inflationary implications of a lower exchange rate and higher output. The <u>price level</u> never regains its base level within the time period of the simulation;

(ii) to reduce the nominal exchange rate by about 1 per cent over the whole period;

(iii) to raise the level of GDP by about ¼ per cent initially and by about ½ per cent subsequently.

(iv) to reduce interest rates slightly in the first year and to raise them by about ½ point in subsequent years, as the level of activity increases;

(v) to raise real personal disposable income by about ¼ per cent initially and by about ½ per cent after 2 or 3 years;

(vi) to raise the real disposable incomes of companies outside the North Sea by as much as 2½ per cent initially and by smaller amounts subsequently as costs, including interest rates, rise;

(vii) to reduce Government revenues from the North Sea by £1½-1¾ billion a year over the whole period;

(viii) to raise the PSBR by similar amounts in the first two years but by increasingly smaller amounts subsequently, as other tax receipts rise in response to higher activity.

These results are obviously subject to wide margins of error. They are based on a number of simplifying yet arbitrary assumptions, for example about the conduct of economic policy, the impact on the energy nationalised industries' costs and prices, the extent to which a fall in crude oil prices will be reflected in oil product prices at a time when the oil companies are attempting to rebuild their profit margins on refining and marketing and so on.

38 Exchange Rate Impact

They also reflect the relationships in the Treasury Model. Of particular uncertainty is the likely response of the exchange rate to a fall in the oil price. The model implies that the direct

effect of a sustained 10 per cent fall in the oil price would be to reduce the exchange rate by about $1\frac{3}{4}$ per cent in the long run. In addition, the indirect effects of a lower oil price - on the current account balance, domestic prices, interest rates, etc. - will also influence the exchange rate. In the case where money supply is fixed, these indirect effects serve to push up the exchange rate. That is why the net fall in the exchange rate quoted above is relatively small. Because of the uncertainty about the exact size of the direct effect of the oil price on the exchange rate, we ran two further simulations to test the sensitivity of the results to the assumed response of the exchange rate. In one, we assumed no direct relationship at all between the oil price and the exchange rate. In the other, we doubled the response implicit in the model. In both we assumed a fixed money supply. The results are shown in Table 3. They should be compared with (i) in Table 2. The most obvious difference compared with the unadjusted case (apart from the exchange rate effect) is the effect on inflation. When we impose no direct relationship between the exchange rate and the oil price, inflation is actually lower than in the base by the end of the period. This is the only significant difference in this case. It seems to have little or no impact on the other indicators in the table.

39 When the exchange rate effect is doubled, inflation is higher by about $\frac{1}{4}$ point by the end of the third year, compared with the unadjusted case. As one would expect, interest rates are also significantly higher by the end of the period. The PSBR, on the other hand, is lower - by about £$\frac{1}{4}$bn a year after the first year, and GDP higher than in the unadjusted case - by about $\frac{1}{4}$ per cent after the second year. In general, therefore, the larger the response of the exchange rate to a change in oil prices, the greater the effect on the economy, except that the PSBR effects are more muted.

40 A Permanent Fall in the Oil Price

The discussion so far assumes that the fall in the oil price is permanent. From a macro-economic point of view it probably makes little difference, at least initially, whether the fall is thought to be permanent or temporary. But a permanent fall would have a very different impact on the domestic energy sector from a temporary fall. This would then have implications for energy investment, including investment in the North Sea. The results quoted above assume that energy investments are unaffected by the lower price.

A permanently lower oil price might also have implications for the North Sea tax regime. It is open to question whether tax rates in the North Sea could be left unchanged if oil prices were to fall to $25 a barrel and permanently to remain significantly below previous expectations.

41 Conclusions

The quantitative results presented in this note are generally consistent with our *a priori* expectations discussed earlier. A lower oil price has an immediate and adverse effect on the UK's terms of trade and real national disposable income. But domestic prices and the rate of inflation are both reduced. This, together with a lower exchange rate, provide some boost to activity in the short term. North Sea revenues are lower and the PSBR higher, although there is some offset from higher non-oil tax receipts.

This picture is broadly consistent with the analysis presented a year ago on the likely effects of a lower oil price.

MP2 DIVISION

TABLE: 2 ECONOMIC EFFECT ON UK OF WORLD OIL PRICES AT $25/bbl : Differences from January Forecast

	North Sea $ Oil Price (%)	Real GDP (%)	Inflation* (% pts)	Real Personal Disposable Income (%)	Real Non-NS ICC's Disposable Income (%)	£M3† (%)	M1† (%)	Exchange Rate* (%)	North Sea Revenues† (£bn)	PSBR† (£bn)	Short-term interest rates† (% pts)
(i) Fixed money supply											
1983	-15.1	+0.1	-0.6	+0.2	+2.5	+0.0	-0.0	-1.0	-1.5	+1.3	-0.2
1984	-14.3	+0.3	+0.0	+0.3	+1.9	+0.6	-0.4	-0.8	-1.7	+1.8	+0.4
1985	-12.3	+0.5	+0.3	+0.5	+1.5	+1.1	-0.9	-0.8	-1.5	+1.3	+0.6
1986	-11.7	+0.5	+0.1	+0.5	+1.0	+1.2	-1.1	-1.2	-1.6	+1.5	+0.5
(ii) Fixed interest rates											
1983	-15.1	+0.1	-0.2	+0.2	+1.5	+0.0	-0.1	-2.6	-1.3	+1.1	-
1984	-14.3	+0.4	+0.2	+0.3	+2.8	+1.1	+0.1	-2.5	-1.5	+1.4	-
1985	-12.3	+0.7	+0.4	+0.4	+3.3	+1.4	+0.5	-2.2	-1.3	+0.9	-
1986	-11.7	+0.7	+0.3	+0.6	+2.4	+1.5	+0.8	-2.5	-1.5	+0.9	-

*in fourth quarter

†financial years

TABLE: 3 ECONOMIC EFFECTS OF $25/bbl OIL PRICE: EXCHANGE RATE VARIANTS

(differences from January forecast)

Change from base	North Sea $ Oil Price (%)	Real GDP (%)	Inflation* (% pts)	Real Personal Disposable Income (%)	Real non-NS ICC's Disposable Income (%)	£M3† (%)	M1† (%)	Exchange Rate* (%)	North Sea Revenues† (£bn)	PSBR† (£bn)	Short-term interest rates (% pts)
(i) Fixed money supply, no direct oil price effect on exchange rate											
1983	-15.1	+0.0	-0.7	+0.2	+2.7	+0.0	+0.0	-0.8	-1.5	+1.4	-0.3
1984	-14.3	+0.2	+0.0	+0.3	+1.6	+0.7	-0.5	-0.2	-1.7	+1.9	+0.4
1985	-12.3	+0.4	-0.2	+0.5	+1.6	+1.1	-0.9	-0.0	-1.6	+1.5	+0.4
1986	-11.7	+0.5	-0.1	+0.5	+1.0	+1.2	-1.1	-0.1	-1.7	+1.6	+0.3
(ii) Fixed money supply, doubled oil price effect on the exchange rate											
1983	-15.1	+0.1	-0.4	+0.2	+1.9	+0.1	-0.0	-2.2	-1.4	+1.2	-0.1
1984	-14.3	+0.4	+0.3	+0.3	+2.2	+0.6	-0.4	-2.2	-1.6	+1.5	+0.6
1985	-12.3	+0.7	+0.6	+0.5	+1.7	+1.0	-0.8	-2.5	-1.4	+1.1	+0.9
1986	-11.7	+0.7	+0.4	+0.5	+1.1	+1.2	-1.1	-2.7	-1.5	+1.2	+0.9

*in fourth quarter
†financial years

ANNEX

READY RECKONER OF EFFECTS OF OIL PRICE CHANGES ON THE UK ECONOMY

The attached table gives some estimate of the effect over the period 1983-86 of a lower world oil price (by 10 per cent) from the second quarter of 1983, compared with its base level. The January forecast was used as a base for the calculations. The following assumptions were made about economic policy:

(i) the exchange rate and the PSBR are free to vary from their base levels;

(ii) the rate of growth of an average of narrow and broad money is unchanged from its base level;

(iii) tax and benefit rates are unchanged in 1983-84; thereafter they are fully revalorised;

(iv) constant cash limits in 1983-84; in subsequent years half of any change in pay and prices are reflected in a lower or higher cash spend.

2. The figures in the table are designed to be used as a ready reckoner. They should not, however, be used to estimate the effects of very large (i.e. greater than 20 per cent) changes in the oil price. This is because certain responses in the system are unlikely to be linear. For example, the effects on the world economy underlying these calculations assume no major impact on the world financial system. Large changes in oil prices (either way) might, however, be expected to have some impact. Similarly, a much larger change in oil prices is likely to result in a proportionately larger change in North Sea revenues as some fields start or stop paying Petroleum Revenue Tax.

CONFIDENTIAL

ECONOMIC EFFECT OF A 10% FALL IN WORLD OIL PRICES

Change from base	World Oil Price (%)	Real GDP (%)	Inflation* (%)	Real Personal Disposable Income (%)	Real non-NS ICC's Disposable Income (%)	£M3/ (%)	M1/ (%)	Exchange Rate* (%)	North Sea Revenues/ (£bn)	PSBR/ (£bn)	Short-term interest rates/ (% pts)
1983	-8.8	+0.1	-0.2	+0.1	+1.3	+0.0	-0.0	-0.9	-0.8	+0.7	-0.1
1984	-10.0	+0.2	+0.0	+0.2	+1.5	+0.3	-0.2	-0.8	-1.1	+1.1	+0.2
1985	-10.0	+0.3	+0.1	+0.4	+1.3	+0.7	-0.5	-0.8	-1.2	+1.0	+0.4
1986	-10.0	+0.4	+0.0	+0.4	+0.9	+0.8	-0.7	-1.0	-1.4	+1.2	+0.4

* in fourth quarter

/ financial years

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

Ms Seammen
PPS FST EST
MST(C) MST(R)
Sir A Rawlinson
Mr Wilding
Mr Le Cheminant
Mr Mountfield
Mr Kemp
Mr Moore
Mr St Clair
Mr Ridley
Mr Harris
PS/IR

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
LONDON SW1

February 4th 1983

Dear Leon,

1983 BUDGET AND SOCIAL SECURITY UPRATING

I am writing to let you have my proposals for this year's Budget and social security uprating. I shall write to you separately about the duties on tobacco and alcohol.

My proposals can be conveniently divided into social security benefit improvements, tax concessions and NHS related expenditure affecting the construction industry.

<u>Social Security Benefit Improvements</u>

It would be best at this stage to set out my proposals as briefly as possible. Accordingly, with this letter I attach a table summarising them together with a short note on each bid. I have simply included the main benefit costs at this stage; our officials could discuss any additional staffing and administrative cost implications. In costing the proposals, officials have assumed that the 1983 uprating would be three per cent - the five per cent public expenditure price assumption minus the two per cent adjustment. If the price forecast at the time of the uprating were different, the figures would need re-working.

The proposals fall into three main categories:

first, the uprating decisions we normally take at the Budget - items 1, 2, 3 and 10 plus (now I have policy responsibility for housing benefits) item 4

second, items of an uprating nature which we have previously considered at Budget time - items 5, 6, 7, 9 and 12. I have included here, as indicated, items which we are also considering in the MISC 88 context. I have written to you separately about the MISC 88 package; if you accept my proposals in that letter item 5 and 6 at least should be catered for separately

third, miscellaneous items which we should consider this year - items 8, 11 and 13. The first I include because I believe you are likely to

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be approached by Jeffrey Sterling and because the ex-service organisations expect us to proceed, the second because of the Parliamentary pressures in this area and the third because this year we should be seen to be concerned with war pensioners' dependents.

I have set out my proposals in order of priority. I attach the most importance to those that help working families (items 1-4) and those that relax the disregard rules for supplementary benefit and so make us less vulnerable to criticisms from our people that we are penalising thrift.

The most important proposal is that on child benefit. We agreed, during our public expenditure discussions, to defer the bid to restore the April 1979 value of the benefit until Budget time. We are vulnerable already to criticism that we have not done as well for families as we had hoped. We should be even more vulnerable if in this Budget we did much less for families through child benefit than for taxpayers generally through raising tax thresholds.

Another item in category 3, which I have not included in the list because we could meet the cost ourselves from our 'small bids fund', is disregarding the surrender value of a life assurance policy. The cost of this is minimal. While I appreciate you are concerned about discriminating between different forms of saving, I believe this can be clearly distinguished from other saving methods. There is considerable feeling on this - there is a motion on the order paper - and we would get a favourable response quite disproportionate to the cost. If you were content, we would include this in the uprating announcement.

There is one other issue which I think we can best discuss. This is how we deal with the retirement pensioners' earnings rule, which we promised in our Manifesto we would abolish. It does not look as if we will be able to make as much progress on this in the public expenditure/MISC 88 context as we had earlier hoped. It is very desirable that we should have some improvement to offer, if at all possible.

Self Employed

Turning to the self-employed, I should be grateful if you would look again at the idea, which I put to you before the last Budget, of allowing some measure of tax relief on the Class 2 and Class 4 national insurance contributions which self-employed people have to pay.

As you know, we published a discussion document on the position of self-employed people in national insurance in late 1980. This fulfilled our Manifesto commitment to review this subject, and we received representations from a number of individuals and organisations representing self-employed people, and held follow-up meetings with some of these. The major problem which has become apparent is that there is no clear agreement among self-employed people as a whole about present arrangements or possible changes to them. The most popular option - although even this was not supported by a majority of those who sent in views - would be to extend unemployment benefit to self-employed people. Unfortunately, this is open to a number of objections: self-employed people would have to pay much higher contributions, extra civil servants would be needed, and it would be virtually impossible to prevent abuse of the system. For this reason, I think we must rule it out as a realistic option.

The problem is that this leaves us with nothing to offer on the DHSS side as a positive outcome of the review. This has led me to raise with you again the question of some measure of tax relief on self-employed people's contributions. We are likely to come under increasing pressure from our own supporters to produce

E.R.

some positive outcome from the self-employed review. There have from time to time been questions in both Houses about when we expect to announce the conclusion of the review, and in the run-up to the election we are unlikely to be able to postpone an announcement indefinitely. I am in no doubt that making the relevant part of self-employed people's contributions tax-deductible would be the single change that would make most political impact, and the cost of £65 million does not seem excessive. Certainly a relief of this kind (or other tax concessions for the self-employed) would be an indication of our seriousness about helping small business; otherwise there is a real danger that the review will be seen only as fulfilling a hollow promise. One reason which, I think, swayed you last year was that a relief of this kind would not in itself create additional jobs: while this may be true, it is equally true that the move would be universally welcomed among self-employed people and would be seen as a genuine move to provide further stimulus for the small businessman. Both you and I are still pressed pretty constantly by the bodies which favour a measure of tax-deductibility. I do think that their argument has considerable force, so long as we continue to derive the rate of contributions from both the employer's and employee's shares of the Class 1 contribution and the employer's chare remains tax-deductible as a legitimate expense.

Tax concessions

Two of the tax concessions concern private health care and the third concerns the self-employed. Taking private health care first, my proposals arise from concern at the growing pressures on health services as the population over 65, and especially over 75, rises both in numbers and as a proportion of the total. The pressures are felt both in acute medical treatment and longer stay care.

To take actute treatment first. Over 40 per cent of all general acute beds in NHS hospitals are occupied by people over 65. Much of the treatment is emergency and will necessarily be given in the NHS but there is a good deal of elective work (such as hip replacement) of which the private sector could do much more. Evidence of this is in the very high rate of claims to be Provident Associations. Neither BUPA nor PPP take no subscribers over 65, both raise the premia very substantially for subscribers who continue over that age - this is in spite of some subsidy from younger age groups - and both report a decreasing percentage of these older subscribers. The present figure is, I understand around 10-12½ per cent. A tax concession to the over 65s would persuade more people to continue to be insured, including those who lose the special rates of employment-based schemes (with the existing concessions to those earning up to £8,500). Confining the concession to the over 65s would avoid a large deadweight effect of losing tax revenue from existing subscribers because there are relatively few older subscribers. The concession could be either by straighter tax relief up to some limit or by 'premium relief by deduction'. If we made such a concession, I would also look to the Providents to change their policy so as to recruit new subscribers who wished to cover private acute medical treatment in their old age.

Equally important in my view is to help the private sector increase its provision for nursing and residential care for the elderly. It is not just that NHS hospital beds which should be used for acute treatment are sometimes "blocked" by elderly patients who need constant nursing care but not the full facilities of the district hospital. It is the positive thought that we should be encouraging the individual (or his family) to pay fees and to provide for himself as much as possible. The most appropriate place to care for him will often be the small nursing home or residential care home - the sort of enterprise which now has to struggle to stay in business.

I suggest that a tangible and useful sign of Government support for these homes would be to grant them capital allowances on the lines we discussed last year for the whole range of private hospitals and nursing homes. I do not now press for this for hospitals but I would like to see capital allowances for both residential care homes and for nursing homes. Each provides part of the continuum of care for the elderly person as he becomes more dependent and each is the sort of small institution which helps the private sector to increase its contribution to total health care resources.

As you know we agreed last Summer as one of the studies to follow up our Alternative Finance exercise that Inland Revenue should lead an examination of the possibilities. The two proposals above are straightforward and you could proceed with them without waiting for the detailed study.

NHS-related expenditure to help the construction industry

You may be considering providing some extra money for investment expenditure which would also help the construction industry. If so I would urge you to make a substantial proportion available to the NHS. There is a very serious backlog of maintenance and minor capital works in hospitals, because this area has not been given sufficient priority over a long run of years. The report of an Enquiry which I set up on Under-used and Surplus Property in the NHS has quoted a figure of the order of £2 billion as the sum needed to bring properties in England up to a minimum acceptable standard. I have already told health authorities to give high priority to this area in 1983-84, but they will not be able to do as much as they could within the present cash plans. £50 to £70 million more could be spent in the financial year on necessary and worthwhile work. I am sure that health authorities could spend the money and spend it well. They have a good track record of spending all their investment money, and indeed have recently moved funds from revenue to capital.

Yours ever
Norman

NORMAN FOWLER

SUMMARY OF PROPOSALS FOR BUDGET SWEETENERS (IN PRIORITY ORDER): SOCIAL SECURITY

	Benefit	Proposal
1.	Child benefit	real improvement aimed at restoring April 1979 value
2.	One parent benefit	real improvements in line with child benefit improvement
3.	Family Income Supplement	modest real value improvement to help with the unemployment trap and fuel costs
4.	Housing benefits	real increase of £1 in the children's needs allowance
5.	*Supplementary benefits	increase the capital limit for single payments from £300-
6.	*Supplementary benefits	increase the capital cut-off from £2,500 to £3,000
7.	*Supplementary benefits	increase the income disregard from £4 to £5 and the highe disregard for single parents from £20 to £26. Also assoc with this is an increase in the housing benefits income disregard from £4 to £5
8.	War Pensions	provide a small amount of money (about £3 million a year) fund a new War Pensioners Mobility Supplement Scheme in order to enable us to withdraw from the vehicle provision business
9.	Unemployment benefit	Increase from £35 to £40 the limit on occupational pensio above which unemployment benefit is reduced
10.	Mobility allowance	modest real increase (of 2%) to maintain priority already given to this benefit
11.	Death Grant	provide a small amount of money (£1.5m) to allow the £30 grant to be paid for the deaths of children and very old people. (Produces staff savings)
12.	Incapacity benefits	modest real improvement in the therapeutic earnings limit to £22.50
13.	War pensions	extend war widows pension to widows of pensioners with 100 per cent disablement.

* Proposals 5, 6 and 7 were part of original public expenditure package.

/ For uprating items, the extra cost on top of an assumed 3 per cent uprating (i e 5 per

Annex A

Extra benefit cost †		Group affected
Part Year 1983/84	Full Year (1984/85 unless specified other-wise)	
£m	£m	
70	195	all families with children
2	5	lone parents
0.5	2	low paid working families
5	£15m (but cost could be met from savings in the housing benefit package)	low paid working families
1	3	poor non-working families
2.5	7	poor non-working families
3	8	poorer families
		working families
/saving of £0.1m_7	3(by 1985/86; £1m in 1984/85)	war pensioners
1	2.5	older unemployed people
2	6	disabled people
0.5	1.5 (may drop in later years)	bereaved families
0.1	0.3	sick people /who can do some (approved) work_7
2.5	7	war widows

public expenditure assumption less 2 per cent adjustment).

Annex E

NOTES ON SOCIAL SECURITY PROPOSALS

1. Proposal Real improvement in child benefit so as to restore the April 1979 value requiring a new rate of £6.40

Child benefit has lost ground since the Government came into Office. A rate of £6.40 in November 1983 would represent a 9 per cent increase over the current rate of £5.85, costing in a full year £195 million on top of the PES provision. A 3 per cent increase would only raise the level to £6.05, 35p below the £6.40 revalued figure. Child benefit is a major family benefit. It helps working families more than non-working families; real increases improve the unemployment trap.

2. Proposal Real increase in one-parent benefit in line with child benefit improvement

Current rate of one-parent benefit is £3.65. Whilst this is already ahead of the rate needed (£3.40) to maintain the value of the November 1978 rate (£2), a further improvement would continue the good record so far. An inexpensive way of helping lone parents in work. We have a manifesto commitment to maintain help for hard pressed one-parent families. A rate of £4 a week would represent an increase of 9.0 per cent, costing £5 million in a full year on top of the present PES provision. About 500,000 lone parents receive one-parent benefit.

3. Proposal Real improvement in Family Income Supplement worth £2 million

FIS goes to low paid working families. Improvements help with the unemployment trap problem. The proposal is to put an additional £2 million into FIS on top of the increase due under the uprating factor agreed for other benefits. This could be presented as providing extra help with fuel costs - a point pressed by the Social Security Advisory Committee. A modest price for helping 160,000 working families.

4. Proposal - real increase in housing benefits children's needs allowance

A real increase of £1 in the children's needs allowance would give a little extra help to working families offsetting some of the losses for many earners in the new housing benefits scheme. As a proportion of the couple's needs allowance the children's rate is well below the 1972 level when the rebate schemes were introduced. The full year cost of £15 million could be met in 1984/85 and subsequent years from unallocated savings in the housing benefits package.

5. <u>Increase the supplementary benefit capital limit for single payments from £300 to £500</u>

People receiving supplementary benefit may claim single payments to help them meet special needs. All capital above £300 - the level set in 1978 - is counted against a claim for a single payment. It is proposed to raise the amount to £500 from November 1983 to restore the 1978 value and uprate it in later years-of particular help to elderly people, especially those with money put by for funeral costs. In addition it is proposed to increase in the same way the £300 limit when calculating payments for interest on loans to pay for necessary minor property repairs etc.

6. <u>Proposal</u> <u>Increase the supplementary benefit capital cut-off from £2,500 to £3,000</u>

People with capital over £2,500 (limit from November 1982) are not entitled to supplementary benefit; this catches elderly people with savings and those recently unemployed who receive modest redundancy payments. The proposal is to increase the capital limit to £3,000 from November 1983 and uprate it in later years, to avoid both loss of value and discouragement of thrift.

7. <u>Proposal</u> <u>Increase the supplementary benefit and housing benefits income disregards from £4 to £5 and, for single parents, the upper limit of £20 to £26.</u>

It is proposed to restore to November 1980 values the levels at which weekly income is disregarded for supplementary benefit and housing benefit purposes. Generally the levels are £4 a week, with one-parent families having a special disregard applied to half of earnings between £4 and £20. The proposed new levels would be £5 and £26 benefitting over 100,000 people. These changes would encourage self-help and help to maintain or restore a link with work.

8. <u>Proposal</u> <u>A new war pensioners mobility scheme</u>

The proposal is to replace the existing staff-intensive vehicle scheme for war pensioners with a cash allowance preferentially higher than the existing mobility allowance for severely disabled people. This is a more equitable and efficient way of helping immobile war pensioners and is strongly advocated by the service organisations.

9. Proposal Increase from £35 to £40 the level of occupational pension above which unemployment benefit is progressively reduced.

The Social Security (No 2) Act 1980 provided for unemployed men over 60 in receipt of an occupational pension to have their unemployment benefit abated (10p for 10p) if their occupational pension was £35 or more a week. This was designed to achieve public expenditure savings. No commitment was given to uprate the limit though it was indicated it would be reviewed from time to time. The proposal would raise the limit at the 1983 uprating from the £35 which has operated since the change was introduced in April 1981 to £40, less than the movement in inflation over that period.

10. Proposal Real increase in mobility allowance

The Secretary of State has to have regard to a range of factors when considering the uprating of mobility allowance, including travel costs. The transport and vehicle group index (TVGI) has risen by more than the RPI over the period December 1981 to December 1982 (latest figures). The proposal is to allow an uprating of 2 per cent above the uprating factor finally agreed for most social security benefits (ie the uprating forecast less any adjustment) to reflect increased costs, assist Motability and to maintain the Government's good record on help through this benefit for severely disabled people.

11. Proposal Pay death grant at standard rate (£30) to those currently entitled to reduced rate

The deaths of certain elderly people and children do not attract the full (£30) death grant - they receive a reduced rate. This modest proposal would allow under 100,000 families to benefit from the full rate - an earnest of intention (subject to H Committee's views) to make the grant available for all deaths on a non-contributory basis (which would require primary legislation).

12. Proposal Real increase for therapeutic earnings limit applied to incapacity benefits

The 'therapeutic earnings limit' allows disabled and chronically sick people to earn up to £20 before their benefit is reduced provided work does not prejudice their recovery. The limit is uprated annually but received a special boost last year; the proposal is to build on that and give a further real increase as an inexpensive way of encouraging self-help in this group.

13. <u>Proposal</u> **Extend war widows pension to widows of pensioners with 100 per cent disablement**

War widows pension is available where the war pensioner dies as a result of his war injury or where he has been in receipt of Constant Attendance Allowance, but if the pensioner dies of other causes and did not receive constant attendance allowance in his lifetime only the (taxable) National Insurance pension is paid. The proposal is to extend the higher-rate non-taxable war widows pension to wives of war pensioners whose disablement has been assessed as 100 per cent, - whether or not the death resulted from service or CAA was payable - on the grounds that 100 per cent disability will have imposed a considerable strain on the wife.

E.R.

FISCAL BENEFITS FOR CHARITABLE GIVING

Note by the Home Office

The impact of the current recession on charitable giving, both by individuals and ny companies, has been delayed; but it is now possible to see how damaging it has been. In real terms, charitable giving by companies has declined, and there seems to be a clear downward trend. The income of those voluntary bodies which rely heavily on investment income or giving by charitable trusts has been seriously diminished by the drop in interest rates. A further cut in the basic rate of income tax would be regarded as a serious blow by these charities because it would reduce the amounts they receive as repayment of tax on investment or covenanted income.

2. It has been suggested that some features of the American tax arrangements for charitable giving could, suitably adapted, be adopted here. Tax deductability for both individual and corporate non-covenanted giving provides an incentive of a kind lacking here. It is notable that company sponsorship of the arts (which can normally be regarded as a tax deductible expense) has increased at a time when corporate giving to other charities has declined in real terms. There is growing interest in the idea of a concession permitting firms (including close companies) to make charitable gifts of up to (say) 5% of their pre-tax profits for the previous year a tax deductible expense, and, when computerisation may make it practicable, for some parallel concession for individual donors making single, as opposed to covenanted, gifts to charity.

3. In the shorter term, the following might be considered both desirable and practicable.

a) A year's cushioning of adverse effects from any change in tax rates or other fiscal measures which could reduce charitable income.

b) Tax deductability for all secondments of staff (or other help in kind) by companies (including close companies) to voluntary bodies.

c) Increases in the limits on tax relief for covenanted donations by individuals paying higher rate tax, and for exemption of bequests to charities from Capital Transfer Tax.

/ d)

PWP for Caring meeting

EXCHEQUER
-7 FEB 1983 a/2
Mr Monger
CST, FST, EST,
MST^C, MST^R,
Sir J Wass,
Sir A Rawlinson
Mr Middleton, Mr Widling,
Mr Moore, Mr Goldman,
Mr Kemp, Mr Ridley,
PS/IR PS/C&E

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SWIH 9AT

5 February 1983

Dear Geoffrey

FISCAL BENEFITS FOR CHARITIES

I believe that at next month's meeting of the Family Policy Group it is intended that we should have a general discussion on the topic of "Meeting Social Needs Through Voluntary Action". I have been asked to prepare papers for that and one of them will be concerned with ways in which the Government might be able to encourage desirable voluntary action by stimulating charitable giving. My officials have already let yours see, on an informal basis, a draft of the sort of paper I might put forward on this subject. Much of what is said in this paper will necessarily be for the longer term and therefore not something for you to consider in terms of this year's budget; but there are some points in my paper which I think it would be very desirable if you could take on board now. My purpose in writing to you is to ask you to do this.

I enclose with this letter a short note prepared by my officials which very briefly makes the case for more generous fiscal assistance to voluntary activity with charitable objectives and then offers some suggestions for the form which these benefits might take. It is to some extent a condensed version of the paper which your officials have already seen, but itpays more attention to the shorter term.

My own view is that all these proposals would repay careful study, although, at this stage, I would not wish you to think that I am personally committed to all of them in detail. I am, however, in no doubt that the recession has caused serious difficulties for the voluntary sector, that those difficulties are increasing, and that it would be most valuable if you were able to offer some additional fiscal assistance to those voluntary bodies which have charitable objectives.

Yours
Willie

The Rt. Hon. Sir Geoffrey Howe, QC., MP.

d) Simplification of the arrangements for higher rate tax relief on covenants. An enabling provision allowing the Inland Revenue to introduce composite rates for tax relief on covenants might also be used to facilitate the spread of payroll giving schemes, in which there is much current interest.

e) Announcement of a study of the cost and feasibility of introducing tax relief for single donations by individuals, on the American nodel, once the Inland Revenue is able to introduce computerisation.

4. The current tight control on local authority spending has increased pressure on the finances of voluntary bodies at a local level. It seems possible that this pressure might be eased if the Government were to encourage the setting up or reconstitution of local trusts - designed to stimulate additional charitable giving to local bodies, service local payroll giving schemes and encourage local firms to involve themselves in other ways with local charitable bodies. A precedent for such a concession already appears in section 48 of the Finance Act 1982, in relation to local enterprise trusts. A similar concession to this other kind of trust might give the Inland Revenue an opportunity to study the effects of a tax deduction scheme for charitable giving on a limited scale and enable them to judge whether its wider extension might be desirable.

February 1983

From: Sir A Rawlinson
Date: 7 February 1983

CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Littler
Mr Wilding
Mr Bailey
Mr Mountfield
Mr Moore
Mr Kemp
Mr Monger
Mr Ridley
Mr Harris

BUDGET: PUBLIC EXPENDITURE AND THE CONTINGENCY RESERVE FOR 1983-84

This note is to report our latest thinking about how much could be charged to the Contingency Reserve for 1983-84 for public expenditure measures announced in the Budget. This is difficult and I should like to keep judgment open as late as possible. On the facts and forecasts as we have them today my conclusion is this.

2. The arguments against any additional public expenditure in the Budget remain valid: we do not want to add to public expenditure; additions outside the Survey are bad for discipline, and today risk adverse reaction in the markets.

3. If nevertheless it is decided to include in the Budget some of the items in appendix 2 (which lists things currently under discussion), provided that the decision to recover £180m of the overshoot on national insurance benefits is not eroded, I believe that up to £350m could and should be charged to the Reserve, and thus not increase the planning total; BUT any excess over say £100m in the total of items so charged must be scored against the scope for fiscal adjustment, because it would reduce the prediction of shortfall taken into the forecasters' calculation of the scope for fiscal adjustment.

4. The idea of reducing the Reserve must I fear be abandoned. You were not attracted by this in any event.

5. The rest of this minute explains reasons for this conclusion.

6. We customarily split the Reserve into two parts, one for nationalised industries, the other for everything else. PE strive to keep any net increases in EFLs within their part, offsetting where necessary additions against emerging underspend. But the split is not announced. Manipulation of the two parts could in some circumstances give some useful flexibility.

7. Appendix I looks at prospective calls on the Reserve other than Budget measures and the nationalised industries.

8. The forecasters assumed the £1,500m Reserve split half and half, £750m for bids other than the nationalised industries, £750m for nationalised industries. The 'other' half is assumed fully spent, but the forecasters predicted that nationalised industries will not in the event take up any of their ration, so that the Reserve as a whole will be underspent by £750m. This is part of the calculated shortfall.

9. I have discussed with Mr Bailey and Mr Burgner. For purposes of managing the Reserve it is right to allow for things to go less favourably than the central view proper to the forecast. PE would prefer to retain a Reserve of £750m for the nationalised industries, and expect at least some to be used. For example, they guess that the NCB will overspend by £150m, BSC also by £150m, but £150m might be offset by reducing the provision for BT. Nevertheless PE accept that on present form it looks unlikely that the full amount will be needed, so that it would be reasonable to reduce the nationalised industries' ration to say £500m. This would not allow for financing a major and prolonged strike.

10. If we set the nationalised industries' ration at £500m, within an unchanged total of £1,500m this releases £250m for other purposes.

11. The residual shown in appendix I of £260-210m which can be regarded as provision for items at present unforeseen looks tight, even if some of the threats listed do not materialise. GE would prefer not to commit any of it now to budget measures. Nevertheless I think we could risk up to £100m, provided that the decision about recovering national insurance overshoot is not eroded.

12. Hence my conclusion that subject to this proviso we could take on the Reserve £350m of Budget measures, but anything over the £100m just mentioned would cut into the forecasters' predicted shortfall in respect of the nationalised industries, and hence cut into the fiscal adjustment.

CB aims
wd end up £350
from ~

AKR

A K RAWLINSON

Appendix 1

ONTINGENCY RESERVE 1983-84

The Contingency Reserve for 1983-84 in the White Paper is set at £1500 million.

2. For obvious reasons, it is difficult to forecast accurately what items will need to be charged during the year, or their size. It is possible to identify some bids which are virtually inevitable (though their size may be uncertain). Others are more speculative or contingent. Still others cannot be anticipated at all. Experience shows that lists constructed at this time of the year often bear only a sketchy resemblance to the final list of items actually charged.

3. Apart from the nationalised industries the main threats foreseen at present, apart from Budget measures, are:

		£ million
Industry		
(i)	Finance for BL	100-150
	Currently under discussion. Pressure for up to £250m.	
(ii)	Launch aid Various airframe and aero engine projects for which there is currently no PES provision.	50
Defence		
(iii)	Armed Forces pay To allow for possiblity of acceptance of AFPRB recommendations higher than 3½ per cent. But some underspending is possible on defence budget in 1983-84, so that an amount of this size could be absorbable unless something unexpected happens to the exchange rate or to inflation.	70
Health		
(iv)	Restoration of DDRB abatement	45
	Left on one side in PES discussion. Could be difficult to resist. Might be some offsetting savings.	
Home Office		
(v)	Police pay	25
(vi)	Enhanced civil defence planning.	15
Treasury		
(vii)	Indemnities to Bank of England for support to Mexico and Brazil	135
FCO		
(viii)	UK contributions to peace-keeping force in Namibia. Contingent on events. Probability may be small.	20
(ix)	Overseas students fees Now agreed	5

Public services pay

(x)	If increases exceed 3½% but are less than say 4½%, they should be containable, but some small departments may be in difficulty: say		10
Other			
(xi)	Including territoral consequentials		15
		TOTAL	490-540
		RESIDUAL	260-210
			750

4. Some of these items may not materialise. But two further threats not included above must be mentioned:

a) If public services pay increases were more than say 4½%, containment would be difficult generally. Each 1% represents about £50m.

b) Failure to hold the decision to recover the overshoot on national insurance benefits would cost £180m if the sweeteners were not conceded, £250m if the sweeteners were conceded as well.

Appendix 2

PUBLIC EXPENDITURE BIDS FOR BUDGET

		£m in 1983-84
Child benefit		90
Industrial innovation		50
Loan guarantee		5
Construction:	enveloping	50
	improvement grants	50
Caring etc		18
Mr Fowler's bids		20(?)
Enterprise allowance		up to 50
Early retirement		25
Short time working		115
Petrochemicals		100
		568

CONFIDENTIAL FROM: I R SPENCE
7 FEBRUARY 1983

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

C. This is for next week's overview

1. MR BLYTHE 7/2
2. MR ISAAC 7.2
3. CHANCELLOR

PERSONAL TAXATION: AN 8½% PACKAGE OVER INDEXATION

It was agreed at your 2 February meeting that we would let you have a mock-up of the Budget Day press release on an 8½% package - chosen, for illustration, as the middle of the three options (6%, 8½% and 10%) on which you focussed at your meeting.

This mock-up is attached at Annex A, with a commentary by Mr Calder. It is worth emphasising that this is a mock-up. We have (for the most part) simply fitted the figures into the tables that appeared last year. We will be thinking further about what changes in the form and coverage of the tables might be necessary for this year (and Mr Calder gives a trailer on some of these points in his commentary). However, the attached tables do give a broad picture of how the personal tax changes would show up on Budget Day in comparison with 1982/83, and it should give an indication of the main credits that will emerge, and the points where the comparison will be most difficult.

---

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Mr Ridley
Mr Harris
Mr French
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Kemp
Mr Monger
Mr Cassel
Mr Moore
Mr Hall
Mr Evans
Mr Robson
Mr Martin
Mr Aaronson

Chairman
Mr Green
Mr Isaac
Mr Gracey
Mr Blythe
Mr Painter
Mr Walton
Mr Houghton
Mr Spence
Mr Calder
Mr Haigh
Mrs Penneck
PS/IR

It is worth noting at the outset that the 8½% package assumes this increase would be given across the board. In particular it does <u>not</u> include the extra £10 on the married allowance (giving a £2 per week tax reduction) which is now an agreed component of an 8½% package. Mr Calder's commentary picks up the points where this extra £10 would make a significant difference to the figures.

The main points to come out of the tables are:

<u>Improvements over 1982/83</u>

<u>Income Tax:</u> <u>Cash reductions in tax bills (on a static basis)</u> of £1.27 per week for the single basic rate payer, and £1.96 for the married man on basic rate (£2.02 reduction if the married man gets 8½% plus £10).

<u>Average rate reductions</u> throughout the income range - biggest reductions for the lowest (and highest) paid.

<u>Tax and NIC</u> <u>Cash reductions in tax and NIC (on a static basis)</u> for

- all <u>contracted-in taxpayers</u> (except singles around 1½ average earnings)
- all <u>contracted-out taxpayers</u> (except singles <u>and married</u> around 1½ average earnings).

<u>Reductions in Tax and NIC</u> as % of average earnings for

- all <u>contracted-in taxpayers</u>
- single contracted out taxpayers up to ¾ average earnings (the majority of the group)
- married contracted-out taxpayers, <u>except</u> those around 1½ average earnings.

Real Net Incomes after tax and NIC (not covered by the tables) will be higher for

- all married men except contracted-out around 1½ times average earnings
- all single people and married women except those contracted-out and in the income range between just below average earnings and some way above 1½ average earnings.

Unfavourable comparisons with 1982/83

The only difficult area is tax and NIC.

(a) On a static comparison: Contracted-in single people (and earning wives) lose in cash terms on earnings levels of £228 to £293 per week (£11,850 to £14,700pa).The maximum loss will be 63p per week. Contracted-out single people lose in cash terms over a slightly wider range of incomes. The maximum loss will be £1.04 per week.

Contracted-in married men do not lose in cash terms, though the gain is only 6p per week in the income range around £12,000-£14,700. But contracted-out married men over this range of incomes (and slightly wider) will lose up to 35p per week.

(b) On a dynamic comparison no contracted-in taxpayer will lose - ie the % of earnings going in tax and NIC will not increase in 1983/84. But the % of earnings going in tax and NIC will be higher than in 1982/83 for

- contracted-out single and married women from around ¾ average earnings upwards
- contracted-out married taxpayers around 1½ times average earnings.

On a preliminary estimate rather more than half of men are contracted-in, and around 60% of women. The number of 'losers' should be a relatively small proportion of the total population, the amount of the loss will be fairly small, and the group affected is (largely) once that does relatively well on international comparisons. For those with children, the November increase in CB should also help. Nevertheless, it is potentially a sensitive area, and you will want as much detail on it as possible before the Budget. None of the packages we are looking at will get us to a 'no-loser' position on this point of comparison, though a 10% package would of course reduce the amount of the loss, and would reduce the number of losers. The only way of avoiding it - within the PSBR costs we are contemplating would be to spend money on a rate reduction instead of on threshold increases. A switch of resources to a rate reduction would, of course, have extensive repercussions and give a less favourable comparison at a number of important points (eg the tax, and tax/NIC, burden on the lower paid).

Comparisons of 6%, 8½% and 10% packages

We will be providing a detailed comparison of the effects of these three packages by the weekend. This will cover the 'target point' comparisons with 1978/79, as well as with 1982/83.

Other points

We will be letting you have further notes on:

IIS - where you asked us to look at a cut in rate to 10%, and an equal-cost threshold increase (which would take us to a £11,000 threshold);

Higher rates - the agreed base-line at your meeting was that higher-rate thresholds should go up in line with the main allowances. But we volunteered a note on smaller increases which would, on some points of comparison,

show the lower paid as doing better from the Budget than the highest paid;

Age allowance - the questions here are whether age allowance is increased by the same as the main allowances, or by less, and the level of the income limit. We will cover this in the detailed submission on the three packages.

NB For the avoidance of doubt, the tables and commentary in the mock-up of the press release assume that higher rates and age allowance (and its income limit) are increased by the full 8½%.

(I R SPENCE)

Annex A

BUDGET PRESS NOTICE - SPECIMEN INCOME TABLES

... 1. Attached are tables corresponding broadly to those we put out last year as part of the press notice to describe the Budget's effects. The tables are based on the 8½% package of main allowance and threshold increases. When published on Budget Day, they would be prefaced by about three pages of text describing the main proposals for income tax and specific duties with a short introduction to the tables themselves.

2. Some of the tables include the effects of the NIC changes. In previous years, the increases in NIC have been similar for both contracted-in and contracted-out employees and we have produced tables only for the contracted-in. This year, given the steeper rise in contribution rates for the contracted-out, we think it may be necessary to include tables for both groups ... and these are included in the attached material.

3. There may well be other developments which will need to be made to the tables - either to provide support for positive points which Ministers will wish to make about the Budget proposals during debate or to avoid Opposition charges of concealing any embarrassing features. It may, for example, be useful to include some comparisons with 1978-79 (at present the tables show 1983-84 in comparison only with 1982-83); or to include a table showing changes in real net income. We shall be exploring these aspects during the coming days and shall, of course, be making a more detailed submission on the precise form of the press notice once the decision on the ... income tax package has been taken. The attached tables represent the minimum that commentators and the public will expect to see as supporting material on Budget Day.

4. The tables fall into two groups. First come static comparisons (tables 1-7). These tables show comparisons between 1982-83 and 1983-84 at fixed levels of income. They can be looked upon as comparing the position immediately

before with the position immediately after the Budget measures come into effect. An alternative interpretation of the static tables is that they show the change in tax bills at a given level of income in 1983-84 compared to the tax that would have been payable in that year, if 1982-83 rates and allowances had remained in force.

5. The second set (tables 8-10) show dynamic comparisons - that is they allow for changing levels of income between 1982-83 and 1983-84. In deciding the final form of these tables, an important decision will have to be taken on the illustrative percentage increase in earnings between 1982-83 and 1983-84. The attached tables have been compiled on the assumption of an increase of 6½%. This is the working assumption given to the Government Actuary last Autumn; and it is likely to be the only published official figure for earnings in 1983-84 at Budget time. It is however about 1 percentage point below the earnings growth, of about 7½%, forecast both in last Autumn's internal forecast and this January's. The significance of the choice of earnings growth lies mainly in its effect on average rates of tax. The higher the illustrative increase taken for gross earnings, the higher the average rate will be in 1983-84, affecting comparisons of "burden" or "level" of taxation. On the other hand, a higher earnings assumption leads to greater increases in real net income. Last year the tables were based on the Government Actuary's working assumption which was about 1½ percentage points below the internal January forecast (and the outturn).

6. The tables in the press-notice are all "hypothetical". They assume, for example, that people are entitled only to the appropriate personal allowance, they ignore all social security benefits other than child benefit and the dynamic tables assume that everyone's earnings grow by the same percentage (6½%) between this year and next year. Nor do they show how many taxpayers or families might be expected

to be found at the various levels of earnings. Elaboration of points such as these is normally left to supplementary briefing.

7. The main points emerging from the attached tables are below.

Static Tables

8. Tables 1 and 2 show the reduction in income tax for single and married men in annual terms. The cash value of the increase in allowances is constant for all those currently paying at the basic rate - £66 for single people and earning wives and £102 for married men. A further increase of £10 in the married allowance would give married men a saving in tax of £105 (just over £2 per week).

9. These tables bring out the large cash reductions in tax bills which go to higher-rate payers (up to £957 for the single and £1,029 for married men). These reductions do not, of course, appear so large when expressed as a percentage of the 1982-83 tax bill. A column of these percentages could be added to the tables; and it might be important to do so if, in the final package, increases in higher rate thresholds had been held below 8½%, precisely in order to avoid the impression of over-generosity to the rich. However, there would be no disguising the small percentage reduction in tax bills for those towards the upper end of the basic rate band (gross incomes from about £10,000 to £14,000) who will also be worst affected by the NIC increases. Examples of percentage reductions in tax bills are:

Income (£)	Single	Married
4,000	9.0	21.9
8,000	3.4	6.1
12,000	2.1	3.6
20,000	6.1	7.5
40,000	5.6	6.2

10. Table 3 shows similar figures for the elderly. The reductions in the gain above £8,000 are the result of the tapering out of the age allowance above the income limit.

11. Tables 4 and 5 repeat the material of tables 1-3 in weekly terms. As mentioned above, a £10 increase in the married allowance would increase the gain to the married basic ratepayer from £1.96 to £2.02.

12. The effects of income tax and NIC combined are shown in weekly terms in table 6(a) (contracted-in) and table 6(b) (contracted-out). In table 6(a), for the single contracted-in employee, the gain of £1.27 per week from income tax reductions shown in table 4 is steadily eroded by the NIC increase as earnings rise. The range of earnings over which contracted-in single people lose is from £228 per week to £282.55 (around 1½ times the male average and £11,850 to £14,700 in annual terms). The maximum loss is 63p per week.

13. None of the married contracted-in lose in cash terms; but between earnings of £235 to £293.20 per week (£12,220 to £15,250 per year) the net gain is no more than 6p per week.

14. The position for the contracted-out (table 6(b)) is broadly similar. Single people lose a maximum of £1.04 over a similar range of earnings as in paragraph 12 above; and married men around 1½ times average earnings also lose - a maximum of 35p per week.

15. The combined effect of income tax, NIC and child benefit changes are in tables 7(a) (contracted-in) and 7(b) (contracted-out) for a married man with 2 children. Each table splits 1983-84 into two parts to show the effect of the November 1983 uprating of child benefit (assumed for illustration to be £6.50 per week).

16. Again, the NIC increases reduce the cash gain from the income tax reductions almost to nothing for the contracted-in at around 1½ times average earnings and lead to a net loss

for the contracted-out. However, an increase in child benefit to £6.50 from November 1983 would mean that contracted-in two child couples would be at least £1.36 per week better off (contracted-out at least 95p per week better off) with cash gains of over £3 for the low paid.

Dynamic Tables

17. Percentage increases in net income after tax between 1982-83 and 1983-84 are shown in table 8; while tables 9(a) and 9(b) show percentage changes in net income after tax and NIC (table 9(a) for the contracted-in and 9(b) for the contracted-out). These tables all assume that earnings grow by 6½ per cent between 1982-83 and 1983-84.

18. There are two important points of comparison in these tables. If the percentage increase in net income is less than the assumed increase in gross earnings (6½%), then the average rate of tax (or tax and NIC) will increase between the two years. And if it is less than the forecast increase in retail prices (6½%), real income after tax (or after tax and NIC) will fall.

19. The main focus of interest for the 8½% package is in table 9(a). At all levels of earnings, assuming that earnings increase by 6½% between 1982-83 and 1983-84, the average rate of tax and NIC for the contracted-in will be no greater in 1983-84 than in 1982-83. As in the static tables 5, 6 and 7, the crucial range of earnings is around 1½ times the average. For example, for the single, at £12,000 table 9(a) shows the average rate at 34.4% in both years and for the married at 32.2% in 1982-83 and 32.1% in 1983-84.

20. Paragraph 5 above pointed out that the assumption of a higher earnings growth would lead to an increase in average rates. We are currently investigating whether the claim, that average rates of tax and NIC had not increased at any level of earnings between 1982-83 and 1983-84, still stands if earnings are assumed to increase by 7½%.

21. Even with a 6½% earnings growth, table 9(b) shows earnings levels at which average rates of income tax and NIC for the contracted-out increase between 1982-83 and 1983-84.

22. Tables 10(a) and 10(b) show the dynamic effects of the income tax and NIC changes for two earner couples. The range of incomes which can be shown is limited. If both couples are contracted-in, table 10(a) shows increases in net income of about 7½% on joint incomes of £160 per week falling to just over 6½% where both spouses are close to 1½ times average male earnings. Table 10(b) shows some cases where both spouses are contracted-out of an increase in average rate of tax and NIC, again where both couples earn around 1½ times the average.

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J R CALDER
7 February 1983

TABLE 10 (b)

NIC : CONTRACTED OUT

EARNINGS GROWTH 6.5%

MARRIED COUPLES – HUSBAND AND WIFE BOTH WORKING – INCOME ALL EARNED
COMPARISON OF INCOME AFTER TAX AND NATIONAL INSURANCE CONTRIBUTIONS
IN 1982-83 AND 1983-84, WHERE EARNINGS INCREASE BY 6.5 PER CENT

WEEKLY INCOME IN 1982-83			CHARGE IN 1982-83			ADJ. WEEKLY INCOME IN 1983-84			PROPOSED CHARGE IN 1983-84			
HUSBAND	WIFE	JOINT	INC TAX	NIC	% OF INCOME TAKEN IN TAX & NIC	HUSBAND	WIFE	JOINT	INC TAX	NIC	% OF INCOME TAKEN IN TAX & NIC	PERCENTAGE CHANGE IN INCOME TAX AFTER TAX AND NIC
£.PW	£.PW	£.PW	£.PW	£.PW	%	£.PW	£.PW	£.PW	£.PW	£.PW	%	%
120.00	40.00	160.00	24.87	11.48	22.7	127.80	42.60	170.40	24.75	13.07	22.2	7.2
	80.00	200.00	36.87	13.98	25.4		85.20	213.00	37.53	15.99	25.1	6.9
	100.00	220.00	42.87	15.23	26.4		106.50	234.30	43.92	17.45	26.2	6.8
	160.00	280.00	60.87	18.98	28.5		170.40	298.20	63.09	21.82	28.5	6.6
	200.00	320.00	72.87	21.48	29.5		213.00	340.80	75.87	24.74	29.5	6.4
160.00	40.00	200.00	36.87	13.98	25.4	170.40	42.60	213.00	37.53	15.99	25.1	6.9
	80.00	240.00	48.87	16.48	27.2		85.20	255.60	50.31	18.91	27.1	6.7
	100.00	260.00	54.87	17.73	27.9		106.50	276.90	56.70	20.37	27.8	6.6
	160.00	320.00	72.87	21.48	29.5		170.40	340.80	75.87	24.74	29.5	6.4
	200.00	360.00	88.54	23.98	31.3		213.00	383.40	90.13	27.66	30.7	7.3
200.00	40.00	240.00	48.87	16.48	27.2	213.00	42.60	255.60	50.31	18.91	27.1	6.7
	80.00	280.00	60.87	18.98	28.5		85.20	298.20	63.09	21.82	28.5	6.6
	100.00	300.00	66.87	20.23	29.0		106.50	319.50	69.48	23.28	29.0	6.5
	160.00	360.00	88.54	23.98	31.3		170.40	383.40	90.13	27.66	30.7	7.3
	200.00	400.00	101.94*	26.48	32.1		213.00	426.00	107.20*	30.58	32.3	6.1
250.00	40.00	290.00	63.87	17.73	28.1	266.25	42.60	308.85	66.29	20.41	28.1	6.6
	80.00	330.00	76.54	20.23	29.3		85.20	351.45	79.07	23.33	29.1	6.8
	100.00	350.00	84.54	21.48	30.3		106.50	372.75	85.87	24.79	29.7	7.4
	160.00	410.00	104.94*	25.23	31.7		170.40	436.65	110.40*	29.17	32.0	6.2
	200.00	450.00	116.94*	27.73	32.1		213.00	479.25	123.18*	32.09	32.4	6.1

NOTES: (1) THE ADJUSTED INCOMES SHOWN FOR 1983-84 ARE FOR ILLUSTRATION THEY HAVE BEEN OBTAINED BY INCREASING THE CORRESPONDING INCOMES IN 1982-83 BY 6.5%

(2) NATIONAL INSURANCE CONTRIBUTIONS ARE AT THECLASS 1 STANDARD RATE FOR EMPLOYMENT CONTRACTED OUT OF OF THE STATE ADDITIONAL(EARNINGS RELATED)PENSION SCHEME

TABLE 10 (G)
NIC: CONTRACTED IN
EARNINGS GROWTH 6.5%

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING - INCOME ALL EARNED
COMPARISON OF INCOME AFTER TAX AND NATIONAL INSURANCE CONTRIBUTIONS
IN 1982-83 AND 1983-84, WHERE EARNINGS INCREASE BY 6.5 PER CENT

WEEKLY INCOME IN 1982-83			CHARGE IN 1982-83			ADJ. WEEKLY INCOME IN 1983-84			PROPOSED CHARGE IN 1983-84			PERCENTAGE CHANGE IN INCOME TAX AFTER TAX AND NIC
HUSBAND	WIFE	JOINT	INC TAX	NIC	% OF INCOME TAKEN IN TAX & NIC	HUSBAND	WIFE	JOINT	INC TAX	NIC	% OF INCOME TAKEN IN TAX & NIC	
£.PW	£.PW	£.PW	£.PW	£.PW	%	£.PW	£.PW	£.PW	£.PW	£.PW	%	%
120.00	40.00	160.00	24.87	14.00	24.3	127.80	42.60	170.40	24.75	15.34	23.5	7.6
	80.00	200.00	36.87	17.50	27.2		85.20	213.00	37.53	19.17	26.6	7.3
	100.00	220.00	42.87	19.25	28.2		106.50	234.30	43.92	21.09	27.7	7.2
	160.00	280.00	60.87	24.50	30.5		170.40	298.20	63.09	26.84	30.2	7.0
	200.00	320.00	72.87	28.00	31.5		213.00	340.80	75.87	30.67	31.3	6.9
160.00	40.00	200.00	36.87	17.50	27.2	170.40	42.60	213.00	37.53	19.17	26.6	7.3
	80.00	240.00	48.87	21.00	29.1		85.20	255.60	50.31	23.00	28.7	7.1
	100.00	260.00	54.87	22.75	29.9		106.50	276.90	56.70	24.92	29.5	7.1
	160.00	320.00	72.87	28.00	31.5		170.40	340.80	75.87	30.67	31.3	6.9
	200.00	360.00	88.54	31.50	33.3		213.00	383.40	90.13	34.51	32.5	7.8
200.00	40.00	240.00	48.87	21.00	29.1	213.00	42.60	255.60	50.31	23.00	28.7	7.1
	80.00	280.00	60.87	24.50	30.5		85.20	298.20	63.09	26.84	30.2	7.0
	100.00	300.00	66.87	26.25	31.0		106.50	319.50	69.48	28.76	30.7	6.9
	160.00	360.00	88.54	31.50	33.3		170.40	383.40	90.13	34.51	32.5	7.8
	200.00	400.00	101.94*	35.00	34.2		213.00	426.00	107.20*	38.34	34.2	6.6
250.00	40.00	290.00	63.87	22.75	29.9	266.25	42.60	308.85	66.29	24.98	29.6	7.0
	80.00	330.00	76.54	26.25	31.1		85.20	351.45	79.07	28.82	30.7	7.2
	100.00	350.00	84.54	28.00	32.2		106.50	372.75	85.87	30.74	31.3	7.9
	160.00	410.00	104.94*	33.25	33.7		170.40	436.65	110.40*	36.49	33.6	6.6
	200.00	450.00	116.94*	36.75	34.2		213.00	479.25	123.18*	40.32	34.1	6.6

NOTES: (1) THE ADJUSTED INCOMES SHOWN FOR 1983-84 ARE FOR ILLUSTRATION THEY HAVE BEEN OBTAINED BY INCREASING THE CORRESPONDING INCOMES IN 1982-83 BY 6.5%

(2) NATIONAL INSURANCE CONTRIBUTIONS ARE AT THECLASS 1 STANDARD RATE FOR EMPLOYMENT NOT CONTRACTED OUT OF THE STATE ADDITIONAL(EARNINGS RELATED)PENSION SCHEME

SINGLE PERSONS - ALL EARNED INCOME - ANNUAL FIGURES

TABLE I

Income	Charge for 1982-83 Income tax	Charge for 1982-83 Percentage of total income taken in tax	Proposed charge for 1983-84 Income tax	Proposed charge for 1983-84 Percentage of total income taken in tax	Reduction in tax after proposed changes
£	£	per cent	£	per cent	£
2000	130	6.5	64	3.2	66
2500	280	11.2	214	8.6	66
3000	430	14.4	364	12.2	66
4000	730	18.3	664	16.6	66
5000	1030	20.6	964	19.3	66
6000	1330	22.2	1264	21.1	66
7000	1630	23.3	1564	22.4	66
8000	1930	24.1	1864	23.3	66
9000	2230	24.8	2164	24.1	66
10000	2530	25.3	2464	24.6	66
12000	3130	26.1	3064	25.5	66
14000	3730	26.6	3664	26.2	66
16000	4494	28.1	4264	26.7	230
18000	5361	29.8	5026	27.9	335
20000	6261	31.3	5877	29.4	384
25000	8727	34.9	8197	32.8	530
30000	11384	37.9	10697	35.7	687
40000	17231	43.1	16274	40.7	957
50000	23231	46.5	22274	44.5	957

TABLE 2

MARRIED COUPLE - ALL EARNED INCOME - ANNUAL FIGURES

Income	Charge for 1982-83		Proposed charge for 1983-84		
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Reduction in tax after proposed changes
£	£	per cent	£	per cent	£
2500	17	0.7	0	0.0	17
3000	166	5.6	64	2.2	102
4000	466	11.7	364	9.1	102
5000	766	15.3	664	13.3	102
6000	1066	17.8	964	16.1	102
7000	1366	19.5	1264	18.1	102
8000	1666	20.8	1564	19.6	102
9000	1966	21.9	1864	20.7	102
10000	2266	22.7	2164	21.6	102
12000	2866	23.9	2764	23.0	102
14000	3466	24.8	3364	24.0	102
16000	4142	25.9	3964	24.8	178
18000	4965	27.6	4626	25.7	339
20000	5865	29.3	5427	27.1	438
25000	8287	33.2	7697	30.8	590
30000	10900	36.3	10197	34.0	703
40000	16703	41.8	15674	39.2	1029
50000	22703	45.4	21674	43.3	1029

Calculations assume that only the husband has earned income.

TABLE 3

ELDERLY SINGLE AND MARRIED COUPLES ALL EARNED INCOME – ANNUAL FIGURES

Income	Charge for 1982-83: Income tax	Charge for 1982-83: Percentage of total income taken in tax	Proposed charge for 1983-84: Income tax	Proposed charge for 1983-84: Percentage of total income taken in tax	Reduction in tax after proposed changes
£	£	per cent	£	per cent	£
	ELDERLY SINGLE PERSONS				
2500	129	5.2	42	1.7	87
3000	279	9.3	192	6.4	87
3500	429	12.3	342	9.8	87
4000	579	14.5	492	12.3	87
5000	879	17.6	792	15.8	87
6000	1179	19.7	1092	18.2	87
7000	1539	22.0	1392	19.9	147
8000	1931	24.1	1772	22.2	159
10000	2530	25.3	2464	24.6	66
12000	3130	26.1	3064	25.5	66
	ELDERLY MARRIED COUPLES(1)				
3500	62	1.8	0	0.0	62
4000	211	5.3	73	1.8	138
5000	511	10.2	373	7.5	138
6000	811	13.5	673	11.2	138
7000	1171	16.7	973	13.9	198
8000	1666	20.8	1353	16.9	313
10000	2266	22.7	2164	21.6	102
12000	2866	23.9	2764	23.0	102

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

(1) Calculations assume that only the husband has earned income.

TABLE 4

SINGLE AND MARRIED COUPLES - ALL EARNED INCOME - WEEKLY FIGURES

Income	Charge for 1982-83: Income tax	Charge for 1982-83: Percentage of total income taken in tax	Proposed charge for 1983-84: Income tax	Proposed charge for 1983-84: Percentage of total income taken in tax	Reduction in tax after proposed changes
£	£	per cent	£	per cent	£
	SINGLE PERSONS				
35.00	1.47	4.20	0.20	0.57	1.27
40.00	2.97	7.43	1.70	4.25	1.27
50.00	5.97	11.94	4.70	9.40	1.27
60.00	8.97	14.95	7.70	12.83	1.27
80.00	14.97	18.71	13.70	17.13	1.27
100.00	20.97	20.97	19.70	19.70	1.27
120.00	26.97	22.48	25.70	21.42	1.27
140.00	32.97	23.55	31.70	22.64	1.27
160.00	38.97	24.36	37.70	23.56	1.27
180.00	44.97	24.98	43.70	24.28	1.27
200.00	50.97	25.49	49.70	24.85	1.27
220.00	56.97	25.90	55.70	25.32	1.27
240.00	62.97	26.24	61.70	25.71	1.27
300.00	83.34	27.78	79.70	26.57	3.64
350.00	104.82	29.95	98.19	28.05	6.63
	MARRIED COUPLES(1)				
50.00	0.89	1.78	0.00	0.00	0.89
60.00	3.89	6.48	1.93	3.22	1.96
80.00	9.89	12.36	7.93	9.91	1.96
100.00	15.89	15.89	13.93	13.93	1.96
120.00	21.89	18.24	19.93	16.61	1.96
140.00	27.89	19.92	25.93	18.52	1.96
160.00	33.89	21.18	31.93	19.96	1.96
180.00	39.89	22.16	37.93	21.07	1.96
200.00	45.89	22.95	43.93	21.97	1.96
220.00	51.89	23.59	49.93	22.70	1.96
240.00	57.89	24.12	55.93	23.30	1.96
300.00	76.57	25.52	73.93	24.64	2.64
350.00	97.21	27.77	90.50	25.86	6.71

TABLE 5

ELDERLY SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

Income	Charge for 1982-83: Income tax	Charge for 1982-83: Percentage of total income taken in tax	Proposed charge for 1983-84: Income tax	Proposed charge for 1983-84: Percentage of total income taken in tax	Reduction in tax after proposed changes
£	£	per cent	£	per cent	£
	ELDERLY SINGLE PERSONS				
50.00	3.05	6.10	1.38	2.76	1.67
60.00	6.05	10.08	4.38	7.30	1.67
80.00	12.05	15.06	10.38	12.98	1.67
100.00	18.05	18.05	16.38	16.38	1.67
120.00	24.05	20.04	22.38	18.65	1.67
140.00	32.28	23.06	28.38	20.27	3.90
160.00	38.97	24.36	37.15	23.22	1.82
200.00	50.97	25.49	49.70	24.85	1.27
	ELDERLY MARRIED COUPLES(1)				
80.00	4.98	6.23	2.33	2.91	2.65
100.00	10.98	10.98	8.33	8.33	2.65
120.00	16.98	14.15	14.33	11.94	2.65
140.00	25.21	18.01	20.33	14.52	4.88
160.00	33.89	21.18	29.10	18.19	4.79
200.00	45.89	22.95	43.93	21.97	1.96

For incomes above these levels, the figures are the same as those in Table 4.

(1) Calculations assume that only the husband has earned income.

TABLE 6(a)

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES - INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

NIC - CONTRACTED-IN

Income	Charge for 1982/83			Proposed charge for 1983/84			Change in Income After tax and NIC
	Income tax	NIC	Net Income After Tax and NIC	Income tax	NIC	Net Income After Tax and NIC	
£P.W.	£P.W.	£P.W.	£P.W.	£P.W.	£P.W.	£P.W.	£P.W.
SINGLE PERSONS							
35.00	1.47	3.06	30.47	0.20	3.15	31.65	1.18
40.00	2.97	3.50	33.53	1.70	3.60	34.70	1.17
50.00	5.97	4.38	39.66	4.70	4.50	40.80	1.15
60.00	8.97	5.25	45.78	7.70	5.40	46.90	1.12
80.00	14.97	7.00	58.03	13.70	7.20	59.10	1.07
100.00	20.97	8.75	70.28	19.70	9.00	71.30	1.02
120.00	26.97	10.50	82.53	25.70	10.80	83.50	0.97
140.00	32.97	12.25	94.78	31.70	12.60	95.70	0.92
160.00	38.97	14.00	107.03	37.70	14.40	107.90	0.87
180.00	44.97	15.75	119.28	43.70	16.20	120.10	0.82
200.00	50.97	17.50	131.53	49.70	18.00	132.30	0.77
220.00	56.97	19.25	143.78	55.70	19.80	144.50	0.72
240.00	62.97	19.25	157.78	61.70	21.15	157.15	-0.63
300.00	83.34	19.25	197.41	79.70	21.15	199.15	1.74
350.00	104.82	19.25	225.93	98.19	21.15	230.66	4.73
MARRIED COUPLES (1)							
50.00	0.89	4.38	44.74	0.00	4.50	45.50	0.77
60.00	3.89	5.25	50.86	1.93	5.40	52.67	1.81
80.00	9.89	7.00	63.11	7.93	7.20	64.87	1.76
100.00	15.89	8.75	75.36	13.93	9.00	77.07	1.71
120.00	21.89	10.50	87.61	19.93	10.80	89.27	1.66
140.00	27.89	12.25	99.86	25.93	12.60	101.47	1.61
160.00	33.89	14.00	112.11	31.93	14.40	113.67	1.56
180.00	39.89	15.75	124.36	37.93	16.20	125.87	1.51
200.00	45.89	17.50	136.61	43.93	18.00	138.07	1.46
220.00	51.89	19.25	148.86	49.93	19.80	150.27	1.41
240.00	57.89	19.25	162.86	55.93	21.15	162.92	0.06
300.00	76.57	19.25	204.18	73.93	21.15	204.92	0.74
350.00	97.21	19.25	233.54	90.50	21.15	238.35	4.81

Employees' National Insurance Contributions are at the Class 1 standard rate for employment not contracted out of the State additional (earnings related) pension scheme.

TABLE 6(b)

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES - INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

NIC CONTRACTED OUT

Income	Charge for 1982/83			Proposed charge for 1983/84			Change in Income After tax and NIC
	Income tax	NIC	Net Income After Tax and NIC	Income tax	NIC	Net Income After Tax and NIC	
£P.W.	£P.W.	£P.W.	£P.W.	£P.W.	£P.W.	£P.W.	£P.W.
	SINGLE PERSONS						
35.00	1.47	2.92	30.61	0.20	3.10	31.70	1.09
40.00	2.97	3.24	33.79	1.70	3.44	34.86	1.07
50.00	5.97	3.86	40.17	4.70	4.12	41.18	1.01
60.00	8.97	4.49	46.54	7.70	4.81	47.49	0.95
80.00	14.97	5.74	59.29	13.70	6.18	60.12	0.83
100.00	20.97	6.99	72.04	19.70	7.55	72.75	0.71
120.00	26.97	8.24	84.79	25.70	8.92	85.38	0.59
140.00	32.97	9.49	97.54	31.70	10.29	98.01	0.47
160.00	38.97	10.74	110.29	37.70	11.66	110.64	0.35
180.00	44.97	11.99	123.04	43.70	13.03	123.27	0.23
200.00	50.97	13.24	135.79	49.70	14.40	135.90	0.11
220.00	56.97	14.49	148.54	55.70	15.77	148.53	-0.01
240.00	62.97	14.49	162.54	61.70	16.80	161.50	-1.04
300.00	83.3A	14.49	202.17	79.70	16.80	203.50	1.33
350.00	104.82	14.49	230.69	98.19	16.80	235.01	4.32
	MARRIED COUPLES (1)						
50.00	0.89	3.86	45.25	0.0[illegible]	4.12	45.88	0.63
60.00	3.89	4.49	51.62	1.93	4.81	53.26	1.64
80.00	9.89	5.74	64.37	7.93	6.18	65.89	1.52
100.00	15.89	6.99	77.12	13.93	7.55	78.52	1.40
120.00	21.89	8.24	89.87	19.93	8.92	91.15	1.28
140.00	27.89	9.49	102.62	25.93	10.29	103.78	1.16
160.00	33.89	10.74	115.37	31.93	11.66	116.41	1.04
180.00	39.89	11.99	128.12	37.93	13.03	129.04	0.92
200.00	45.89	13.24	140.87	43.93	14.40	141.67	0.80
220.00	51.89	14.49	153.62	49.93	15.77	153.30	0.68
240.00	57.89	14.49	167.62	55.93	16.80	167.27	-0.35
300.00	76.57	14.49	208.94	73.93	16.80	209.27	0.33
350.00	97.21	14.49	238.30	90.50	16.80	242.70	4.40

Employees' National Insurance Contributions are at the Class 1 standard rate for employment contracted out of the State additional (earnings related) pension scheme.

FAMILIES WITH CHILDREN
MARRIED COUPLE WITH 2 CHILDREN - NET WEEKLY INCOME

NIC - CONTRACTED IN

TABLE 7(a)

Weekly earnings	Weekly income in 1982/83 post November				Weekly income in 1983/84 up to November 1983					Weekly income in 1983/84 post November 1983		
	Child benefit	Income tax	NIC	Net income	Child benefit	Income tax	NIC	Net income	Change compared to 1982/83 post November, in income after child benefit, tax and NIC	Child benefit	Net income	Change compared to 1982/83 post November, in income after child benefit, tax and NIC
£	£	£	£	£	£	£	£	£	£	£	£	£
50.00	11.70	0.89	4.38	56.43	11.70	0.00	4.50	57.20	0.77	13.00	58.50	2.07
60.00	11.70	3.89	5.25	62.56	11.70	1.93	5.40	64.37	1.81	13.00	65.67	3.11
80.00	11.70	9.89	7.00	74.81	11.70	7.93	7.20	76.57	1.76	13.00	77.87	3.06
100.00	11.70	15.89	8.75	87.06	11.70	13.93	9.00	88.77	1.71	13.00	90.07	3.01
120.00	11.70	21.89	10.50	99.31	11.70	19.93	10.80	100.97	1.66	13.00	102.27	2.96
140.00	11.70	27.89	12.25	111.56	11.70	25.93	12.60	113.17	1.61	13.00	114.47	2.91
160.00	11.70	33.89	14.00	123.81	11.70	31.93	14.40	125.37	1.56	13.00	126.67	2.86
180.00	11.70	39.89	15.75	136.06	11.70	37.93	16.20	137.57	1.51	13.00	138.87	2.81
200.00	11.70	45.89	17.50	148.31	11.70	43.93	18.00	149.77	1.46	13.00	151.07	2.76
220.00	11.70	51.89	19.25	160.56	11.70	49.93	19.80	161.97	1.41	13.00	163.27	2.71
240.00	11.70	57.89	19.25	174.56	11.70	55.93	21.15	174.62	0.06	13.00	175.92	1.36
300.00	11.70	76.57	19.25	215.88	11.70	73.93	21.15	216.62	0.74	13.00	217.92	2.04
350.00	11.70	97.21	19.25	245.24	11.70	90.50	21.15	250.05	4.81	13.00	251.35	6.11

Notes

Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit. It is assumed that only the husband is earning.

National insurance contributions are at the standard Class 1 rate for employment not contracted out of the state additional (earnings related) pension scheme.

Single parent families have the same net weekly income as married couples on the same weekly earnings except that a single parent fami[illegible] received £ extra benefit per week from November 1982 and will receive £ extra per week from November 1983

Ch[illegible] Benefit The rate up to November 1983 is £11·70 per week (£5·85 per child) and will then be increased by £1·30 per week (£[illegible] per child). to £13.00 (6.50 per child)

TABLE 7(b)

FAMILIES WITH CHILDREN
MARRIED COUPLE WITH 2 CHILDREN - NET WEEKLY INCOME

NIC: CONTRACTED OUT

Weekly earnings	Weekly income in 1982/83 post November				Weekly income in 1983/84 up to November 1983					Weekly income in 1983/84 post November 1983		
	Child benefit	Income tax	NIC	Net income	Child benefit	Income tax	NIC	Net income	Change compared to 1982/83 post November, in income after child benefit, tax and NIC	Child benefit	Net income	Change compared to 1982/83 post November, in income after child benefit, tax and NIC
£	£	£	£	£	£	£	£	£	£	£	£	£
50.00	11.70	0.89	3.86	56.95	11.70	0.00	4.12	57.58	0.63	13.00	58.88	1.93
60.00	11.70	3.89	4.49	63.32	11.70	1.93	4.81	64.96	1.64	13.00	66.26	2.94
80.00	11.70	9.89	5.74	76.07	11.70	7.93	6.18	77.59	1.52	13.00	78.89	2.82
100.00	11.70	15.89	6.99	88.82	11.70	13.93	7.55	90.22	1.40	13.00	91.52	2.70
120.00	11.70	21.89	8.24	101.57	11.70	19.93	8.92	102.85	1.28	13.00	104.15	2.58
140.00	11.70	27.89	9.49	114.32	11.70	25.93	10.29	115.48	1.16	13.00	116.78	2.46
160.00	11.70	33.89	10.74	127.07	11.70	31.93	11.66	128.11	1.04	13.00	129.41	2.34
180.00	11.70	39.89	11.99	139.82	11.70	37.93	13.03	140.74	0.92	13.00	142.41	2.59
200.00	11.70	45.89	13.24	152.57	11.70	43.93	14.40	153.37	0.80	13.00	154.67	2.10
220.00	11.70	51.89	14.49	165.32	11.70	49.93	15.77	166.00	0.68	13.00	167.30	1.98
240.00	11.70	57.89	14.49	179.32	11.70	55.93	16.80	178.97	-0.35	13.00	180.27	0.95
300.00	11.70	76.57	14.49	220.64	11.70	73.93	16.80	220.97	0.33	13.00	222.27	1.63
350.00	11.70	97.21	14.49	250.00	11.70	90.50	16.80	254.40	4.40	13.00	255.70	5.70

Notes

Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit. It is assumed that only the husband is earning.

National insurance contributions are at the standard Class 1 rate for employment contracted out of the state additional (earnings related) pension scheme.

Single parent families have the same net weekly income as married couples on the same weekly earnings except that a single parent fam received £ extra benefit per week from November 1982 and will receive £ extra per week from November 1983.

Child Benefit The rate up to November 1983 is £11.70 per week (£5.85 per child) and will then be increased by £1.30 per week (£ 5per child) to £13.00 (£6.50 per child)

SINGLE AND MARRIED COUPLES - ALL EARNED INCOME - COMPARISON WITH 1982-83 WHERE EARNINGS INCREASE BY 6·5 PER CENT BETWEEN 1982/83 AND 1983/84

TABLE 8.

Income in 1982-83	Charge for 1982-83: Income tax	Charge for 1982-83: Percentage of total income taken in tax	Adjusted[(1)] income in 1983-84	Proposed charge for 1983-84: Income tax	Proposed charge for 1983-84: Percentage of total income taken in tax	Percentage change in income after tax
£	£	per cent	£	£	per cent	per cent
	SINGLE PERSONS					
2000	130	6.5	2130	103	4.9	8.4
2500	280	11.2	2663	263	9.9	8.1
3000	430	14.4	3195	423	13.2	7.9
3500	580	16.6	3728	583	15.6	7.7
4000	730	18.3	4260	742	17.4	7.6
6000	1330	22.2	6390	1381	21.6	7.3
8000	1930	24.1	8520	2020	23.7	7.1
10000	2530	25.3	10650	2659	25.0	7.0
15000	4094	27.3	15975	4257	26.6	7.4
20000	6261	31.3	21300	6462	30.3	8.0
25000	8727	34.9	26625	9010	33.8	8.3
40000	17231	43.1	42600	17834	41.9	8.8
50000	23231	46.5	53250	24224	45.5	8.4
	MARRIED COUPLES[(2)]					
3000	166	5.6	3195	123	3.8	8.4
3500	316	9.0	3728	283	7.6	8.2
4000	466	11.7	4260	442	10.4	8.0
6000	1066	17.8	6390	1081	16.9	7.6
8000	1666	20.8	8520	1720	20.2	7.4
10000	2266	22.7	10650	2359	22.2	7.2
15000	3766	25.1	15975	3957	24.8	7.0
20000	5865	29.3	21300	6012	28.2	8.2
25000	8287	33.2	26625	8510	32.0	8.4
40000	16703	41.8	42600	17234	40.5	8.9
50000	22703	45.4	53250	23624	44.4	8.5

(1) The adjusted incomes shown for 1983/84 are for illustration. They have been obtained by increasing the corresponding incomes in 1982/83 by 6.5 PER CENT.

(2) ASSUMING THAT ONLY THE HUSBAND HAS EARNED INCOME

SINGLE AND MARRIED COUPLES - ALL EARNED INCOME - COMPARISON WITH 1982-83 TABLE 9(a)

WHERE EARNINGS INCREASE BY 6.5 PER CENT BETWEEN 1982/83 AND 1983/84

INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (NIC: CONTRACTED IN)

Charge for 1982-83				Proposed charge for 1983-84				
Income in 1982-83	Income tax	N I C	Percentage of total income taken in tax and NIC	Adjusted income in 1983-84 (1)	Income tax	NIC	Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	Per cent	£	£	£	Per cent	Per cent
SINGLE PERSONS								
2000	130	175	15.2	2130	103	192	13.8	8.3
2500	280	219	20.0	2662	263	240	18.9	7.9
3000	430	262	23.1	3195	423	288	22.3	7.6
3500	580	306	25.3	3727	583	335	24.6	7.5
4000	730	350	27.0	4260	742	383	26.4	7.4
6000	1330	525	30.9	6390	1381	575	30.6	7.0
8000	1930	700	32.9	8520	2020	767	32.7	6.8
10000	2530	875	34.0	10650	2659	958	34.0	6.6
12000	3130	1001	34.4	12780	3298	1100	34.4	6.5
15000	4094	1001	34.0	15975	4257	1100	33.5	7.2
20000	6261	1001	36.3	21300	6462	1100	35.5	7.9
25000	8727	1001	38.9	26625	9010	1100	38.0	8.1
40000	17231	1001	45.6	42600	17834	1100	44.4	8.7
50000	23231	1001	48.5	53250	24224	1100	47.6	8.4
MARRIED COUPLES (3)								
3000	166	262	14.3	3195	123	288	12.9	8.2
3500	316	306	17.8	3727	283	335	16.6	8.0
4000	466	350	20.4	4260	442	383	19.4	7.9
6000	1066	525	26.5	6390	1081	575	25.9	7.4
8000	1666	700	29.6	8520	1720	767	29.2	7.1
10000	2266	875	31.4	10650	2359	958	31.1	6.9
12000	2866	1001	32.2	12780	2998	1100	32.1	6.8
15000	3766	1001	31.8	15975	3957	1100	31.7	6.7
20000	5865	1001	34.3	21300	6012	1100	33.4	8.0
25000	8287	1001	37.2	26625	8510	1100	36.1	8.3
40000	16703	1001	44.3	42600	17234	1100	43.0	8.8
50000	22703	1001	47.4	53250	23624	1100	46.4	8.5

(1) adjusted incomes shown for 1983/84 are for illustration. They have been obtained by increasing corresponding incomes in 1982/83 by per cent.

(2) ational Insurance Contributions are at the Class 1 standard rate for employment not contracted out of the State additional (earnings related) pension scheme.

TABLE 9(b)

SINGLE AND MARRIED COUPLES - ALL EARNED INCOME - COMPARISON WITH 1982-83
WHERE EARNINGS INCREASE BY 6.5 PER CENT BETWEEN 1982/83 AND 1983/84

INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (NIC: CONTRACTED OUT)

Charge for 1982-83				Proposed charge for 1983-84				
ncome in 982-83	Income tax	N I C	Percentage of total income taken in tax and NIC	Adjusted (1) income in 1983-84	Income tax	NIC	Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	Per cent	£	£	£	Per cent	Per cent
	SINGLE PERSONS							
2000	130	163	14.6	2130	103	182	13.4	8.1
2500	280	195	19.0	2662	263	219	18.1	7.7
3000	430	226	21.9	3195	423	255	21.2	7.4
3500	580	257	23.9	3727	583	292	23.5	7.1
4000	730	288	25.4	4260	742	328	25.1	7.0
6000	1330	413	29.0	6390	1381	474	29.0	6.5
8000	1930	538	30.8	8520	2020	620	31.0	6.3
10000	2530	663	31.9	10650	2659	766	32.2	6.1
12000	3130	753	32.4	12780	3298	873	32.6	6.1
15000	4094	753	32.3	15975	4257	873	32.1	6.8
20000	6261	753	35.1	21300	6462	873	34.4	7.5
25000	8727	753	37.9	26625	9010	873	37.1	7.9
40000	17231	753	45.0	42600	17834	873	43.9	8.5
50000	23231	753	48.0	53250	24224	873	47.1	8.2
	MARRIED COUPLES (3)							
3000	166	226	13.1	3195	123	255	11.8	8.0
3500	316	257	16.4	3727	283	292	15.4	7.7
4000	466	288	18.8	4260	442	328	18.1	7.5
6000	1066	413	24.6	6390	1081	474	24.3	6.9
8000	1666	538	27.5	8520	1720	620	27.5	6.6
10000	2266	663	29.3	10650	2359	766	29.3	6.4
12000	2866	753	30.2	12780	2998	873	30.3	6.3
15000	3766	753	30.1	15975	3957	873	30.2	6.3
20000	5865	753	33.1	21300	6012	873	32.3	7.7
25000	8287	753	36.2	26625	8510	873	35.2	8.0
40000	16703	753	43.6	42600	17234	873	42.5	8.6
50000	22703	753	46.9	53250	23624	873	46.0	8.3

(1) adjusted incomes shown for 1983/84 are for illustration. They have been obtained by increasing the corresponding incomes in 1982/83 by per cent.

(2) ational Insurance Contributions are at the Class 1 standard rate for employment not contracted out of the State additional (earnings related) pension scheme.

CONFIDENTIAL

FROM: JOHN GIEVE

DATE: 7 February 1983

PRINCIPAL PRIVATE SECRETARY

cc Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
PCC
Mr Burns
Mr Cassell
Mrs Lomax
Mr Odling-Smee
Mr Monck
Mr Evans
Me Sedgwick
Mr Shields
Mr Riley
Mr Ridley
Mr French
Mr Harris

THE MEDIUM TERM FINANCIAL STRATEGY

The Chief Secretary has read Mr Burns' minute of 3 February and the paper attached to it. He has the following comments.

Objectives - He is content with the revised formulation in para.5 of the paper.

Monetary ranges - Like Mr Burns, he would go for Variant A of Table 2 of the paper.

PSBR - Rather than either of the Variants in Table 5 of the paper, he would favour a path of £8 billion in 1983-84, £7 billion in 1984-85, and £6 billion in 1985-86. This would maintain the downward pressure more convincingly than Variant A but less harshly than Variant B.

Economic assumptions - He favours Variant A in Table 9. He thinks this is better for public expenditure presentation. Variant B may look more ambitious on inflation, but would, in his view, strain credibility excessively.

JG

JOHN GIEVE

CONFIDENTIAL

CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

FROM: ECONOMIC SECRETARY
DATE: 7 FEBRUARY 1983

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (R)
Minister of State (C)
PCC
Mr Burns
Mr Cassell
Mrs Lomax
Mr Odling-Smee
Mr Monck
Mr Evans
Mr Sedgwick
Mr Shields
Mr Riley
Mr French
Mr Harris

THE MEDIUM TERM FINANCIAL STRATEGY

After reading Mr Burns' submission of 3 February and the attached paper by MP, it seems to me that this has got to be split into what we <u>want</u> and what we <u>say</u>.

2. Firstly, what we <u>want</u>. I am inclined to take issue with the statement in paragraph 4 of the MP paper, which refers to 'the low level /of inflation/ from which we start'. All things are relative, and by the standards of the 1970s that is fair enough. But at any other time that I can recall, a prospect of about 6% a year (if we're lucky) would have been regarded with horror. So I would prefer to be a bit more ambitious if we can.

3. This instinct is reinforced by the immediate outlook. It seems to me that there is a relatively high risk of a substantial fall in the oil price. I very much agree with Sir D Wass' comment (at our meeting with the Governor on Friday) that the logical response to such an eventuality, and its possible impact on the exchange rate, is to adjust the <u>fiscal</u> stance. Moreover the latest evidence from the domestic economy, where I feel that the MP paper possibly overstates the impact of dissaving, and understates the impact of lower inflation on (eg) mortgage costs and hence disposable incomes, points the same way. Yet at the same time the low level

discretionary savings, emphasised by Alan Walters at our most recent funding meeting, also points - or so it seems to me - to the advisability of a cautious PSBR for 1983-84.

4. So I think the case for a somewhat lower PSBR than the £8 billion that we took as our benchmark at Chevening is made out.

5. Secondly, what we say. The PSBR path in Table 4 looks distinctly bumpy. If we went for £7½ billion in 1983-84 we would eliminate the upward blip from what we expect to be the outturn in 1982-83. Paragraph 21 suggests that this would be consistent with a small positive fiscal adjustment in 1984-85. For my part, bearing in mind that we are talking about figures a long way inside the margins of error, I would be rather less worried about a marginally higher figure - say £7 billion - for 1984-85 if that gave us room to offer a slightly more appetising-looking fiscal adjustment for that year: that would also, incidentally, give us a somewhat smoother path on into 1985-86.

6. Moving on to the monetary aggregates, we face an awkward quandary over what to do about M1. The forecast suggests that it is likely to move beyond the 7-11% range suggested in the 1982 MTFS. I do not think anybody is seriously suggesting we should go therefore to a higher range for all aggregates: that would give the markets a very undesirable signal. But I thought it was striking how our assembled outside pundits last week sounded pretty unanimous (it was about the only thing they did sound unanimous about) in discounting M1 and homing back on £M3 - even those like Gordon Pepper who last year went overboard on MI's significance. Hence I feel rather more optimistic about our ability to get away with something like a repetition of the 1982 Red Book formula for M1, as suggested in paragraph 18 (a) of Mr Monck's submission of January 26. But given the fragility of the exchange rate, the desirability of giving the right signals to the market about our inflation ambitions, and perhaps most of all the grounds for concern about the possibility of a turn-round in velocity, I would far prefer to see us go for the 6%-10% range in a context which made it clear that we were thinking primarily of £M3.

7. Finally, there are the stated inflation forecasts. So far as I can see from the 1982 Red Book and its predecessors, precedent requires us to offer RPI forecasts for Q4 1983 on Q4 1982, and Q2 1984 on Q2 1983 (why, I am not entirely clear, but there it is). Given the hazards and worries about later periods, that is obviously quite enough. If I understand it right the MP paper, which talks in terms of GDP deflators, advises us to go for 6% for Q4 1983 on Q4 1982, and I think one has reluctantly to agree that anything better would be unlikely to carry conviction. While the AS had a figure of 5% for the RPI, it would be difficult not to make any allowance for the fall in sterling. Moreover the lower we go for Q4 1983 on Q4 1982, the further we would have to depart from the Treasury internal forecast in order to claim to carry on the good work into the forecast for Q2 1984 on Q2 1983: and that, to my mind, is of crucial importance. So I would settle for 6% on the RPI in 1983 and - at worst - 5½%, for Q2 1984 on Q2 1983 (I would far rather go for 5% if we could defend it). Then we have to give the GDP deflator 'assumptions' for 1984-85 and 1985-86. I would infinitely prefer Assumption B, since Assumption A leaves us in 2 years' time pretty well where we start. But it is starkly at variance with the internal forecast, and would lack all credibility unless we go for the lower PSBR option and lower monetary range. Even then it might be wiser to go for 4½% in 1985-86 rather than 4%.

8. There is also the phraseology. I am not overwhelmed by MP's suggestion in paragraph 5. The reference to sustainable growth & employment is becoming a little reminiscent of the Brazilian cavalry in 'Road to Rio'; and the reference to inflation has a bit too much of a nuance of saying we have won. I would prefer something more on the lines of:-

> "Government policies have already achieved the lowest rate of inflation for more than ten years, and are designed to make possible further progress to stable prices, thereby creating the environment for the restoration of the long-term competitiveness of British industry and commerce,

upon which alone a sustainable recovery in employment must depend. The Medium Term Financial Strategy describes the financial framework required for the fulfilment of this objective".

9. As to the exchange rate, I think we should stick with 'no major changes'. It has at least the virtue of consistency.

JOCK BRUCE-GARDYNE

CONFIDENTIAL

FROM: NICHOLAS RIDLEY
DATE: 7 February 1983

CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State (R)
Sir D Wass
Mr Middleton
Mr Moore
Mr Robson
Mr Chivers
Mr Gordon
Mr Godber
Mr French
Mr Graham - Parly Counsel
PS/IR

CAPITAL ALLOWANCE FOR SELF-CATERING ACCOMMODATION

I have seen Mr Corlett's note to you of 3 February. I think this is going to throw up a lot of anomalies. Apart from those in Mr Corlett's note (particularly Caravans), there will be fury from the many individuals who own one, two or three cottages which they let out to self catering holiday families. These people have already been protesting strongly to us about their tax treatment - the IIS is their main complaint - so for them to be excluded because they have less than 10 units will infuriate them further. We would probably have to find some concession to placate them, say by treating the rents they receive as earned income.

pp NICHOLAS RIDLEY

From: P E MIDDLETON
7 February 1983

Chancellor of the Exchequer

MTFS

1. You might like a short note to provide a guide for tomorrow's discussion. The key issue as Mr Burns says in his covering note is the Government's objective on inflation, the numbers that go with this, their credibility in terms of consistency with the inflation objective and the short term implications for output.

2. The decisions which are sought are set out on p18 of the MTFS paper. They are:

A <u>MONETARY RANGES</u> (see Table 2)

i. Retain last year's monetary ranges and extend by a year

or ii. Reduce the centre points by 1% point.

These are discussed in paras 6-14 of the note. No one argues for higher ranges. EST (tho' with M1 rules) Mr Walters favours (ii) above. CST Mr Burns (i). The outsiders were broadly content with (i) but some inclined to (ii). The Bank incline to (i).

See record at back of file

3. The question is closely related to those in Mr Monck's minute. One of the main arguments for the status quo is that the ranges can, with very little strain encompass all the target aggregates. So this may be the point to decide whether or not we want separate targets for different aggregates. Note: if we reduce the MTFS ranges by 1% it will be difficult not to apply the same principle to 1983-84.

B <u>THE PSBR</u> (see Table 5)

i. Stick to the present MTFS path

ii. Have a slightly steeper downward progression. EST

or iii CST's 8/7/6 (really a middle option)

4. The tougher option tends to go with the more determined looking counter-inflationary stance shown in lower monetary ranges. But it does not have to. Mr Walters inclines to the lower PSBRs - so do I. But the outsiders certainly did not, Mr Burns does not and neither does the Bank. A lower PSBR carries implications for this year's package and the size of the fiscal adjustment in 1984-85.

C <u>ACCOMPANYING NUMBERS</u> (Table 9)

5. We have to put a lot of other numbers with the money and PSBR

figures. These are discussed in paras 7-9 of Mr Burns' cover note and 24-39 of the main note. You do not of course have to stick to forecast numbers - either ours or outsiders - they have proved sufficiently wrong to give you a considerable amount of discretion. But you will wish to select a credible set to defend before the Select Committee and others. The danger is that we start talking about precise substitution between lower prices and higher output. The key question in Table 9 is does inflation performance with A look good enough, or credible enough when set alongside the alternative money and PSBR ranges and outside forecasts. With B the question is does output performance look credible when set against the policies thought to be necessary to achieve these inflation numbers.

D OTHER POINTS

6. There are two lesser but important issues:

i. What we say about objectives (paras 2-5)

ii. What we say about the exchange rate (paras 15-17). There are some changes here now that "no major changes" is taken to mean 10% down from now - which is not the assumption. "Broadly unchanged" might be better.

E GENERAL

7. We want a firm steer on the substantive points so that we can have a go at a draft. You do not have to take final decisions until you see how it looks when set out with an accompanying text.

to be ready by next weekend!

P E MIDDLETON

Note of a Meeting on 7 February 1983

Present: Chief Secretary
Minister of State (Revenue)
Mr Godber
Mr Reed
Mr Brazier
Mr Battishill - Inland Revenue
Mr Corlett - Inland Revenue

CAPITAL ALLOWANCES FOR SELF-CATERING ACCOMMODATION

The Chief Secretary noted that a decision would be taken at the Chancellor's meeting the following week, on whether any tourism measure should be included in the Construction Package. If the Chancellor decided that it should, allowances for self-catering accommodation would seem to be the best option. Mr Corlett's minute of 3 February had raised the general questions that would need to be settled if Ministers decided to go down this route. Taking these points in turn, the Chief Secretary made the following provisional decisions and comments on the scope of the allowance.

Broad Approach to Self-Catering

2. The Chief Secretary endorsed the broad scope of the new allowance suggested in paragraph 6 of Mr Corlett's minute. But he noted that there would be particular definitional problems, for instance in including flats within the scope of the scheme. The treatment of mixed accommodation blocks (for which there is no direct precedent under existing capital allowance schemes) would raise difficult questions of property law. There was also the question of whether the scheme should provide for balancing adjustments following the sale of units on which an allowance had already been given, or as a consequence of change of use. He noted that all these problems were soluble but would mean substantial legislation - if leisure facilities were included as qualifying expenditure the legislation could exceed 11 pages. This would point to the scope of the scheme being limited by some arbitrary cut-offs, for instance that multi-occupational blocks of flats should not qualify.

Type of Units which would qualify

3. The Chief Secretary envisaged that, in general, a unit -

(i) need not include bathroom and cooking facilities;

(ii) should be available for letting for a minimum of 4 months during the season (on the same basis as hotels). Although alternative use of the unit outside the season should not, in principle, disqualify the owner from receiving the allowance;

(iii) that accommodation occupied privately by the owner should not qualify for the allowance;

(iv) There should normally be a 4-week limit to the length of time the unit could be let to the same holiday-maker;

Alterations and Improvements to Existing Buildings, and Purchase of Secondhand Buildings

4. The Chief Secretary thought that allowance should be available for conversions, alterations and purchase of secondhand units. The latter being defined as a unit already in use as holiday accommodation. An allowance for alteration and conversions may give rise to the criticism that it would increase the shortage of residential accommodation in some rural areas. This was however unlikely to be a problem in practice. The intention that the allowance would be available only on complexes of ten or more units defined to a site (perhaps by using the curtilage definition used for DLT purposes) would be a limiting factor of the number of dwellings that could qualify. Another possibility would be to exclude from the scheme accommodation in use as permanent residential accommodation within a defined preceding period.

Leisure Complexes

5. The Chief Secretary thought that there should be a monetary limit on the total of qualifying leisure facilities. This could reasonably be set at 1/3 or 1/2 the value of the accommodation units on the site in question.

Implications for the Hotel Allowance

6. The Chief Secretary thought that the 10 letting bedroom requirement for qualifying hotels should be retained. But the breakfast evening meal and room servicing requirements would all have to go. It would be desirable to avoid extending the hotel allowance to bed and breakfast hotels, hostels and similar establishments.

Caravans

7. The Chief Secretary said that, if the self-catering scheme was introduced, the opportunity should be taken in the legislation to reduce or withdraw the 100% first year allowance available on static holiday caravans, perhaps replacing it with an allowance similar to that envisaged for self-catering accommodation, ie. a 20 per cent initial allowance for sites of 10 static caravans. But he noted that withdrawal of the 100% allowance could be a controversial move.

The Assured Tenancy Allowance

8. The Chief Secretary said that the anomalies that could be created between accommodation receiving the new allowance and accommodation used for controlled full-time lettings which would not qualify and the consequent danger of reopening the assured tenancy debate was a point to be borne in mind in deciding to go ahead with the new scheme at all.

Distribution:-

Chancellor of the Exchequer
Financial Secretary
Economic Secretary
Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Moore
Mr Robson
Mr Chivers
Mr Gordon
Mr Godber
Mr Brazier
Mr Reed
Mr French
Mr Graham (Parliamentary Counsel)
PS/IR
Mr Battishill - I/R
Mr Corlett - I/R

From: DOUGLAS FRENCH
7th February 1983

CHANCELLOR OF THE EXCHEQUER 12/2

cc Mr Kemp
Mr Mackellar
Mr Corcoran
Miss Young
Mr Ridley
Mr Harris

CPC CITY FORUM ON THE BUDGET

You spoke with David Knapp about this regular post-Budget fixture. You will remember that last year you were unable to go at the last minute and the Financial Secretary spoke in your place. I also attended and the function was well supported, as it normally is.

2. The most suitable date in the diary would be Monday, 11th April, at 5.30 pm. The venue, as usual, would be the Chartered Accountants' Hall, Moorgate Place, EC2.

3. Subject to your final confirmation I have indicated to David Knapp that this is likely to be acceptable to you.

Seems OK
– some whether we be
Westminster [illegible] [illegible]
next day?

Douglas French

DOUGLAS FRENCH

FROM: E P KEMP
8 February 1983

PWT

MR KERR

BUDGETS ETC

One small point of refinement on one remark you made after the Chancellor's meeting this morning.

2. You said that following the discussion of the MTFS andthe PSBRs to be shown therein, we had effectively ruled out my Budget C as attached to my minute of yesterday.

3. This is true if the FSBR options are £8 billion for 1983-84 and £7 billion for 1984-85. But as it happens if the fudge option of £7½ billion for 1984-85 was adopted, then on the very simple arithmetic we now have a small positive fiscal adjustment would still be shown for 1984-85, so from this rather mechanical point of view Budget C is not totally ruled out. However given the risks that exist, and given also the fact that the positive fiscal adjustment that would be shown for 1984-85 would be so small, I think in practical terms C is dead. But I thought I should just draw attention to the arithmetic.

4. The figures are set out below.

		1983-84	1984-85
A.	Cost of Budget C	2040	2635
B.	PSBR	8000	7500 or 7000
C.	Fiscal Adjustments becomes	2000	3000 or 2500
D.	Difference between line A and Line C	all square	+ 365 or -135

With a £7½ billion PSBR for 1984-85 there is (just) a positive fiscal adjustment: with a £7 million PSBR this is (just) a negative figure. But in practical terms both are neither here nor there; therefore Budget C *is* out.

EPK

E P KEMP

CONFIDENTIAL

-8 FEB 1983

ACTION PS/CTE

CST, FST, EST, MST(R), MST(C)
Sir D. Wass, Sir A. Rawlinson
Mr Byatt, Mr Middleton
Mr Kemp, Mr Burns
Mr Burgner, Mr Moore,
Mr Wicks, PS/IR

01-211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

8 February 1983

Dear Geoffrey

1983 BUDGET

This letter concerns energy points you may wish to take into account in your Budget deliberations. It does not deal with the North Sea fiscal regime, which we have discussed separately.

I know you will be considering revalorisation of petrol duty and other excise duties. I would have no difficulty with a straight revalorisation of avgas and lpg, as road fuel. But I am sure you will have it in mind, in deciding how far to go on revalorisation of the petrol duty, that the offset for our counter inflation programme to the devaluation of sterling triggered by the weakening oil price is the benefit to our price level of the fall in the oil price. We have referred publicly to the benefit of this offset. But the most immediate RPI effect of the lower oil price comes through the petrol price. Moreover, increases in the petrol duty consistently arouse greater opposition, both in and out of Parliament, than all the other tax increases put together.

For these reasons I see no merit whatever in ideas I have heard canvassed for reducing the car tax - which should surely have a low priority this year - and making good the lost revenue via the petrol tax. I would also resist David Howell's proposal to increase petrol duty over and above revalorisation to compensate for maintaining VED on cars at its present level, and to make room for a differential in favour of derv. On energy efficiency grounds and in particular in order to help industry's costs I favour an increased differential in favour of derv, but this should be achieved by the total non-revalorisation of the derv duty. As you know, whereas UK petrol prices are in line with those on the Continent, our derv prices are the highest in the European Community.

My conclusion therefore is that any increase in petrol duty ought not, at most, to go beyond revalorisation and that derv should not be revalorised at all this year.

Heavy fuel oil duty at £8/tonne continues to attract criticism, but no new solution to the British Gas problem has emerged. I conclude that we can offer no more to industry than a further erosion of the duty in real terms. I would not propose any change in the duties on gas oil, avtur and lubricating oils which in the main carry the same rebated rate of duty as heavy fuel oil. I would, once again, urge you to consider, as a 'compassionate lollipop', abolishing the 1p a gallon (total revenue at stake: £5m) duty on domestic paraffin, which is now used largely by the elderly poor to heat their homes.

You may find it useful to refer in your Budget speech to the further assistance which has been extended recently both to industrial energy users and to domestic consumers: the zero average increase in electricity prices in 1983/84; BGC's extension of the gas price freeze to October 1983; and the action taken on standing charges to domestic consumers. These developments, although in no sense 'news', will contribute to lowering inflationary expectations and could be mentioned in that context, or (as appropriate) in the context of help to industrial costs.

If (as I hope) you are constructing a series of small "sweetners" for industry at no great cost there are two possibilities in my field which might qualify and are of considerable interest to the CBI. One, which I regard as essential, is an extension of the application period for the Coal Firing Scheme to 31 March 1984. Another, which I regard as highly desirable, is a loan guarantee scheme to firms for energy efficiency. These are still under consideration at official level and I am not quite ready to make proposals. I mention them however since in my judgment the reception of your Budget by industry would be seriously jeopardised if it fails to contain any new move on the highly senitive issue of industry's energy costs. There is also, of course, the possibility of Industry Act assistance to those sectors or companies under the greatest pressure; but this is in the first instance a matter for Patrick.

I am copying this letter to Patrick Jenkin, David Howell and Arthur Cockfield.

Yours ever
Nigel

NIGEL LAWSON

From: DOUGLAS FRENCH
9th February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Monck
Mr Pirie
Mr Ridley
Mr Harris
Mr Bridgeman - RFS

IMPROVEMENT GRANTS

I have recently come across several cases in South London where people have declined to buy houses which would otherwise have suited them because the rateable value has exceeded £400 and therefore made them ineligible for improvement grants.

2. One consequence is that certain roads are left largely unimproved because the houses are rated just above the limit. Another consequence is that people who are able to finance the purchase of such houses seek to divide them into two and get the two parts re-rated so that one qualifies for an improvement grant and the other is then sold in an unimproved state. The purchaser of the unimproved part can then apply for an improvement grant in his own right and more money is ultimately advanced on one property than would have been necessary if only one grant had applied to it.

3. However, some building societies will only lend on an unimproved property where the borrower agrees that the whole house will be owner-occupied and no part, not even, for example, a basement flat, will be either let or sold off.

4. The following anomalous situation therefore arises: the purchaser could get an improvement grant by dividing the property, having it re-rated, selling off part and applying for a grant in respect of the owner-occupied remainder. However this puts the cart before the horse because the grant is dependent upon the re-rating which is dependent upon the division, but the division would normally be undertaken as part of the improvement. Since most building societies will not lend where they know a division is going to take place, the purchaser is left with a situation in which if he takes out a mortgage he

effectively precludes himself from getting an improvement grant.

5. One variation, which is becoming increasingly prevalent, is to knock down as much of the house as is necessary in order to get a re-rating which is just below £400. At its most absurd, this has been known to be done by asking the rating valuation office what the extra rateable value would be for building an extension to a particular specification and, having established the value, then announcing that such an "extension" has just been demolished and the amount should therefore be subtracted rather than added.

6. The simplest way around all these problems would be to raise the rateable value ceiling for eligibility for grants in London to a figure higher than £400. Obviously, if there is a ceiling, there are always going to be some problems at the margin. But an increase to £500 or £550 would take care of a very significant number of the London houses currently excluded. It would also give a significant and politically valuable boost to the building industry without, I suspect, costing very much.

7. I have not discussed this subject with officials and no doubt there were sound reasons for the ceiling originally. I merely wonder whether it is absolutely essential to maintain it now.

8. A related problem arises even when a building society does agree to advance on an unimproved property and the property is within the rateable value limits. Their advance can frequently (and understandably) be subject to a retention until the work of improvement has been completed so that the borrower is obliged to have short-term finance to pay for the work in progress whilst at the same time he is paying for longer-term mortgage finance which he may not in fact have received. Bridging finance of this type may also be necessary whilst waiting for a grant to be paid. This combination is another positive discouragement to people to embark upon house improvements. You might therefore be interested in the attached article from today's Times which gives details of an interesting initiative by Midshires and Tarmac which in my opinion deserves any encouragement we or the DoE can give it.

Douglas French

DOUGLAS FRENCH

Residential property/ Baron Phillips

Renovation: now everybody's happy

Unless you happen to be a builder, most people are deterred from buying a ruin and renovating it. For either physical or financial reasons, and sometimes both, house buyers believe it is a backbreaking exercise better left to masochists.

One of the main problems of renovation is finding reliable advice from an expert: few people could put their hand on their heart and swear to know a reputable builder with whom they would be prepared to stake their life savings.

A further problem is the usual frosty reception from building societies. While they might be prepared to lend you the cash to buy the property, financing the building work is another matter.

Come back when the work is finished and we will review the mortgage, is a common response from a less than helpful building society manager. At best a society may say it will consider lending some of the cash for the renovation, providing you submit detailed estimates from a host of builders along with kitchen and bathroom specialists. Even then there is no guarantee of getting the financial help you need and you may miss the opportunity of buying a house you could not afford in its modernized state.

Fortunately an experiment now under way in the Midlands may well change the renovation scene dramatically over the next few years. Tarmac, the constructiion giant, has teamed up with the fast expanding Midlands building society, the Midshires, to produce a renovation package. The third element in the partnership is Wolverhampton council.

Primarily designed as a positive response to the Government's inner urban renewal campaign, the scheme has widespread appeal to every sector of the national market. The pilot scheme is centred upon a part of Wolverhampton which the local council is committed and keen to revitalize and has declared a special housing action area.

Apart from the cash which the council is spending on improving the environment and its own housing stock, it is anxious that owner-occupiers should take up the special repair and improvement grants announced by the Government last year.

To help encourage house owners, Tarmac's contract housing division, under Mr Peter Tonkinson, has developed a "show-house" on the fringe of Wolverhampton's housing action area.

Taking a typical small Edwardian terraced house, Tarmac, with its 15 years' public sector renovation experience, has completely refurbished the property to a high standard. As Mr Tonkinson says, the house has been done up to show owners what can be done while keeping costs within reasonable limits.

The company can offer a complete, yet flexible, package of consultation, design, construction and financing (the latter through the Midshires). At the moment the scheme is helped by the availability of improvement grants of up to 90 per cent of the cost, with a £8,500 ceiling.

For costs over the limit, the Midshires is on hand to top up with additional mortgages. The society and Tarmac both have experts to help with filling in the grant application forms to ensure that every penny available is claimed.

Although the package has been aimed initially at owner-occupiers, both Tarmac and Midshires will talk to prospective buyers for whom taking on a run down property is the only way of getting on to the housing ladder.

It is this part of the scheme which could have interesting ramifications, for you can discuss the purchase and renovation of a house with a building society in tune with your needs, almost under one roof.

The buyer is happy because he or she can buy the house and have all the work undertaken within the one simple financing package. The building society is happy because the work is being undertaken by a reputable company and the builder is happy because he has more work.

More than 250 people have visited the show house since it opened a fortnight ago, and Mr Tonkinson says they have been from a very wide area.

Renovating a house along the lines of the show house would cost around £10,000, a fair proportion of which can be retrieved in grants, depending on the area.

Mr George Taylor, of the Midshires, said this week that people were being encouraged to spend the maximum amount of money to ensure the job was done properly. The society has earmarked about £5m for the pilot scheme and is confident of spending every penny.

Mr Taylor said the average renovation cost was about £10,000, although, because of grants, houseowners are having to increase their mortgages by only as little as £2,500.

Both the Mid-shires and Tarmac would like to see the package extended to other areas, either by them or other building firms and societies. There has always been a need for this type of service, although it will probably be some time before you walk into your local building society and receive all the guidance you need to start a big renovation.

There is always the fear that large builders may muscle in on the traditional area of the small contracting firm. But as Mr Malcolm Fordy, president of the National Federation of Building Trades Employers, said this week: "Combined building and financial packages of this kind are an ideal way for builders, small and large, to help householders make the most of the investment value of their home."

On sale in the Cotswolds

RESTRICTED

(mw)

FROM: MISS M O'MARA

DATE:9 February 1983

Mr Kerr
Miss O'Mara
Miss Rutter
Miss Young
Mr Brazier
Mr Lawrence
Mr Visconti
Mrs Willis
Miss Taylor
Mr Gieve
Miss Swift
Mr Donnelly
Mr Kwiecinski
Mr Harrison
Miss Pollock
Mr J Williams
Mr Bush
Mrs Dunn
Mr Hudson
Mr Milner
Mr Ridley
Mr French
Mr Harris

Mr Kemp
Mr Allen
Mr Norgrove
Mr Corcoran
Mr Collins
Mr Hall
Mr Monaghan
Mr Page
Mr Macrae
Miss Edwards
Mr Haydon
Mr T A A Hart
Mr Moore
Mr Martin
Mr Lavelle
Mr Graham
Mr Salveson
Mr Stubbington
Mr Collinson
Mr Hunter

Mr Chambers
Mr Batchelor
Mr Bobsin
Mr Carpenter
Mr Renton

PS/Inland Revenue

PS/Customs & Excise

BUDGET AIDE MEMOIRE

CHANCELLOR'S OFFICE TIMETABLE

I attach a second draft of this year's Budget Aide Memoire.

2. I should be grateful if copy recipients would check through this and let me know of any further errors or omissions by <u>close of play on Friday 11 February</u>. The Annex will be circulated separately.

MOM

MISS M O'MARA

BUDGET 1983: CHANCELLOR'S OFFICE TIMETABLE

Total number of papers distributed under these arrangements (See Annex)

	Private Office	CRU	Parliamentary Section
Speech	219	360	Mr Salveson will make his own arrangements
Snapshot	94	460	
Resolutions	41	-	
FSBR	123	310	
Command Papers	124	290	
Press Notices	73	475 (Tsy) 355 (Non Tsy)	
Brief	8	235	

Code

JK	John Kerr	(5728)
MOM	Margaret O'Mara	(5418)
JR	Jill Rutter	(5457)
KB	Ken Brazier	(5597)
NL	Nigel Lawrence	(5512)
MV	Marco Visconti	(3910)
DY	Donna Young	(5487)
LW	Lesley Willis	(4262)
PT	Pat Taylor	(3836)
RC	Ron Carpenter	(3327)
AB	Tony Batchelor	(7278)
PK	Peter Kemp	(3016)
MH	Martin Hall	(3443)
JP	John Page	(7616)
FM	Frank Martin	(7393)
BC	Barry Collins	(5514)
AJS	John Salveson	(4749)
TS	Tim Stubbington	(5532)
JG	John Graham	(6160)
CU	Central Unit	(3942)
GH	George Haydon	(7565)

Distribution: (Further copies are available from Ken Brazier

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Miss J Rutter
Mr K Brazier
Mr N Lawrence
Mr M Visconti
Miss D Young
Mrs L Willis
Miss P Taylor

Other Private Offices, &c.

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Miss J Swift
Mr M Donnelly
Mr E Kwiecinski
Mr C D Harrison
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Mr H Bush
Mrs R Dunn
Mr Hudson
Mr J Milner
Mr Williams
Mr A Ridley
Mr D French
Mr R Harris
PS/Customs & Excise
PS/Inland Revenue
Mr T Renton MP (HOC)

Central Unit/EB

Mr Kemp
Mr Allen
Mr Norgrove
Mr Corcoran
Mr Collins

Parliamentary Section

Mr Salveson
Mr Stubbington

OF

Mr Lavelle (Item 26)
Mr Graham (Items 15 & 67)

GE

Mr Mountfield

FP

Mr Moore
Mr Martin

EO

Mr Chambers
Mr Batchelor
Mr Bobsin

IDT

Mr Hall
Mr Monaghan
Mr Page
Mr Macrae
Miss Edwards
Mr Haydon

Accounts

Mr Collinson
Mr Hunter

CHANCELLOR'S OFFICE
February 1983

PRELIMINARY

Preparation in weeks before the Budget

(1)	Arrange audience of The Queen with her Private Secretary	JR
(2)	Arrange for sufficient 5600 machines, stocks of paper and a mechanic on call to be available from Sunday.	KB/AB
(3)	Arrange for TV Broadcast, in conjunction with Chief Whip's Office.	MH
(4)	Arrange for members of FP Division (and other Private Offices as necessary) to be available to collate papers on 14 March and on Budget Day. (For Private Office and IDT as well)	JR/FM
(5)	Submit publicity arrangements to Chancellor	MH
(6)	Make arrangements for providing Press Gallery, P.A., P.A. Newsroom and Reuters with Speech section by section.	JP
(7)	Send off letters establishing arrangements for release of Resolutions, FSBR and Command papers to MPs at end of speech. (Drafts provided by AJS.)	AJS/KB
(8)	CU in consultation with AJS circulate note commissioning press notices from Treasury and Revenue Departments. JR writes to Private Offices in other Departments asking whether they intend to issue any press notices on Budget Day. (EB to get advance copies of PNs) Confirm all numbers with AB.	CU/JR/AJS/ AB
(9)	Arrange for laying of White Papers, etc.	AJS
(10)	Seek Chancellor's wishes as to speakers in Debate; inform them and the Whips. Take into account Ministers' TV and Radio engagements.	JK/MH
(11)	Circulate roster of Ministers covering Treasury Bench and officials covering official box (or available on the 'phone) for Budget Statement and Debate. (Note that Ministers are required on T.V. Broadcasts.)	JR
(12)	Two weeks before Budget Day, KB writes to Vote Office about Resolutions and FSBR arrangements and GEP 1 write to Departments about detailed arrangements for production of Press Notices. CU send similar note to Treasury Divisions and Revenue Departments. KB to arrange for Cabinet Office to collect Snapshot. Inter alia, these notes will specify that the numbers of Press Notices required will be as follows:-	KB/CU

Snapshot	Total required		
	Vote Office	1,000	
	Printed Paper Office	150	
	Chancellor's Office		
	IDT	775	
	Cabinet Office	185	
Treasury PNs	Total required	1,810	(AB will check)
	Vote Office	1,000	
	Printed Paper Office	150	
	Chancellor's Office	73	
	IDT and Treasury Mailing lists	737	

Other Departments PNs

Total required		
Printed Paper Office	150	
Chancellor's Office		
Vote Office	1,000	
IDT	360	
Ch's Office	73	

(13) On 7 March reserve cars on a stand-by basis to take staff home on the night before the Budget, grouping staff by areas but ensuring that extra cars are available if necessary; also car to take MOM, JR and DY with Speech sections to House at 3.00 p.m. on Budget Day. RC

(14) Prepare addressed envelopes or labels for those listed below under Items 15,47,50,53,57 and 71 LW

(15) Make arrangements for those entitled to collect copies of Speech, Snapshot, FSBR, Resolution and other Command papers from Enquiry Room after the Chancellor has sat down, viz:- MV

(a) NEDO (211 3000))Each to have 3 copies of Speech,
CBI (379 7400))Snapshot, FSBR, Command Papers and
TUC (636 4030))any Press Notices
Conservative Research
Dept (222 9000)

(b) MV to arrange with AT in EF2 Division (M.H.) to collect for issue to Australian and New Zealand High Commissions, EEC Diplomatic Missions, and Mr Newman, US Embassy, Canadian High Commission and Japanese Embassy set of 1 copy of each of the above documents (14 sets in all)

(c) MV to arrange with Mr Corcoran for him to pick up 1 copy each of Speech, Snapshot, FSBR, other Command Papers and Press Notices for Mr Limon, Clerk to the Treasury and Civil Service Committee

(16) Arrange with Parliamentary Counsel's Office, IR, C&E, Treasury Divisions and other Departments for correct number of copies of Resolutions, Command Papers and any Press Notices to be delivered to KB and AB in CRU as appropriate (see Annex) by close of play on Friday 11 March at the latest. Also arrange with Central Unit for correct number of copies of FSBR to be delivered by 10.00 a.m. on Tuesday 15 March. KB/AB

(17)	<u>Thursday 10 March</u> Inform IDT of likely length of Speech.	JK/JP
(18)	<u>Friday 11 March</u> Send copy of latest draft of Speech to PM if Chancellor wishes.	JK
(19)	Submit draft Snapshot to Chancellor's Office	EB/IDT
(20)	EB to receive Chancellor's comments on first draft of Brief. Chancellor's Office to receive 2 copies of latest version for weekend box.	BC/JR
(21)	Prepare summary for The Queen (may also be used at Budget Cabinet). Submit to Chancellor's Office.	PK/CU
(22)	Submit final draft of TV speech if available.	Mr French/ MH
(23)	Check with JK whether any other Ministers or Officials are to receive advance copies of Budget documents other than those at Annex.	KB

<u>SATURDAY-MONDAY</u>

<u>Saturday 12 March</u>

(24)	Second book proofs of FSBR received by Treasury Accountant, 10.00 a.m.	TH
(25)	Work as necessary to produce final version of Speech.	JK
(26)	Chancellor: photo-call in Surrey.	JP
(27)	Type Snapshot on A4 paper.	EB
(28)	Check and make corrections in Chancellor's speaking copy, section by section	Chancellor's Office
(29)	Roll off and collate 37 copies of speech for: - Private Secretaries (3) - EB (3 copies) - to check Brief, Snapshot and Guidance telegrams - Mr Lavelle - to prepare a telegram to selected overseas Finance Ministers etc. for issue later in the week. - Governor, Treasury Ministers (6) - Permanent Secretaries (4), Deputy Secretaries (6), Mr Kemp, Mr Moore, Mr Hall, Mr Salveson, Mr Ridley, Mr French, Mr Harris, Mr Norgrove, Mr Mountfield, Mr Monger, PS/IR, PS/C&E.	PT
	Arrange with BC for EB's copies to be delivered on Saturday	KB/BC
(30)	Send speaking copy and spare to Chancellor.	JK

<u>Monday 14 March</u>

(31)	9.00 a.m. Ensure that copies circulated by hand as in item 28	KB
(32)	Chancellor's Office to receive from EB 2 copies of near-final draft of Brief and Snapshot during course of day.	BC
(33)	Confirm likely length of speech with IDT to guide radio/TV.	JK/MH

(34)	By 2 p.m. start amending speech as necessary.	LW
(35)	Check any corrections section by section.	Chancellor's Office
(36)	Chancellor due at Buckingham Palace, 6.00 p.m.	
(37)	Receive Snapshot from EB(BC) for checking.	MOM/BC
(38)	Evening - either obtain confirmation from Chancellor that Speech can be regarded as final or amend speaking copy in accordance with his instructions. Text must be finalised.	JK/LW
(39)	Final check of Snapshot before collating	MOM
(40)	Photocopy 33 copies of final text, section by section, for - Chancellor - Prime Minister - Other Treasury Ministers (5) - Officials and Advisers (21 - listed in annex) - Private Secretaries (4)	PT
(41)	Roll off 219 copies of speaking copy, section by section and 2026 copies of snapshot (White Paper)	PT/CRU

BUDGET DAY:

(42)	Ensure Chancellor stays away from Treasury (Photocall at No.11 or "walkabout" in park with Lady Howe for evening papers)	JP
(43)	10 a.m.: Budget Cabinet.	
(44)	By 11 a.m. the master copy of Speech is to be given to AB in the CRU for 420 copies to be rolled off for distribution to the Lobby and Press Gallery in House of Commons and to IDT (see Items 50 and 62). From Private Office production of Speech (219) copies) send 2 copies by hand to BC (EB Room 99/2) as soon as possible to be marked up for PA/Reuters/radio/TV). When master copy of "marked up" speech is returned to the private office, 9 copies to be made for BBC TV, (2 copies), BBC Radio, IRN, ITN, Channel 4, PA, Reuters and PA Newsroom.	AB/BC/MV
(45)	Check arrival of press notices against numbers expected (see item 12). Issue required numbers to LW and AB in accordance with list in Annex.	KB
(46)	Prepare packages as follows: (a) Press Gallery via DY (see also item 65) - 30 copies of sectioned version of Speech, in separate envelopes each marked with number of section. - 1 copy of Snapshot, with each final section (ie 30 snapshots)	NL/LW

(b) ITN, Wells Street

- 15 copies of sectioned version of Speech, in separate envelopes each marked with number of section.

- 1 unstapled Speech with sidelines and headlines for page-by-page distribution*

- 2 envelopes, each containing 1 copy of Speech, Snapshot, FSBR, Command papers and all press notices addressed to:-

  1. Sue Tinson, ITN Budget Programme
  2. Peter Hall, Editor 'Oracle' News services
  to be handed over at end of speech.

(c) BBC, TV White City

- 10 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 2 unstapled Speech with sidelines and headlines for page-by-page distribution*

- 2 separate envelopes, containing 1 copy of Speech, snapshot, FSBR, Command Papers and Press Notices, addressed to:-

  1. Producer, BBC Budget Programme
  2. James Long: BBC Economics Editor.
  and to be handed over at end of Speech.

(d) BBC Radio, Broadcasting House

- 10 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 1 unstapled copy of speech with sidelines and headlines for page-by-page distribution*

- 2 envelopes each containing a copy of the Speech, snapshot, FSBR, Command Papers and all press notices addressed to:-

  1. Dominick Harrod
  BBC Economics Correspondent
  2. Producer, PM Budget Special
  NB: These envelopes to be handed over at end of Chancellor's speech

(e) Independent Radio News

- 4 copies of sectioned version of speech, in separate envelopes and marked with number of section

- 1 unstapled speech with sidelines and headlines for page-by-page distribution*

- 1 envelope enclosing a copy of the Speech, Snapshot, FSBR, Command papers and all press notices, addressed to:-

  Mr Douglas Moffit,
  Economic Editor, LBC

  NB: This envelope to be handed over at end of Chancellor's speech

(f) Channel 4

- 1 unstapled Speech with sidelines and headlines for page-by-page distribution.

- 1 envelope enclosing a copy of the speech snapshot, FSBR, Command Papers and all press notices addressed to: Miss Sarah Hogg, Economics Editor.

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* 7 'marked-up' copies of Speech (unstapled) are to be provided by Mr Lawrence to Mrs L Willis by 2.30 p.m. (Mr Lawrence will also supply 2 copies to MH for P.A. and Reuters) NL/KB/MH

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(47) Check arrival in Chancellor's Office of 41 copies of Resolutions from Parliamentary Counsel's Office, 123 copies of FSBR from Treasury Accountant, 124 copies of Command papers and 8 Briefs (From EB - first 3 to JK, JR and MOM) KB/NL/MV/BC

(48) Issue 123 copies of FSBR, 124 copies of Command papers, 41 copies of Resolutions and 5 (as soon as available) copies of Brief to LW for distribution as in Annex. (Other 3 Briefs to JK, MOM and JR) KB/LW

(49) CRU pack up documents indicated in parcels addressed as below. (Speeches, etc. should be packed separately in bulk. Copies of Speech are not provided by Chancellor's Office):- RC/MH

50 copies of Speech and 60 copies of Snapshot to Home Press Gallery, House of Commons

45 copies of Speech, 60 copies of FSBR and Command Papers and 60 copies of snapshot and Press Notices to MH (for Lobby Conference)

10 copies of speech and 10 copies of snapshot in separate envelope to "the Secretary, Press Gallery", marked "for OVERSEAS CORRESPONDENTS".

The above parcels should then be packed for transmission to the House (see item 63)

(50) Start collation of full text of Speech with index and checklist Clerks and Typists

(51) Before 12.00: Copy of speech to AJS who will let Speaker's Private Secretary know roughly how long Speech will last. AJS

(52) By 12.30 p.m.: Make up and despatch SECRET envelopes containing

1 copy each of Speech, FSBR, Resolutions, Command Papers to:- LW

Prime Minister
Chief Secretary
Financial Secretary
Economic Secretary
Ministers of State
Officials, etc. (See Annex for list)

RC to provide extr[a] messenger

Speaker (via Mr Salveson)
1 Set of above to Mr Corcoran (for Northern Ireland Office)
Plus any other Ministers or officials to whom the issue of advance copies may be authorised by JK (N.B. This would mean a commensur ate increase in the number of copies needed)

(53) At 12.30 p.m.: SECRET envelopes containing Speech, Snapshot and FSBR, to be given to messengers from:-

- Customs & Excise (6 copies of each) - including 1 to Isle of Man
- Inland Revenue (6 copies of each)
- Bank of England (6 copies of each plus 6 copies of press notices)

(KB to arrange that these messengers come to the Chancellor's messenger s' lobby) KB

(54) At 12.30 p.m.: 18 copies of Speech, Snapshot, FSBR, Command Papers and Press Notices to be issued to MH for allocation to members of IDT NL/BC
(Copies of Brief will be send direct to MH by EB and monitoring teams.)

(55) 1 set each of Speech, Snapshot, FSBR, Resolutions, Command Papers and Press Notices to be given to JK, MOM and JR, and of speech only to DY LW

(56) 1 set each of Speech, FSBR, and Command Papers in sealed envelopes addressed to: LW

Leader of the House of Commons
Mr Biffen

Leader of the House of Lords
Lady Young

Leader of the Opposition (Mr Foot)
Shadow Chancellor (Mr Shore)
Chancellor's PPS (Mr Renton)
Mr Christopher (IRSF) - plus Press Notices
Sir William Clark (Chairman of Conservative Finance Committee)
Mr Joel Barnett, Chairman PAC
Mr Edward Du Cann, Chairman TCSC
Mr A Goodlad (Treasury Whip)

to be given to DY to take to Mr Renton's room, House of Commons (to be given out after Speech) (JR to collect after Chancellor has sat down).

(57) Make up Budget Box using Gladstone Box for Chancellor with speaking copy of Speech, and copies of FSBR, Resolutions, Snapshot, Command Papers and Press Notices. JK

Budget Day: After lunch

(58) Envelope copies of Speeches for distribution to Members of the Cabinet (other than PM, Chancellor of the Duchy, Chief Secretary and Lord President) to be despatched after the Chancellor has sat down. (For named Ministers etc. see Item 54) — Chancellor's Office

(59) DY takes 30 copies of sectioned versions of Speech and snapshot to Chancellor's room at the House for IDT (for release during Speech). (See also item 46(a)) — DY

(60) Arrange with Cabinet Office collection of 185 copies of the Snapshot. — AJS/AB

(61) AJS arranges for copy of Speech to be taken to Speaker's Office
JR to arrange for copy to reach official reporters. — AJS/JR

(62) After Speech has started Security Guard and Messengers take labelled parcels containing copies of full text of Speech and other documents as listed in Item 47 to Mr Renton's Room at House. They will guard them until end of Speech and then take them under IDT guidance to Press Gallery, Lobby and Overseas Press Conferences. — RC

(63) After Speech has started allow access to Committee Section to represent atives of IDT who will pack:

- 320 copies of Speech (supplied by CRU)
- 300 copies of FSBR and 270 of other Command Papers.
- 290 copies of other Depts'. Budget Press Notices
- 460 copies of Snapshot
- 440 copies of Tsy Press Notices

in envelopes for Press and other callers to collect — RC

(64) Ensure all officials covering the Official Box have copies of the brief. — DY/BC

(65) During the Budget Speech: The sections will be released to the Press Gallery, TV, radio and IDT monitoring teams by the following drill:

(a) In the Press Gallery, Mr Hall will release on a page-by-page basis to the Press Association and Reuters the specially side-lined copies of the Speech (provided direct by Mr Lawrence). Mr Hall will also authorise the release of the 30 sectioned copies of the Speech by the member of IDT on duty outside the Press Gallery.

(b) In the 5 broadcasting studios (ITN, BBC-TV, BBC radio, PA Newsroom and IRN) the page-by-page unstapled copy of the Speech and the sectioned copies of the Speech will be released when the Treasury official hears (from the Radio 4 live speech broadcast) that the page/section has been completed.

(66) During Speech: Note changes from typed version. — JR

At end of Speech

(67) Give 7 sets of Speech, etc. to Mr Renton from official box and arrange for set to go to Leader or Deputy Leader of the House of Lords (see Item 56) — JR

(68) Despatch by hand copies of Speech to other members of Cabinet (see Item 58) KB

(69) On instructions from DY, Security Guard (in PPS's Room) will hand over complete copies of Speech, etc. to IDT (see Items 48 and 61) DY

(70) Release copies of Speech and Budget Report for Cabinet Ministers, NEDO, CBI, TUC and Conservative Research Department to Messengers to take to Enquiry Room; also release copies for Australian and New Zealand High Commissions etc. as at Item 15 to EF2 Division. MV/JG

(71) Send copies as follows:- MV

	Speech and Brief	Snapshot Resolution, Press Notices	FSBR	Cmd Papers
Mr J Anson British Embassy Washington	1	3	3	3
Mr R Butt UKREP Brussels	1	3	4	4

Send 1 copy of each of above papers to:
Director of British Information Services, NY

Mr M C S Weston, British Embassy, Paris. BY 6.00 p.m. Bag

(Copies obtained from LW: See Item 44)

(72) Give 8 copies of Speech to TS for the Libraries of the House of Commons and the House of Lords. TS

CHANCELLOR'S OFFICE

CONFIDENTIAL

Bup for Caring up

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

FROM: R G LUSK

Date: 10 February 1983

PS/CHIEF SECRETARY

DHSS BUDGET PROPOSALS

... We attach a note on Mr Fowler's proposal (his letter of 4 February) for tax relief to the self-employed on their national insurance contributions.

R G LUSK

cc ~~PS~~/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Moore
Ms Seammen
Mr Robson
Mr Martin
Mr Green
Mr Isaac
Mr Battishill
Mr Blythe
Mr Spence
Mr Lusk
Miss Rhodes
Mr Kuczys
PS/IR

DHSS (MR FOWLER) BUDGET PROPOSAL : TAX RELIEF FOR THE SELF-EMPLOYED IN RESPECT OF PART OF THEIR CLASS 2 AND CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

1. PROPOSAL

The proposal is that the self-employed should have tax relief on a part of their contributions equivalent to the employer's share of Class 1 contributions.

2. PRESENT TAX POSITION

The self-employed pay a flat-rate national insurance contribution (Class 2) and an earnings-related contribution (Class 4). Neither of these contributions is deductible for tax purposes. The Class 1 contribution for employed persons is split between employee (primary part) and employer (secondary part). The employer's part is an allowable expense for tax; the employee gets no relief for his contribution.

CASE AGAINST GIVING RELIEF

3. Tax Principle

Comparison with the tax treatment of the employer's share is not apt. The employer gets relief for the share he pays on behalf of his employees because it is a legitimate business expense which meets the "wholly and exclusively" business purpose tax test. It is as much a cost of earning his profits as are, the costs of, for example, wages and rents. The contribution secures an insurance benefit for the employee not the employer. By contrast the contributions of the self-employed are not an expense of the business but are a personal expense. The self-employed man is contributing to the cost of the benefits to which he himself will be entitled. The appropriate comparison is with the employee who does not get tax relief on the part of the Class 1 contribution he meets out of his own pocket.

4. Cost

The cost would be of the order of £m100 in a full year, (about £m200 if relief was given on the whole of the self-employed contribution). Once the principle is yielded it would be difficult to resist extending the relief to employees for their contributions. The cost then becomes very substantial - in excess of £2½ billion in a full year.

A case can be argued for giving tax relief on NI contributions both to the self-employed and employees alike. Indeed that was the position some years ago when both did have a deduction for NIC - from 1961 to 1965 it was a flat-rate allowance. This was withdrawn in 1965 partly in the interests of simplification at which time personal allowances were increased explicitly to compensate for the loss of the tax deduction.

5. <u>Administration</u>

Class 4 contributions are assessed and collected along with income tax on business profits and to allow part of the contribution as tax deductible would complicate the system. If Ministers wished to reduce the burden of NIC on the self-employed an alternative way would be simply to reduce the rate of contribution for them.

6. The proposal is a hardy annual. Much of the pressure for tax relief comes from the National Federation of the Self-Employed and Small Businesses Ltd which makes no secret of its dislike of the earnings related contribution which does not give entitlement to any benefits. Mr Fowler wants a tax relief as a sweetener to the self-employed largely because the DHSS review has failed to come up with anything.

7. We advise against the proposal. Also relevant to NICIT on which the Financial Secretary has sent officials a paper for discussion after the Budget.

Official responsible : Mr Lusk

PRIME MINISTER

UPRATING OF PENSIONS AND OTHER BENEFITS

Following up our discussion yesterday, I attach a note setting out the position. It summarises the present arrangements for uprating, the case for changing back to the historic method, and what the practical and financial implications of this would be.

The main points that the note brings out are:

* We can only get away from the recurrent problems of overshoot and shortfall by moving to the historic method.
* If we do move to the historic method, we have an acceptable and defensible position on the future uprating of pensions.
* If we do not take back the overshoot from the November 1982 uprating, we should ensure that at the November 1983 uprating pensioners and others are not worse off under the historic method than they would be under the forecast method.
* It should be possible to accommodate the change to the historic method within the overall public expenditure figures, with perhaps no more cost to the Contingency Reserve than if we kept to the forecast method.
* Given that accommodation within the overall public expenditure figures, there ought not to be any backwash on to the Government's overall economic strategy and market confidence in that strategy.

The other factor of course is the position in Parliament. I know that the Chief Whip is anxious about the position. We would not want to get into a situation where we had made significant concessions to enable the primary legislation to get through and then lose all or part of that legislation. In that case we would lose out both ways

11 February 1983 N F

UPRATING OF PENSIONS AND OTHER BENEFITS

Present arrangements

1. Pensions and other benefits are currently uprated by the forecast method. In fact, this is not an accurate description, since the uprating is intended to reflect the rise in prices over the previous 12 months not the rise over the following 12 months. Because of the time needed to carry out the uprating, the estimate of price rises over the previous 12 months which determines the amount of the uprating is partly based on the actual price rise and partly on the expected price rise over the latter part of the period. Last year's forecast was based on what was known at the March 1982 Budget. The latest date to which we can delay making a forecast is mid-June, ie using the May RPI.

2. Initially, therefore, the element of forecast in the current method of uprating means that the uprating can be too high (overshoot) or too low (shortfall). Overshoots and shortfalls both produce difficulties for the Government of the day. There is no way of entirely resolving these difficulties. In only two years (1977 and 1979) since the forecast method began has the Government got it right.

Historic method

3. By contrast, the historic method avoids the controversy and uncertainty that are inherent in the forecast method. Pensioners know that the uprating reflects the actual price rises. The Government can budget more accurately for the cost of the uprating: no allowance has to be made for possible overshoot or shortfall.

4. There are two points to be borne in mind if we revert to the historic ~~forecast~~ method:

* For operational reasons, we should (at present) have to use the May to May RPI figures which come out in June. We shall therefore have to convince pensioners that the certainty of the historic method makes it worthwhile not being able to take account of price rises between May and November in that year's uprating. The obvious answer here is that the increases would, of course, be reflected in the following year's uprating. But not v. satisfactory

* We need to ensure that in the year of the changeover, pensioners do not get less than they would have got under the forecast method. We do not want to be accused of saving money at their expense, even though of course they would be "compensated" in the following year when the uprating reflected price rises between May and November.

Many will lose out - unless P16 is [illegible]

5. If we reverted to the historic method in 1983 we should be able to avoid any danger of pensioners losing out by leaving the 2.7 per cent overshoot on the 1982 uprating. This would provide a substantial cushion against rising prices between May and November, sufficient, on present forecasts, to leave pensioners and other beneficiaries with an overall bonus. Pre-budget estimates suggest that the May - May

Nothing

inflation rate will be between 4½ per cent and 5½ per cent while the November - November rate will be between 6 per cent and 7 per cent. If, conservatively, we take the difference as 1 per cent, this would leave a bonus of 1.7 per cent.

Implications of reverting to the historic method

6. For pensioners and other beneficiaries. The effect on the 1983 uprating depends on how much of the overshoot would remain a bonus. The amount by which November to November price rises exceed May to May price rises will reduce that bonus. The following table shows the comparative effects on the 1983 uprating of retirement pension and child benefit. There would be similar effects on other benefits, although for supplementary benefit the overshoot was only 2 per cent not 2.7 per cent.

Pension Rate

November 1982 rate	£32.85
November 1983 rate with 3 per cent uprating (ie MISC 88 recommendation - 5 per cent price rise, 2 per cent adjustment, 0.7 per cent bonus)	£33.85
November 1983 rate with 4 per cent uprating (ie MISC 88 recommendation, but November - November price rise is 6 per cent, not 5 per cent)	£34.15
November 1983 rate with 5 per cent uprating (ie make no adjustment, revert to historic method, May to May price rise is 5 per cent)	£34.50
6 per cent	34.80

Child Benefit Rate

November 1982 rate	£05.85
November 1983 rate with 3 per cent uprating	£06.05
November 1983 rate with 4 per cent uprating	£06.10
November 1983 rate with 5 per cent uprating	£06.15
November 1983 rate at April 1979 value restored, assuming 5 per cent price rise November to November	£06.40

Note

To restore the April 1979 rate of child benefit would require a rate of £6.40, assuming prices rise by 5 per cent between November 1982 and November 1983. The extra cost of increasing child benefit from £6.15 to £6.40 would be £45 million in 1983/84 and £130 million in 1984/85. If, however, prices between November 1982 and November 1983 go up by 6 per cent as assumed in paragraph 5 above we should require a rate of £6.45. The extra cost of increasing the rate to £6.45 would be £55 million in 1983/84 and £155 million in 1984/85.

. For public expenditure. The appendix shows that the most likely outcome is that the changeover, including no adjustment for overshoot, could be accommodated within overall public expenditure totals and without making any extra call on the Contingency Reserve other than that needed under the forecast method.

8. For longer term public expenditure, it is irrelevant whether we use the historic or forecast method since, over a period of years, both are intended to achieve the same objective. If we are to make any savings from the uprating of benefits, this requires a political decision. We do not limit our freedom of manoeuvre by moving to the historic method. Indeed, the historic method has the advantage of avoiding fortuitous gains through overshoot.

9. For the Government's economic strategy. There is no reason why the change should have any effect, provided the overall public expenditure totals are maintained.

10. If it is argued the change means the Government are concerned by rising prices, the answer is that the effect of this would have been seen in the forecast method anyway. The reversion to the historic method was not made for that reason, or to save money but simply because it was a more satisfactory method of uprating.

11. For social security policy. The change will mean that the Government has a defensible long-term position on uprating policy. For example, we could say:

> "We have legislated so that pensions and other benefits go up in line with the known movement of prices. This means we have no more worries about overshoot and shortfall, as we now have under the forecast method of uprating introduced by the previous Government. With the backing of a satisfactory method of uprating we shall continue during the next Parliament to protect the value of pensions and other benefits subject only to overriding economic circumstances - a qualification which must apply to any Government policy in any area."

12. For National Insurance Contributions. If there were no adjustment (the last contributions review assumed, in effect, a 1.7 per cent adjustment) that would add nearly ½ per cent to the contribution rate. But under the forecast method, if November to November prices went up by 6 per cent, not 5 per cent, more than half of that increase would be needed anyway.

13. For public service pensions. As things stand, these go up in line with the additional (earnings related) component of the retirement pension. The Social Services Select Committee recommended full adjustment of 2.7 per cent.

14. If we revert to the historic method, but do not provide any cushion by allowing the overshoot to continue, public service pensioners would be worse off than under the forecast method if, as assumed, November to November price rises are 1 per cent higher than May to May. They could be left in a neutral position, ie not worse off, if 1 per cent of the overshoot were left.

15. A one-off adjustment of the public service pension uprating, whether of 2.7 per cent or 1.7 per cent, could be simply provided for in the Uprating Bill we should need for reverting to the historic method.

ANNEX

EFFECT ON PUBLIC EXPENDITURE

	1983/84 (part year)	1984/85 (full year)
Add		
1. Cost of 5 per cent uprating of all benefits in November 1983 instead of 3 per cent uprating (ie not making a 2 per cent adjustment; 0.7 per cent is already a bonus)	+ 215	+ 596
2. Cost of restoring balance of 5 per cent abatement of unemployment benefit (ie 2.3 per cent, after allowing for 2.7 per cent overshoot)	+ 10	+ 27
3. Cost of increasing capital limit for single payment of supplementary benefit from £300 to £500	+ 1	+ 3
	+ 226	+ 626
Deduct		
4. Package of benefit improvements arising from MISC 88 (details overleaf)	- 35	- 101
5. Possible Budget concessions (details overleaf)	- 72	- 200
6. Extra cost of 1983 uprating under forecast method if November to November price rises exceed May to May prices by 10 per cent	- 107	- 298
7. Partial adjustment (1.7 per cent) of public service pensions	- 19	- 53
	- 233	- 652
	- 7	- 26

Is this m'n

Notes

1. The full year position in 1984/85 would be similar in subsequent years, after adjustment for the appropriate public expenditure assumptions.

2. MISC 88 package of benefit improvements	1983/84	1984/85 (2)
Restore 5 per cent abatement of unemployment benefit	21.8	59.5
Supplementary benefit single payments limit (£300 to £500) and price protection	1.1	3.2
Supplementary benefit capital cut-off (£2,500 to £3,000) and price protection	2.2	7.9
War Pensioners Mobility Supplement	0.2	1.8
2 per cent real increase in Mobility Allowance	2.0	6.0
Real increases in Therapeutic Earnings Limit for incapacity benefit	0.1	0.3
Remove the invalidity trap (1)	7.4	22.6
	34.8	101.3
	(35 rounded)	(101 rounded)

Notes

(1) Cost in 1984/85 would be met from unallocated housing benefit savings.

(2) Treasury would have to find £12.7 million new money for 1984/85.

3. Possible Budget concessions

(1)	Restore April 1974 value of child benefit	70	195
(2)	Real increase in one parent benefit in line with percentage increase in child benefit	2	5
		72	200

Both improvements require new money to the amounts shown which Treasury would have to find.

CONFIDENTIAL

FROM: C D HARRISON
DATE: 11 FEBRUARY 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (R)
PS/Minister of State (C)
Mr Pestell
Mr Culpin

EMPTY PREMISES RATING

The Economic Secretary has seen the papers on the rating of empty premises, and shares the Chancellor's concern entirely. He has commented that:-

> "This whole system reeks to me of a punishment invented for a crime which was becoming obsolete, penalising those for whom it was never intended - a familiar story."

CDH

C D HARRISON

CONFIDENTIAL

FROM: P C DIGGLE
DATE: 11.2.83

MNe attached
Rc 11/2

1. MR CULPIN
2. CHIEF SECRETARY

cc Chancellor
PS/FST
PS/EST
PS/MST(C)
PS/MST(R)
Mr Pestell
Mr Moore
Mr Lovell
PS/IR
Mr Ridley

EMPTY PROPERTY RATING

You are to meet Mr King and Mr Jenkin to discuss Mr Jenkin's letter of 31 January. A meeting has been arranged for 23 February but may be brought forward to allow time for any decision to be announced in the budget.

2. This point was remitted by MISC79 (the second item of the meeting of 22 December). The committee had initially rejected further relief of empty property in the summer of 1982, along with various other measures such as industrial derating. But following pressure from, among others, the CBI, Mr Jenkin felt compelled to raise it again. The Chancellor has also suggested that any concession might form part of the industrial package in the Budget.

3. I understand from Mr Jenkin's officials that this is very much his own personal crusade. They have advised him that the case for relief is not strong. They see the stories of de-roofing of factories as a symptom of the recession. They believe that the problem is likely to solve itself over the next year or so.

BACKGROUND

4. There is no reason in principle why empty property should not attract rates. While vacant properties do not need the full range of local services, they may still (at least potentially) benefit from the police and fire services, and probably others as well. There is also a case for continuing to tax ownership of property as a disincentive to allowing it to remain vacant.

5. In general, rateable values do not fall if the property is empty (there are exceptions - like steel mills). Rating valuation reflects the actual physical condition of the property, neglecting any minor works which might be required to make it habitable. In general only major structural impediments to occupation can lower the rateable value.

6. This is why some owners have resorted to deroofing their factories. It seems rather unlikely that anyone would resort to so drastic a step unless it was intended to demolish the factory later. Deroofing deteriorates the property quickly and generally makes it difficult and expensive to make it usable again. We believe there are probably less irrevocable ways of lowering rateable value. Boarding up windows would not be enough, but contravening the fire regulations might, for instance.

HISTORY

7. Until 1981, local authorities were obliged to exempt non-domestic properties from rates for the first three months after their occupants had left. After that local authorities were free to levy rates at any level up to 100%. The RSG was distributed on the assumption that local authorities levied the maximum rate, to provide an incentive to maximise rate income. In addition, following the Centre Point scandal of 1975, there was a commercial property surcharge.

8. The rating of empty property was reviewed in 1980 because of pressure very similar to that Mr Jenkin is concerned about now. Ministers decided then that owners of empty property should still be expected to pay some rates, for the reasons in paragraph 4. But the rules were made a bit more generous.

9. A new regime was introduced from 1981-82. It prevails now. It involves:

(i) a three month grace period (as before);

(ii) a 50% ceiling on rates on empty non-domestic property;

(iii) local discretion about the actual rate levied on empty property (as before);

(iv) RSG distributed on the assumption that all local authorities charge the statutory maximum (ii) but neglecting (i) because of the difficulty of forecasting.

10. When the new arrangements were introduced, in 1981-82, no extra money was injected into the RSG to compensate local authorities. It was just one of the many factors taken into account in deciding the level of AEG. In effect, it imposed a slight further squeeze because a bit less of the grant paid to local authorities was spending money.

THE PROPOSAL

11. Mr Jenkin's letter does not ask for a particular package of measures. He just says that he would like any relief to apply from 1983-84.

12. I understand from his officials that he will probably most want to lower statutory maximum for empty property rates (ii). He may well want to extend the grace period (i) too, perhaps to as long as a year from vacation.

13. Any relief will cost money. Somebody will have to pay for it: either the national taxpayer or the local ratepayer or (just possibly) local councils, who might spend a bit less on services. In effect the relief would be a subsidy to owners of unoccupied property. The case for relief is an industrial policy one. The local government finance arguments are all against it.

14. If any relief is to be given, there are four points to consider:

(a) which relief;

(b) who should pay for it;

(c) the scope of relief;

(d) when it should be introduced.

15. If the case for more relief is felt pressing, there are arguments for both kinds(a) - extending the grace period (i) or lowering the limit (ii). Since in fact we don't compensate local authorities for their loss of rate income during the grace period, it is tempting to suggest going for that. But we could hardly get away without some compensation, especially if the extension were significant. It might be difficult to avoid conceding a specific grant, perhaps explicitly additional to 'normal' AEG.

16. Extending the grace period would also encourage evasion. Unscrupulous owners could reoccupy property so as to qualify for a further grace period each time. There is an anti avoidance mechanism: a statutory minimum reoccupation period before another grace period can start. But this can only be altered in primary legislation.

17. So it would probably be better to go for a lower ceiling (ii). Costs are speculative: on the strength of 1981 data, DOE reckon about £50m for lowering the limit from 50% to 20%. More up to date information should be available in another month or so. Noone seems to know whether it will show there is more property empty, or less. We would guess more, given the recession, so the cost could be higher than DOE's estimates.

18. From the point of view of local government finance, it is desirable that the cost of the relief (b) should not be borne by the central government through RSG. We have no way of knowing which authorities would give more than the statutory relief, so the deadweight cost of the scheme could not be eliminated from the distribution of any extra grant. So some local authorities would get a bonus. The leakage should be reflected in lower rates (in 1984-85) but some would no doubt be used to finance extra current expenditure in 1983-84.

19. It should be possible to restrict the scope (c) - and therefore the cost (b) - of any concession by prescribing different maximum rates for industry and commerce. It might even be possible to focus the relief precisely if the need could be demonstrated. Unfortunately no information on the distribution of empty properties among types of hereditament seems to exist, but complaint is loudest from industry. Some local authorities already give preferential treatment to empty factories.

20. The relief might also be explicitly temporary. There are sound rating policy reasons for not damaging the tax base too far (paragraph 4). Part of the relief (say back to the 1981-82 level) might be unwound when the economy picks up.

21. It would be easiest to make local authorities pay for the relief by redistributing the RSG, as was done in 1981-82 (paragraph 9). That would be fine for 1984-85 (d), but it is already too late for 1983-84. The RSG settlement has already been announced; and local authorities will have set their rates by the time of the budget. They will not be able to raise supplementary rates to meet any extra cost, so introducing any new relief without new money would mean cuts in services or drawing on balances. That would be a difficult line to maintain. Mr King will be writing to make this point before the meeting.

LINE TO TAKE

22. You might argue:

(i) the case for relief seems weak (cf paragraph 4); and about a half of local authorities give discretionary relief anyway;

(ii) giving relief in 1983-84 would either penalise local authorities or risk higher public expenditure (paragraph 14);

(iii) if any relief were to begin in 1984-85, it could be reflected in the blockgrant, but there should be no additional AEG. (No one would ever be able to prove that AEG had not been increased);

(iv) a lower ceiling - say 25% - would be better than extending the grace period because of the risk of evasion (paragraph 16);

(v) any relief should be explicitly temporary, until the economy picks up;

(vi) it would be best to limit relief to the classes of property most in need - presumably manufacturing industry.

P C Diggle

P C DIGGLE

CONFIDENTIAL

R1

FROM: F CASSELL
DATE: 11 February 1983

1. MR MIDDLETON 11/2

2. CHANCELLOR OF THE EXCHEQUER

cc Mr Byatt
Mr Moore
Mr Kemp
Mr Barber
Mr Griffiths
Mr Powell

<u>Copies attached for:</u>

Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)

Sir D Wass
Mr Burns
Mr Ridley
PS/Customs

I agree with this advice. The analysis is in line with that submitted by Mr Burns and myself last year. And indeed the situation is very similar. There must be a fall in oil prices before the Budget. Beyond that we cannot be sure how great the downside risk is or what accompanying changes there might be in the exchange rate. Last years experience shows that judgements about revenue made in these circumstances can go wrong in both directions. There is a case for a more powerful regulator on hydrocarbons which you will wish to consider. But it would be dangerous to create the presumption that this is necessarily the right response to a fall in prices (or the reverse). And there is always the risk of appearing to be more certain about a further fall in the oil price than we have led people to believe ...

LOWER OIL PRICES: POSSIBLE FISCAL ACTION

This note discusses how policy might respond if there were a sharp fall in the oil price during 1983-84 (<u>which had not been assumed in the Budget forecast</u>). This question is closely bound up with what happens to the exchange rate, since this will affect both the impact of the lower oil price on Government revenues and also its effects on inflation etc. The first part of the note looks at the implications of a lower oil price for fiscal policy. The second part (paras 8-12), by FP, reviews the powers currently available for adjusting indirect taxes by Order.

2. As recent papers have stressed, the link between the oil price and the exchange rate is highly uncertain and must become increasingly so as the scale of the movement in the oil price increases. Assuming the Government holds to its money supply policy, the relationships built into the Treasury model suggest that a fall in the oil price would be associated with only a modest fall in the exchange rate, and hence with a significant decline in revenues from the North Sea. On this assumption, a fall of, say, \$5 a barrel in the oil price would increase the PSBR by around £1¼ billion in the first year. Because of the lag in payments of North Sea taxes, the effect on 1983-84 would be less than this. It would also, of course, depend on when the fall took place. For example:-

27/2

Date of Fall in Oil Price	Effect on PSBR		
	1983-84	1984-85	£bn
1 April 1983	+£1	+£1¾	
1 July	+£¾	+£1½	
1 October	+£¼	+£1½	
1 January 1984	-	+£1¼	

3. The increase in the PSBR, however, would be associated with other changes - notably lower inflation and a sharp improvement in the finances of non-oil companies - that would reduce the private sector's demand for credit. So, unlike most increases in the PSBR, this one should not put any immediate upward pressure on money supply or interest rates.

4. There would thus be no immediate need on economic or financial grounds to take fiscal action to restore the PSBR. The situation could be different if the fall in the oil price unsettled sterling. However, the need then would probably be for monetary action - in particular higher interest rates - rather than fiscal.

5. On a rather longer view the lower oil price could call for fiscal action. This is because, while it would help inflation and output in the short term, it would in time be likely to lead to higher inflation, partly as a consequence of higher activity in the economy. It would make the path of inflation more unstable, and also raise real interest rates. There would, therefore, as was argued in last year's papers on "Fiscal Implications of Lower Oil Prices", be a case for raising taxes or cutting public expenditure if the lower oil price looked likely to persist. (This case would be increased further if the lower oil price were to necessitate an easing of the North Sea fiscal regime.)

6. The appropriate fiscal response would depend on whether the objective was to neutralise the effects of the oil price change or to reinforce its desirable effects on company incomes and inflation. If the former, higher indirect taxes would be the appropriate measure; these could be varied, inversely with the oil price, to smooth the path of inflation. If, however, it were sought to consolidate the further fall in inflation brought about by the lower oil price

income tax increases or lower public expenditure would be more appropriate. Since changes in these within a financial year are extremely difficult, action would have to be deferred until the following Budget - which might be desirable in any case since it would give more time for an assessment of whether the lower oil price was likely to stay.

7. If early fiscal action were needed - as argued above this is unlikely to be the case - it would have to take the form of higher indirect taxes. As explained in paragraphs 8-12 below, the present regulator powers seem fully adequate to produce revenues on the scale needed to make good any PSBR loss resulting from lower oil prices in the coming year. They may not, however, do so in the most economically efficient way. It might be desirable to load more of the increases on to road fuel and, given their improved finances, for companies to bear directly more of the additional tax burden. The case for offsetting lower oil prices by higher taxes on petrol etc turns on whether the lower oil prices are expected to be "permanent". If (as current thinking seems to suggest) a sharp fall in oil prices in 1983 would make a strong rebound in the later 1980s more likely, there is much to be said for stabilising the retail cost of petrol, and hence consumer spending patterns, by raising duties now and lowering them when the oil price rises again. It might therefore be worth considering seeking an increase in the powers to vary the regulator for hydrocarbon oils by up to 20 per cent instead of the present 10 per cent. On the whole, however, the economic arguments would favour diffusing an increase in indirect taxes over as wide a field as possible. For this reason VAT may be more appropriate than excise duties. There would also be a case for spreading the tax increase between persons and companies. In theory NIS could be a sort of regulator for companies, but in practice it is difficult to operate it flexibly and it would be even more difficult to present in advance a case for doing so that did not arouse suspicion and hostility from industry.

Regulator Powers

8. Under the present regulator powers:

(i) the VAT rate may be changed by up to 25 per cent either way - ie the current rate of 15 per cent could be increased to a maximum of 18.75 per cent and decreased to 11.25 per cent.

(ii) the excise duties may be varied, selectively or across-the-board, by up to 10 per cent;

(iii) the regulators are activated by Treasury Orders.

The attached table shows the full year revenue effects of the maximum changes under regulator powers for each of the main excise duties and for VAT. The figures are based on pre-Budget prices but, for the purposes of this analysis, that does not make any significant difference. Fully used from the beginning of the financial year, the excise duty regulator could raise about £1 billion of revenue in 1983-84 and the VAT regulator about £2½ billion.

9. If the decision were taken early enough, and it was still practicable, changes would be made by amendment to the Finance Bill rather than by use of the regulator powers. For changes later in the year the table shows that maximum use of the regulator powers can bring a very considerable yield. A qualification to this is that, because VAT is collected quarterly, an in-year operation on the VAT regulator does not lead to a straightforward proportional first year yield - the yield would depend on the time of the change and, for example, if it were as late as end-December there would in practice be very little additional yield in the first year. But for the excise duties the regulator would take immediate effect. Even with this reservation on the yield from VAT, it can be seen from the table that changes in the year could be considerable and they could of course be consolidated, or increased, in the following Finance Bill.

10. The question has been raised above as to whether powers should be taken to increase the 10 per cent maximum for hydrocarbon oils. Such an increase could be presented and justified in the context of uncertainty about oil prices. Provided the present powers were retained to alter rates of duty separately and by different amounts, that would leave open the option of a large regulator increase on petrol alone if that were wished.

National Insurance Surcharge

11. There is no NIS regulator. Changes are made either in a Finance Bill to take effect from the following August or in primary

legislation in November/December to take effect from the following April.

12. A power to change the rate, or to abolish NIS, by Order would avoid the need for primary legislation during the financial year. But it would not deal with the administrative problem that it takes up to 4 months to implement an NIS change by orthodox methods. The change can be operated more quickly only by a scheme, such as that introduced in the recent NIS Act, to make special deductions from NIS/NIC payments combined. It might be possible to have an enabling power for such schemes, with the necessary percentages provided in the Order, but even then it would take 2-3 months to implement. Given that primary legislation for NIS changes is very simple it would seem sufficient to rely on that, unless it were thought that the advantage of reducing the potential burden on the time of the House outweighed the disadvantage of signalling a probability of further early NIS changes.

Conclusion

13. Though a sharp fall in the oil price would increase the PSBR it should not in itself call for early fiscal action - because it would not put the monetary objectives under any pressure. If, however, action were needed during 1983-84, the existing regulator powers to vary indirect taxes seem adequate, though there is a case for considering increasing the powers to vary the regulator on hydrocarbon oils.

14. In sum, the balance of argument seems to be for keeping any public expressions of intent about fiscal action very general, as in last year's Budget speech.

F CASSELL

REGULATOR POWERS
FULL YEAR REVENUE EFFECTS

EXCISE DUTIES

Typical price		Change in price due to 10% Regulator p	Yield from Regulator 1982/83 £m	Yield from Regulator 1983/84 £m	Yield from Regulator 1984/85 £m	Change in Retail Price Index (Assumed AII = 328.5) %
Group(1)						
A Tobacco 108p (20 king size cigarettes)	Full Regulator 10%	10.0	315	325	335	0.4
	or specific tax regulator only	6.3	200	210	215	less than 0.3
B Beer 60p (1 pint of beer)		1.6	145	150	155	0.1
Spirits 690p (bottle of whisky off licence)		49.9	45	50	55	0.1
Wine 225p (EEC Table wine per 70 cl bottle)		8.6	35	40	45	Less than 0.1
(Harvey's Bristol Cream per bottle)	320p	11.1				
(Cockburn's Special Reserve per bottle)	470p	13.1				
C Road Fuel (Gallon of 4-star)	173p	8.1(2)	365	380	400	0.2
(Gallon of Derv)	170p	6.0(3)	85	90	95	nil
C Rebated Oil (Gallon of Regular kerosene)	104p	0.1	20	20	25	neg
(Gallon of fuel oil)	57p	0.35				

NOTES:

(1) Under the provisions of the 1982 Finance Act the taxes on each of the items in a group may now be changed by different proportions. The maximum changes are illustrated here.

(2) The business user who deducts VAT will in effect pay only 7.1p making his new price 180.1p

(3) For the business user; that is, excluding VAT. The private motorist would pay an extra 6.9p

VAT(1)

Total Revenue Yield from 25% Regulator

1982/83 £m	1983/84 £m	1984/85 £m	Change in RPI %
2275	2500	2750	1.8

NOTE
(1) The figures quoted are exclusive of Central Government.

CONFIDENTIAL

FROM: ROBERT CULPIN
DATE: 11.2.83

C

CHANCELLOR

EST shares your concern - see below.

MOM
11/2

cc Chief Secretary
Finan. Secretary
Economic Secretary
MST(R)
MST(C)
Sir D Wass
Sir A Rawlinson
Mr Middleton
Mr Bailey
Mr Byatt
Mr Wilding
Mr Kemp
Mr Lovell
Mr Moore
Mr Mountfield
Mr Pestell
Mrs Diggle
Mr Ridley
Mr Harris
PS/Inland Revenue

EMPTY PROPERTY RATING

You have said that you would like to discuss empty property rates on Monday. The Chief Secretary is to see Mr Jenkin and Mr King about this soon. The attached brief by Mrs Diggle sets out the background and options.

The Immediate Problem

2. I take it that the main worry about empty property rates is that people are said to be whizzing round the country tearing the roofs off buildings, simply to avoid paying rates. This sounds a complete and utter nonsense.

3. The logic is this.

(i) Empty property attracts rates, unusable property doesn't.

(ii) Idle buildings are usually "empty" with roofs, "unusable" without.

(iii) Owners can therefore escape rates by taking the roofs off their buildings.

4. However, while one can argue about the values to be put on them, (i) and (ii) seem sensible rules. (iii) is in a sense a price which has to be paid for them. It does not follow that (iii) is the main cause of deroofing.

First Principles

5. Empty property is a valuable asset which local authorities must protect through the police, fire and other services. Rates are levied:

a. to help pay for those services, and

b. to give owners an incentive to put property to use, or to sell it, or to demolish it - in any case, to prevent its becoming derelict.

Unusable property, on the other hand, is not an asset which should be taxed at all.

6. If this distinction is valid, there has to be a rule to determine what is empty and what is unusable. As I understand it, the Revenue's answer is that anything needing minor repairs is empty; anything needing major repairs is unusable. That seems reasonable enough.

7. It follows that if you want to make empty property unusable, you can so damage it that it requires major repairs. In that sense, owners have an incentive to rip off their roofs. But they will only do so if they have no economic use, or prospect of use, for their buildings. Otherwise they would do better to earn income from the buildings, or keep them ready to earn income, and pay rates.

Evidence

8. We are short of facts. Local authorities have discretion over empty property rates. But we do not know how many are charging the maximum - 50% of the non-domestic rate - and how many are charging something less. We think about half are charging less,

but we are not sure. Nor do we know how many buildings are losing their roofs, or why. I doubt if anyone is certain.

9. For what it is worth, the message we are getting from the DOE, the DOI and the Revenue is that people are only taking the roofs off buildings they are going to demolish anyway. They are demolishing them, in the main, because they are old and past it. This is what one would expect in the depth of a severe recession. It is not helped by the fact that business rates are too high.

10. The speculative and anecdotal evidence, such as it is, thus argues for being fairly thick skinned about the present complaints.

<u>The RSG</u>

11. LG's concerns point in the same direction. If we restrict local authorities' right to levy empty property rates in 1983-84, that would deny them income on which they are reckoning. They could not make good the loss by levying supplementary rates. So they would demand extra RSG. This might not be the end of the world, as the sums involved appear to be relatively small. But to increase the rate of government support for local authorities would run counter to government policy. Moreover, some authorities would probably get more in extra grant than they would lose in income; so their spending would rise.

<u>What can be done?</u>

12. That said, there is nothing sacrosanct about the present rules. It is one thing to say that rates should be levied on empty property. It is another to say that they should be levied at a maximum of 50%, as now. The figure could just as well be 40%, or 30% - or 60% or 70%.

13. It is only right to have another look at the figure in the light of the recession. More companies than before must be faced with idle property, no uses, and no takers. They must presumably answer the following question: is it better to keep the property viable, and pay the rates and maintenance

bills to do so, or to write it off and save the cash? The higher are empty property rates, the more buildings will tend to be written off. At least in a few cases, this may give rise to short sighted decisions.

14. It may be, therefore, that something should be done, and be done for 1983-84. But it may still not be worth the price of increasing the rate of government support to local authorities: better that they make do with less income (possibly burning up some of their balances). I suggest, therefore, that the Treasury's objective should be to go for whatever reduction from 50% Mr King is prepared to defend without increasing the RSG.

15. For 1984-85, we can afford to be more relaxed about a further reduction, if that seems sensible. No one knows what the RSG will be. So when the time comes, we can always say that it is higher than it would otherwise have been to compensate for a reduction, or further reduction, in empty property rates.

RC

ROBERT CULPIN

From: A J G Isaac

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

CONFIDENTIAL

11 February 1983

CHANCELLOR OF THE EXCHEQUER

BUDGET: INCOME TAX OPTIONS

Mr Blythe's note today discusses the main income tax issues outstanding for the Budget. This note seeks to bring out the main questions on which you may wish to focus at next Tuesday's meeting (with cross-references to Mr Blythe's submission and the attached annexes).

Income tax thresholds (paragraph 3 and ff of Blythe's note and Annex 1)

1. Does an 8½ per cent increase give acceptable results? (Danger points: interaction with NIC at around 1½ times average earnings; threshold as a percentage of average earnings compared with 1978-79).

Yes

2. Is 10 per cent over indexation out of range (meeting yardstick of tax threshold as percentage of average earnings)? Or 11 per cent (ensuring that no married man faces a bigger combined tax and NIC bill on 6 April 1983)?

c Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Sir Douglas Wass
Mr Middleton
Mr Moore
Mr Kempt
Mr Robson
Mr French
Sir Lawrence Airey
Mr Isaac
Mr Blythe
Mr Painter
Mr Spence
Mr Calder
PS/IR

3. To ensure that no one pays a bigger combined tax and NIC bill after 6 April 1983, would need either 17 per cent above indexation or a reduction in the basic rate. Can we rule these out?

Higher rate tax (Blythe paragraph 8 and ffand Annex 2)

1. Should the higher rate thresholds and bands increase in line with the main personal tax allowances? (Danger points: higher rate taxpayers get bigger increase in post-tax incomes than basic rate taxpayers and - though to a lesser extent - bigger reductions in tax).

Yes

2. If not, what smaller increase is acceptable?

Investment income surcharge (Blythe paragraph 13 and ff and Annex 3

1. Should there be any more than strict indexation? Or the same increase as the personal allowances?

Index plus 8½

2. If so, should the choice (at any given cost) be a reduction in rate or an increase in thresholds? (Effects on collection costs, basic rate taxpayers, the elderly).

*Age allowance (Blythe paragraph 18 and ff and Annex 4)

1. Should it increase by the same percentage as the main tax thresholds, or the same absolute amount? (Uncertain justification for age allowance itself, general question of burden on working population, perhaps also long-term implications for taxation of husband and wife).

2. Should we more than index - or abolish - the income limit for age allowance? (Staff savings and much broader simplification, costs, distributional implications.)

A J G ISAAC

* You asked about a combination of

1) holding the age allowance increase to the equivalent cash amount of the increase in main personal allowances

2) abolition of the income limit.

These are outlined in Annex 4 (newly arrived).

① (assuming 8½%+ index'n on basic allowances)

saves £60m (full yr)
£40m (PSBR 1983/4, 1984/5)
staff saving ~~150~~ 130 'full yr (comp 230 with full index'n)

② cost of £110m (full yr)
£65m (PSBR 1983/4, 1984/5)
staff saving 100 in 1983/4, 250 eventually

Combined package cost: £20m £ PSBR (£45m full yr)
save 50 staff (1st yr); rising to 150 (compared to full 8½% on allowance)

but increase in allowance threshold helps poorer aged
abolition of limit helps better-off aged.

CR.

From: R A BLYTHE

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

11 February 1983

CHANCELLOR OF THE EXCHEQUER

PERSONAL TAX: BUDGET OPTIONS

1. This note summarises the main options that you are considering both on general threshold increases and (more particularly) on higher rate thresholds, the investment income surcharge and age allowance, together with a brief exposition of the pros and cons. The tables and annexes attached provide supporting detail.

2. Mr Isaac is sending you a separate note more in the form of an annotated agenda.

Main Packages

3. We are now focussing on the following three main options:-

---

c.	Chief Secretary	Chairman
	Financial Secretary	Mr Green
	Economic Secretary	Mr Isaac
	Minister of State (R)	Mr Gracey
	Minister of State (C)	Mr Blythe
	Mr Ridley	Mr Painter
	Mr Harris	Mr Walton
	Mr French	Mr Houghton
	Sir Douglas Wass	Mr Spence
	Mr Burns	Mr Calder
	Mr Middleton	Mr Haigh
	Mr Kemp	Mrs Penneck
	Mr Monger	PS/IR
	Mr Cassel	
	Mr Moore	
	Mr Hall	
	Mr Evans	
	Mr Robson	
	Mr Martin	
	Mr Aaronson	

Annex 4 to follow

Indexation	Revenue Costs		PSBR Costs		Provisional Manpower Saving	
	1983/84	Full Year	1983/84	1984/85	1983/84	1984/85
+ 6%	810	1,030	700	730	70	190
+ 8½%†	1,170	1,490	1,010	1,060	140	370
+ 10%	1,320	1,680	1,140	1,200	180	450

4. All these improve thresholds in real terms over 1978/79 and hit the following additional targets:-

Indexation + 6% would re-establish clear water, but not by much, between the tax threshold and the basic pension for widows and single women under 65 (assuming pensions increase by 6½% less 2% claw back in November 1983).

Indexation + 8½% would i. reduce or match average rates of tax + NIC for 1982/83 for all contracted-in who are still paying tax (assuming earnings growth of 6½% between 1982/83 and 1983/84) (see Tables 1 and 2).

ii. reduce average rates of tax compared to 1978/79 for married men on ¾ average earnings or above (about 2/3 of earning married men) (see Table 3).

iii. give married men a tax reduction of just over £2 per week.

Indexation + 10% would i. restore allowances to the same percentage of average earnings as in 1978/79 and 1979/80.

† This package includes the extra £10 on the married man's allowance as agreed at your meeting on 3 February.

2.

ii. reduce the increase over 1982/83 in the average rate of tax + NIC for those contracted-out at around one to one and a half average earnings (see Tables 1 and 2).

5. More generally, it follows of course that the more generous the package, the more favourable the comparison with the recent past that emerges on all the criteria identified, including the poverty and unemployment traps, and the more staff-savings are achieved.

6. Equally obviously, the constraints are cost and the political concern about "over-generosity".

7. The attached Annex 1 explains and illustrates the NIC problem which arises even under the more generous options over the income range towards the top of the basic rate band for both the contracted-in and the contracted-out.

Higher Rate Thresholds

8. The options are either:-

i. to increase the higher rate thresholds by the same percentage as the main allowances,

or

ii. to increase them by something less.

9. The arguments in favour of an across-the-board increase are that:-

- it maintains the broad and simple principle that tax reductions when they can be made should apply throughout the income range (the obverse of the "broadest shoulders etc" when the tax burden has to be increased).

- failure to do so adds to the steepness in the marginal rate progression at the higher levels of income (which in the UK is already steeper than in most other countries).

- failure to do so would be seen as a retraction from the thrust of the changes made in 1979.

- it represents, compared with indexation, less than one-tenth of total full year revenue costs of any of the main options.

- it achieves a quarter to a third of the full year staff savings.

10. Against this, the concern is that to carry the same percentage increase through to the higher rate thresholds inescapably means that in both cash and proportionate terms higher rate payers gain more than all or most basic rate payers.

11. We have done some calculations (see Annex 2) to try to find out whether a lower level of increase to the higher rate thresholds would enable sustainable claim to be made to counter criticism of "too much benefit to the well-off". Our conclusion is that a restriction to indexation or just above it would make possible a claim of sorts comparing higher rate payers to those on average earnings, but that the presentational advantage would be very limited.

12. For all these reasons, and in particular for the staff savings, our recommendation is to make an across-the-board increase.

Investment Income Surcharge

13. Apart from matching an increase in the threshold to that in the main allowances, two options have been identified:-

i. to reduce the rate from 15 to 10 per cent*,

---

* The costings and staffing effects have been calculated from the base of simple indexation of the threshold - it would of course be possible to reduce the rate on top of increasing the threshold by indexation + 6, 8½ or 10 per cent. The costings are at forecast 1983/84 income levels and depend critically on the future path of interest rates.

ii. to increase the threshold to £11,000 at the same cost as i.

14. Either option would go some way towards meeting the pressure for abolition, at a full year revenue cost of £m85 (PBSR cost 1983/84 negligible and 1984/85 £m35).

15. In favour of the rate reduction, it would clearly be perceived as a step towards abolition (cf NIS). On the other hand, it would not reduce the IIS paying population or save any staff - 200 staff would be collecting £m165 instead of £m250.

16. In favour of the substantial threshold increase, it would give more benefit than a rate reduction to the lower range of investment incomes and in particular to the elderly (which would help towards the "fairness balance" of the Budget), and, if Ministers wished to make their intentions clear, could be positively presented as a move towards abolition in the same way as a rate reduction. It would also reduce the IIS paying population by more than a half and save eventually 110 staff - 90 staff would be collecting £m165 instead of (as now) 200 collecting £m250.

17. Our strong preference between the two options is for the substantial threshold increase. It has important presentational advantages and would mean that the same amount of IIS would be collected at less than half the costs of the rate reduction option.

Age Allowance

18. On the level of the age allowance itself, there are basically two options:-

i. to increase the age allowance by the same percentage as the main personal allowance;

ii. to increase it only by the same cash amount.

19. A separate, but related option (pointing in the opposite direction) is to remove the age allowance income limit altogether.

20. These are discussed in detail in Annex 4.

21. The arguments in favour of restricting the increase in the age allowance itself (now regarded by Ministers as less justified, at least in its present form) are that it would cut down on what has arguably become too big a lead over the main allowances, that the restriction could assist on a possible transition eventually to independent taxation with transferable allowances and that it would save a full year revenue cost of £m60 (1983/84 PSBR £m40) compared with an increase equal to (say) indexation plus 8½ per cent.

22. Against this there are of course the political difficulties of singling out the aged for relatively unfavourable treatment, but the generous increase possible this year even if restricted to the cash uplift in the main allowance does offer an opportunity for action if Ministers wish to take it.

23. On the income limit, there is strong case in principle for removal. x It would be a significant simplification in the system and yield substantial staff savings - eventually about 250, but would cost £m110 in a full year (1983/84 and 1984/85 PSBR cost £m65) on top of indexation plus 8½ per cent. Thus this option has broadly the same revenue costs as the IIS options considered above and staff savings of the same order as abolition of IIS.

24. It would however benefit much of the same population affected by action on IIS, and if a choice has to be made IIS looks to be the stronger candidate. Relaxing the age allowance régime would be inconsistent with the view that it is already over-generous.

R

R A BLYTHE

x the income limit - and tax offices' failure to apply it properly - is one of the major cause of complaint from the elderly, and of PCA cases

PERCENTAGE INCREASE IN NET INCOMES BETWEEN 1982-83 AND 1983-84

Multiples of Average Earnings (1983-84 Est) £/pw	Single ¼ 43.07	½ 86.15	2/3 114.87	1 172.30	1½ 258.45	2 344.60	3 516.90
(1) AFTER TAX							
Indexation	6.3	6.4	6.4	6.4	6.4	6.3	6.3
Indexation + 6.0%	7.7	7.2	7.0	6.9	6.7	7.4	7.7
Indexation + 8.5%	8.3	7.5	7.3	7.1	6.9	7.8	8.2
Indexation +10.0%	8.6	7.7	7.4	7.1	6.9	8.0	8.6
(2) AFTER TAX AND NIC (CONTRACTED-IN)							
Indexation	6.0	6.0	6.0	6.0	6.0	6.0	6.1
Indexation + 6.0%	7.5	6.9	6.7	6.5	6.4	7.2	7.6
Indexation + 8.5%	8.2	7.3	7.0	6.7	6.5	7.6	8.1
Indexation +10.0%	8.5	7.5	7.2	6.7	6.6	7.8	8.5
(3) AFTER TAX AND NIC (CONTRACTED-OUT)							
Indexation	5.8	5.7	5.6	5.6	5.6	5.7	5.9
Indexation + 6.0%	7.3	6.5	6.3	6.0	5.9	6.8	7.3
Indexation + 8.5%	8.0	6.9	6.6	6.3	6.1	7.2	7.9
Indexation +10.0%	8.3	7.1	6.7	6.4	6.1	7.5	8.2

Notes:

1. Earnings are assumed to increase by 6½% between 1982-83 and 1983-84.
2. The box encloses those cases where the average rate of tax (or of tax plus NIC) <u>increases</u> between 1982-83 and 1983-84.

PERCENTAGE INCREASE IN NET INCOMES BETWEEN 1982-83 AND 1983-84

Married

Multiples of Average Earnings (1983-84 Est)	½	2/3	Average	1½	2	3	5
£/pw	86.15	114.86	172.30	258.45	344.60	516.90	861.50
(1) AFTER TAX							
Indexation	6.3	6.4	6.4	6.4	6.3	6.3	6.3
Indexation + 6%	7.5	7.3	7.0	6.9	7.4	7.8	8.1
Indexation +8.5%	8.0	7.7	7.3	7.1	7.9	8.4	8.8
Indexation + 10%	8.2	7.9	7.4	7.1	8.1	8.8	9.3
(2) AFTER TAX AND NIC (CONTRACTED-IN)							
Indexation	6.0	6.0	6.0	6.0	6.0	6.1	6.2
Indexation + 6%	7.2	7.0	6.7	6.5	7.2	7.7	8.0
Indexation +8.5%	7.8	7.4	7.0	6.7	7.7	8.3	8.7
Indexation + 10%	8.0	7.7	7.2	6.8	8.0	8.7	9.2
(3) AFTER TAX AND NIC (CONTRACTED-OUT)							
Indexation	5.6	5.6	5.6	5.6	5.7	5.9	6.0
Indexation + 6%	6.9	6.6	6.3	6.1	6.9	7.4	7.8
Indexation +8.5%	7.4	7.0	6.6	6.3	7.3	8.0	8.6
Indexation + 10%	7.7	7.2	6.7	6.4	7.6	8.4	9.0

Notes:

1. Earnings are assumed to increase by 6½% between 1982-83 and 1983-84.
2. The box encloses those cases where the average rate of tax (or of tax plus NIC) increases between 1982-83 and 1983-84.

TABLE 3

TAX AS % OF EARNINGS

	Single men and women and earning wives						Married men					
Multiple of average earnings	¼	½	2/3	¾	1	1½	½	2/3	¾	1	1½	2
1978-79	4.9	17.3	21.2	22.5	25.2	27.8	9.9	15.7	17.6	21.5	25.3	27.4
1979-80	4.9	16.6	20.0	21.1	23.3	25.5	9.9	14.9	16.6	19.9	23.3	25.0
1980-81	6.3	18.1	21.1	22.1	24.1	26.0	11.5	16.1	17.7	20.7	23.8	25.7
1981-82	8.6	19.3	22.0	22.9	24.7	26.4	13.3	17.5	18.9	21.7	24.4	27.2
1982-83	7.7	18.8	21.6	22.6	24.4	26.3	12.6	16.9	18.4	21.3	24.2	26.6
1983-84												
Indexation	7.8	18.9	21.7	22.6	24.5	26.3	12.7	17.0	18.5	21.3	24.2	26.7
Indexation + 6%	6.6	18.3	21.2	22.2	24.2	26.1	11.8	16.3	17.8	20.9	23.9	25.9
Indexation + 8.5%	6.1	18.0	21.0	22.0	24.0	26.0	11.3	16.0	17.5	20.6	23.8	25.6
Indexation + 10%	5.8	17.9	20.9	21.9	24.0	26.0	11.1	15.9	17.4	20.6	23.7	25.5

1. Average earnings are for full time adult men in GB for all occupations and assume an increase in average earnings of 6.5% between 1982-83 and 1983-84

2. Husbands and earning wives are treated separately (thus the effect of the wife's earnings election is ignored).

3. Single women and earning wives - a significant proportion of the latter work part-time - have lower earnings on average than married men. The left-hand half of the table, therefore, shows lower multiples of average earnings (which are for full-time men) than the right-hand half. About half of single men and women and earning wives as a group earn less than ½ average earnings for full-time men.

4. Calculations of tax assume that only basic personal allowances are due.

5. Cases where average rates in 1983-84 are the same as or below 1978-79 are under-lined.

Annex 1

COMPARISONS INVOLVING BOTH TAX AND NIC

1. A possible presentational difficulty exists with all three main packages considered in the note. As a result of the increase from April 1983 in the Upper Earnings Level (UEL) for NIC from £220 to £235 per week, tax and NIC due in 1983-84 will be greater in cash terms than in 1982-83 at given levels of earnings within/the ranges shown in table 1 below. This was referred to in Mr Spence's note of 7 February which showed that the point would emerge clearly from the tables normally put out on Budget Day in the Press Notice describing the Budget proposals.

2. The attached /table shows that increasing the package does not significantly narrow the earnings band affected (which broadly runs from the UEL to the top of the 1982-83 basic rate band) but does reduce the cash loss.

3. This is a static comparison and it results primarily from the (necessary) increase from one year to the next in the UEL and not from next year's increase in the NIC rate. Nevertheless, the Opposition may be expected to get what they can out of it. On a dynamic basis, which allows for growth in earnings between the two years, the 8½% package will ensure that none of the contracted-in pay a higher average rate of tax and NIC in 1983-84 than in 1982-83.

4. To avoid the maximum static loss of 29p for the married contracted-out under the 8½% package[1] by means of a further threshold increase would require just over £50 more on the married allowance and a package of about 11% over indexation). In the same way, to eliminate the loss of 63p for the single contracted-in under the 8½% package would, however, require an extra £110 on the single allowance (giving a package of about 15% over indexation) and an even greater increase would be needed for the single contracted-out.

[1] see footnote [1] to attached table.

RANGE OF EARNINGS WHERE PAYMENTS OF TAX PLUC NIC INCREASE BETWEEN 1982-83 AND 1983-84

(Figures in brackets show maximum weekly cash loss)

Single

	Contracted-in		Contracted-out	
Indexation + 6%	£225 - £285	(86p)	£182 - £289	(£1.27)
Indexation + 8½%	£228 - £283	(63p)	£220 - £287	(£1.04)
Indexation + 10%	£229 - £281	(52p)	£222 - £286	(93p)

Married

	Contracted-in		Contracted-out	
Indexation + 6%	£232 - £295	(29p)	£225 - £300	(70p)
Indexation + 8½%(1)	*		£230 - £297	(29p)(1)
Indexation + 10%	*		£233 - £295	(18p)

(*) No losses, but gains of only 11p(1) per week between £235 and £293 per week under indexation + 8½%; and gains of 23p per week between the same earnings levels under indexation + 10%.

(1) The package of indexation + 8½% considered here has £10 higher married man's allowance than the package in Mr Spence's note of 7 February 1982. The losses (gains) are 5p-6p lower (higher) than the corresponding figures in that note.

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Annex 2

Higher rates: Possible options for reducing the 'gain' from the Budget for the high paid compared with the lower paid.

1. If higher rate thresholds are increased by the same % over indexation as the main allowances, then:

(a) on a dynamic comparison, the highest paid will get a bigger percentage increase in net income after tax than most basic rate payers

(b) on a static comparison higher rate payers will get a bigger percentage reduction in tax than most basic rate payers,

- the higher rate payer will of course also get a bigger cash reduction in his tax bill than basic rate payers, but this is arithmetically inevitable unless there is a swingeing reduction in higher rates thresholds.

2. Effects of holding down higher rate threshold increases.

Assume an 8½% increase in main allowances (and 6½% increases growth between 1982/3 and 1983/4);

(a) on the dynamic comparison (ie % increase in net income after tax);

(i) for people on ½ average earnings to 'gain' more than any higher rate payer, it would be necessary to hold higher rate thresholds and bands down to about 4% over indexation;

(ii) for people on average earnings to 'gain' more than any higher rate payer, higher rate thresholds would have to be held to about 1½% over indexation;

(iii) for people towards the top of the basic rate band to gain more than any higher rate payer, higher rate thresholds would have to be held to below indexation.

(b) on the 'static' comparison (ie percentage reduction in tax bills);

(i) people on ½ average earnings will get a bigger percentage reduction than any higher rate payer even if higher rate thresholds go up by 8½% over indexation (eg a 21.9% reduction for the married man on £4,000 compared with a 7.5% for the £20,000 man and 6.2% for the £40,000 man);

(ii) for married men on average earnings to gain more than any higher rate payer higher rate thresholds would have to be held to about 2% over indexation;

(iii) for people near the top of the basic rate band to gain more than any higher rate payer, higher rate thresholds would have to be held well below indexation (and perhaps below 1982/3 levels).

Conclusion

(a) A few higher rate payers will 'gain' over some basic rate payers - on either point of comparison - even if higher rate thresholds are held down to indexation;

(b) for people on average earnings to 'gain' over all higher rate payers, on either point of comparison higher rate thresholds would have to be held to about 1% or 2% over indexation;

(c) for people on half-average earnings to gain, around 4% or less on higher rate thresholds would do the trick on the dynamic comparison. But it is a narrow target area. And they do much better than higher rate payers on the static - % reduction in tax - comparison with 8½% on higher rate thresholds.

So (d) Paying the price of holding down higher rate thresholds would yield a very limited presentational return (particularly as on the tax/NIC comparison the highest paid 'gain' more than the lowest paid on any point of comparison.

IIS - 10% rate reduction on £11,000 equivalent cost threshold increases

This note looks at the effects of a rate reduction to 10% or a threshold increase to £11,000 (which would cost about the same).For illustration, we assume an 8½% increase over indexation for the main personal tax package.

The base points

If the 15% rate is unchanged:

	Indexation	Indexation + 8½%
threshold	£6,600 (£6,250 for 82/3)	£7,100 (+ £500 over indexation)
yield	£m250	£m235
numbers paying	230,000	205,000
staff	200	180

The full year cost of 8½% would be £m15.
The PSBR cost of 8½% would be negligible in 1983/4, and £m5 in 1984/5.

Increase of 6% or 10% would produce very small variations from the figures for 8½%.

Effects of a rate reduction to 10% or a threshold increase to £11,000

The full year cost of each option would be about £m85 assuming the 10% rate was combined with indexed thresholds. The PSBR cost would be negligible in 1983/4, £m35 in 1984/5. In summary the effects would be:

	10% rate	Threshold increase
threshold	£6,600	£11,000
yield	£m165	£m165
numbers paying	230,000(as for indexation)	100,000
staff required	200 (as for indexation)	90 (110 saving over indexation)

NB If the 10% rate was on top of an 8½% increase in thresholds the full year cost would be about £m100 - equivalent to a £12,500 threshold (double 1982/3 levels)

Distributional Effects - who would benefit

At present, nearly half of people paying IIS are basic rate payers. For the elderly (half of the IIS population) the ratio of basic rate to higher rate is 55:45; for the under 65s it is 35% basic rate to 65% higher rate. (See background note on p.3)

So (i) a 10% rate would give the greatest benefit to those with the biggest investment incomes - usually higher rate payers - and would leave 105,000 basic rate payers liable to IIS

(ii) M an £11,000 threshold would give the greatest benefit to those with smaller investment incomes, and would take most basic rate payers out of IIS entirely. M

Cost Effectiveness of IIS after the change

With a rate reduction we would have the (present) 200 staff collecting £m165 tax. So IIS would become more staff intensive. The cost of collection would increase by one-third - from the present £m1.25 to £m0.82 per staff unit. By contrast, with an £11,000 threshold, we would need only 90 staff to collect £m165 tax. This would reduce the cost of collection by more than one-third from £1.25 to about £1.80 per staff unit. So this collection cost would be more than halved, compared with the rate reduction option.

Rate reduction or threshold increase? - Pros and Cons

Either option would of course significantly lighten the tax burden. Either could be a step towards abolition - and could be publicly signalled as such if desired. It is a matter of judgement which would be taken as the more convincing signal by those who are pressing for abolition.

Advantages of rate reduction (compared with threshold increase)

(a) a 5% reduction in rate would probably have a sharper impact.

(b) it would give the greatest benefit to those at the top of the investment income scale (if that is the desired effect).

Advantages of a threshold increase

(a) It would make IIS more cost-effective - in sharp contrast with a rate reduction.

(b) It would give the greater benefit to those with smaller incomes (if that is the desired effect) and would take out of IIS a large number of basic rate payers. Presentationally this should be a positive point (particularly as the majority of those taken out would be elderly - the group whose 'penalisation' by IIS is the main focus of criticism).

Background Note:

IIS PAYERS BY MARGINAL RATES, 1982/83

Number of tax units in thousands

	All persons	Over 65	Under 65
All IIS payers	250	125	125
Basic rate IIS payers	115	70	45
Higher rate IIS payers	135	55	80
of which, 40%	25	15	10
45%	40	20	20
50%	25	10	15
55%	15	5	10
60%	30	5	25

NB These figures are for 1982/83, whereas the figures in the rest of the note are for the (smaller) IIS population for 1983/84.

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FROM: S A GODBER
DATE: 11 February 1983

1b 11/2

1. MR HOPKINSON
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir A Rawlinson
Mr Middleton
Mr Monck
Mr Pestell
Mr Pirie
Mr Culpin
Mr Ridley
Mr Harris
Mr Bridgeman - RFS

IMPROVEMENT GRANTS

Before your meeting on Monday to discuss the possibility of a construction package, you might like to have a further note on the improvement grant proposals you will be discussing in the light of Mr French's minute of 9 February.

2. The Chief Secretary (in his minute to you of 4 February) has identified further changes to the scope of improvement grants as a possible fruitful area for action in a construction package. The changes were originally proposed by DOE Ministers at the end of last year to coincide with the publication of the English House Conditions Survey. There are three elements:

(i) making houses built between 1919 and 1945 eligible for repairs grant.

(ii) increasing eligible expense limits on improvement and repairs grants by 15%.

(iii) increasing rateable value limits from the current levels of £400 in Greater London and £225 elsewhere to £475 in Greater London and £300 elsewhere.

3. In other words, the point raised by Mr French would be dealt with if you decided to adopt all DOE Ministers' proposals on improvement

grants.

4. You will, however, have noted the Chief Secretary's preference for enveloping if anything is to be done on housing. If you also wish to make some further concession on improvement grants, you might find it helpful to have some idea of DOE Ministers' likely preferences within the three changes listed above - although, you would presumably want to consult them at some stage.

5. Mr Stanley pressed hardest for the inclusion of inter-war houses within repairs grants (item(i)). This is consistent with the emphasis of your last budget package on repairs and a direct response to the evidence of the English House Condition Survey of a large increase in unfitness and heavy repair costs amongst inter-war houses. There is also a strong case for increasing eligible expense limits as building costs have increased by some 15% since the existing limits were set in 1980.

6. Although the case which Mr French makes for an increase in rateable value limits is valid, it is more than anything a comment on the influence of an arbitrary cut off point for any grant or tax concession. There will always be houses which are just outside the eligible expense limit and individuals who will be encouraged to manipulate circumstances in order to achieve a benefit. But there is nothing new about this: rateable values have not changed since the existing limits were introduced. To make this change would, therefore, simply mean making the improvement grant scheme more generous without the same underlying theme - the repair of those houses most in need - on which you based your earlier budget package. There is a general question whether there should be rateable value limits at all or whether local authorities should have discretion to give grants whenever they identify housing need. This is something, however, which might better be examined in the context of the general review of improvement policy which we are about to start with DOE.

S A GODBER

14. FEB 1983

CHANCELLOR OF THE EXCHEQUER

PLEASE ATTACH ANNEX K TO MR BLYTHE'S SUBMISSION OF THE 11TH FEBRUARY.

SUBJECT: PERSONAL TAX: BUDGET OPTIONS

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c. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Mr Ridley
Mr Harris
Mr French
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Kemp
Mr Monger
Mr Cassel
Mr Moore
Mr Hall
Mr Evans
Mr Robson
Mr Martin
Mr Aaronson

Chairman
Mr Green
Mr Isaac
Mr Gracey
Mr Blythe
Mr Painter
Mr Walton
Mr Houghton
Mr Spence
Mr Calder
Mr Haigh
Mrs Penneck
—PS/IR

~~Annex K to follow~~

Annex 4

Age Allowance - the level of the allowance and abolition of the income limit.

1. This note looks at two possible variants from the base point of increasing age allowance and the income limit by the same percentage as the main allowances.

2. These variants are:

(i) increasing age allowance by less than the main allowances

(ii) abolishing the income limit.

The case for holding down increases in age allowance.

3. Ministers have come to the view that age allowance is excessively generous for a number of reasons:

(a) it is doubtful whether a special relief for all over-65s can now be justified - many are hale and hearty and have lower living expenses than younger people (no travel to work expenses, free bus passes etc)

(b) in any event, the present lead of age allowance over the main allowances is excessive (it is 30% plus).

4. The radical options would be to confine the allowance to the over-75s, or to abolish it altogether. These are not realistic options for the time being. So Ministers have concluded the only angle of approach in the short term is to hold the increase in age allowance below the increase for the main allowances, when opportunity offers.

5. A reduction in the generosity of age allowance would also have advantages on the taxation of husband and wife. The elderly as a group would gain considerably more than any other group from the introduction of ITTA, so their present advantages over younger people would be further increased. Reducing the age allowance (in relative terms) between now and the introduction of ITTA would limit the gains to the elderly. It would also help with the

transitional problems with the group where one partner is over 65 and the other is under 65 - the main group of losers among the elderly. The smaller the lead of age allowance over the main allowances, the smaller the number of 'losers' in this group, and the smaller the amount of their losses. If age allowance is held down, the number of losers in this group will be reduced, and those who lose will have smaller losses.

The effect of holding down age allowance

6. The main option here seems to be to hold the age allowance down to the same cash increase over 1982/83 as for the main allowances. Taking the 8½% package for illustration this would give about a 5% increase over indexation:

aged single would increase by £100 over indexation
(£70 less than the full 8½%, an extra 40p per week tax)

aged married would increase by £170 over indexation
(£110 less than the full 8½%, an extra 63p per week)

7. This would slightly reduce the advantage for the elderly, (though still leave them with a substantial increase in thresholds in real terms). Apart from this the other main advantage is the cost savings. Compared with an 8½% increase, it would save £m60 in a full year and £m40 PSBR (1983/84 and 1984/85) - a saving of about two-fifths of the cost of the full 8½% over indexation.

8. The potential disadvantages would be:

(a) political - there would be objections to the elderly doing less well from the budget than other taxpayers, even though the elderly would still have

- a big cash reduction in tax bills
- a reduction in average rates of tax (and, of course, no addition to NIC)

- more 'clear water' between pension and tax threshold than in 1982/83 and a smaller proportion of their pensions going in tax;

(b) number of elderly taxpayers:
there would be about 100,000 more elderly taxpayers than with a full 8½% increase, though the number would still be 150,000 fewer than with bare indexation;

(c) staff requirement:
the Revenue would forego a staff saving of ~~130~~ 150 - the staff saving over indexation would be ~~100~~ 130 (still significant) compared with the 230 staff saving from the full 8½%

9. The broad pattern of advantages and disadvantages would be the same if this restriction on age allowance was combined with 6½% or 10% packages. We will provide detailed figures on this if required.

10. Other variants

(a) It would be possible to achieve a smaller restriction by giving the same cash increase over indexation as for the main allowances. This would give about 6½% over indexation on an 8½% package, compared with the 5% increase discussed above. We could provide further details of this modest variant if required;

(b) At the other extreme, it would be possible to hold age allowance increases down to bare indexation. Politically this would be more difficult - inter alia, the increase in tax thresholds would be less than the increase in pensions received in 1983/84, and this would be represented as an increase in the tax burden on pensioners. Compared with the more limited options the revenue saving would be greater, but the staff requirement would be correspondingly higher. Overall, this does not seem a promising line of approach.

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The Age Allowance Income Limit

11. There are a number of arguments for abolishing the income limit:

(a) in principle, it is difficult to justify having any income limit on age allowance. If the relief is justified at all, it should be available at all income levels;

(b) it would be a valuable simplification - the complexities of the marginal band for incomes just above the limit gives considerable problems to the public and to the Revenue.

(c) it would give a substantial staff saving - about 250 eventually, and about 100 in 1983/84.

On the other hand:

(a) the cost of abolition would be substantial. The full year cost of abolition would be £m110 - an extra £m65 and £m~~75~~ 65 respectively on PSBR for 1983/84 and 1984/85;

(b) the argument in principle for abolishing the income limit is not compelling, if it is accepted that age allowance itself is an unsatisfactory relief.

12. Beyond this, there is the question of priorities. The political difficulties of holding back on age allowance ("penalising the ordinary pensioner") could be increased if the income limit was increased at the same time (because it would be seen as benefitting the rich). So to some extent action on the income limit is a competing priority with action on the age allowance itself. Action on the income limit would also be a competing priority with action on IIS. The elderly who benefitted from a substantial reduction in the IIS burden would also benefit from abolition of the income limit. The two changes in the same budget could provoke criticisms that the 'rich elderly' were being treated too generously. There seems a strong case

for saying that action on IIS should rate a higher priority than action on the aged income limit, if they are seen as competing priorities.

Conclusion

(i) On the level of age allowance there seem to be strong arguments for action to restrict the increase in age allowance, and narrow the gap between this and the main allowances. In the context of a general package in the range 6% - 10% holding the increase down to the same cash increase as the ordinary allowances would be a modest restriction. It might be politically acceptable, though this is for Ministers to judge. Political considerations apart, part of the price to be paid is the staff savings foregone, to be balanced against the revenue saving.

(ii) On the income limit, there seems a reasonable case for action, but not a compelling one. If it is regarded as a competing priority with action on IIS, it does not seem a promising candidate for this year.

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FROM: E KWIECINSKI
DATE: 9 February 1983

PS/CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Mr Ridley
Mr Harris
Mr French
Sir D Wass
Mr Burns
Mr Middleton
Mr Kemp
Mr Monger
Mr Cassell
Mr Moore
Mr Hall
Mr Evans
Mr Robson
Mr Martin
Mr Aaronson
Mr Spence - IR
PS/IR

PERSONAL TAXATION: AN 8½% PACKAGE OVER INDEXATION

The Financial Secretary has seen Mr Spence's note of 7 February.

He has commented that 8½% is the very minimum needed to look respectable.

EK.

E KWIECINSKI

CONFIDENTIAL

FROM: PS/Minister of State (C)
DATE: 14 February 1983

MR MOORE

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Kemp
Mr Monger
Mr Cassell
Mr Evans
Mr Hall
Mr Robson
Mr Monck
Mr Aaronson
Mr Ridley
Mr French
Mr Harris

PS/Inland Revenue
Mr Blythe
Mr Spence

PERSONAL TAXATION: APPROACH TO THE 1983 BUDGET

The Minister of State (C) has seen Mr Spence's minute of 7 February.

The Minister wonders whether we ought also to look at some typical examples of how personal tax changes will affect home buyers - who will face extra tax as a result of code numbers not being adjusted when mortgages came down last month (and in addition, will not the changeover to MIRAS add to the confusion?).

The Minister would be grateful if he could be provided with a clear idea of the overall effect of all these changes in some typical cases.

Ros Dunn

MRS R M DUNN

CONFIDENTIAL

From: [illegible]
Date: 15 February 1983

Chief Secretary

IMMEDIATE

cc -

Chancellor of Exchequer 12/2
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Wilding
Mr Bailey
Mr Kemp
Mr Burgner
Mr Pestell
Mr Hart
Mr Stibbard
Mr Hall

TREASURY SELECT COMMITTEE

Mr Kemp, Mr Hart, Mr Stibbard and I gave evidence to the TCSC yesterday about this year's PEWP.

2. The Committee did not get through their questions; they will send us a further list of written questions on which they want urgent replies, so that they can publish their report as soon as possible. They hope for a debate before the Budget, which the Leader of the House half-promised at the Business Statement last week.

3. The questioning was not very penetrating. The bit that makes the newspapers today is their criticism of underspending on capital account. We tried to say that this was a complex phenomenon, not wholly within Government's control, for which there were a variety of causes. But they seized on the Prime Minister's letter to the local authorities. The Government was excused of ignoring past recommendations from the TCSC that the proportion of capital expenditure should be increased. All this was pretty predictable, and I do not think we said anything new or dangerous.

4. There was less interest in the question of 'volume' than we had expected; some criticism of the alleged unrealism of the inflation assumptions; and the usual bit from Mr Howell about public sector manpower.

5. We were also criticised for publishing the expenditure figures separately from those for tax. I said that the Committee could not have it both ways. They had asked us for an Autumn Statement, giving a preview of both sides of the account; we had done so. They had asked us to accelerate the PEWP; we had done so. They would now have to wait for the Budget.

6. They also quizzed us about the question of cyclically-adjusted PSBR and pub__c expenditure. We stuck to the line of last year's EPR article. I said we could not mesure the increase in eg unemployment benefit caused by the cycle unless we knew the neutral baseline. Mr Kemp added that, as the Chancellor had said, the text of any PSBR was what could be financed without increasing interest rates.

7. They made relatively little out of the Sunday Times article, which claimed that the reduction in this year's planning total was "all done by mirrors". We insisted that there was shortfall in last year's PEWP (not separately identified) as well as in this year, and that we had done nothing new. They seemed to accept this.

P Mountfield

FROM: CHIEF SECRETARY
DATE: 15 February 1983

cc. PPS
SIR A Rawlinson
MR Monger

PRIME MINISTER

You asked me recently whether we might give up our proposal to make an adjustment to this year's social security uprating on account of last year's overshoot and instead return to the historical method of uprating.

2. I have discussed this idea with the Chancellor. We have considerable reservations about it.

3. First, reversion to the historical method is unlikely to be less controversial than making the adjustment, and could be more so. If the historic method produced an uprating equal to that which would have been produced by the forecast method less the adjustment, then it would appear that the Government, having calculated that it would fail to carry the adjustment, was just trying to achieve the same result by different means. What matters to the pensioner is the level of the uprating, not how it was calculated. By using a different method of calculation, the Government would appear devious as well as mean.

4. I deal with the possible outcomes for the uprating below. But it looks now as though the May inflation figure, on which a historical uprating would logically be based, could well be the lowest of the year. The Government would be accused of having chosen this month, of all possible months, as the basis for the uprating, purely in order to save what it would otherwise have saved by the adjustment. We would stir up an entirely new argument about the merits of the alternative uprating methods; and our change of tactics would be taken as an admission that inflati
was on the way up again, not only through 1983 but afterwards.

5. We could only escape the accusation of meanness if it were clear that the uprating which would be produced by historical method were higher than that produced by the forecast method less the adjustment. But that of course would mean additional public expenditure.

6. In practice, there may not turn out to be much in it either way. On present prospects, the May inflation rate will be in the range 3½%-5%, with perhaps the most likely outcome giving an uprating of 4%-4½%. The Budget forecast of inflation in the twelve months to November is likely to be in the range 5-7%, with 6% as the most likely figure, giving an uprating after the adjustment of 4%. There is a range of possible outcomes but a risk of additional expenditure. If the historical method upratin were 1% higher than the forecast method, it would mean additional public expenditure of about £100 million in 1983-84 and about £300 million in a full year.

7. We shall not know which method would be more expensive until June, when the May inflation rate is known. But there is a real risk that sums of the order of £300 million in a full year could be at stake, and this uncertainty about public expenditure could be damaging at Budget time. Under the forecast method of course the uprating is fixed at Budget time on the basis of the Budget forecast, so that the effect on public expenditure is known.

8. We do not underestimate the difficulties of getting the adjustment. But they should be reduced by the benefit improvements which we have in mind. The Chancellor expects to announce a caring package in the Budget which will include several attractive, though inexpensive, measures to help the sick and disabled. There should also be a big increase in child benefit which will restore it to its real level when we entered office.

9. A last point is that a return to the historical basis would strengthen indexation by making the link between benefits and prices more certain and automatic. It would be difficult, if

not impossible, to avoid giving full price protection in the necessary legislation to all benefits, including those not covered by the present pledge of full price protection. Specific primary legislation would be needed in every year if we wished to increase benefits by less than the full amount of the historic inflation rate. Moreover, it would be much more difficult to carry through de-indexation in a new Parliament if we had just legislated to confirm indexation in the last year of the previous Parliament.

10. The balance of argument is clearly a matter of judgement. But we prefer to keep to the announced policy because the alternative could be equally or more controversial, would risk increasing public expenditure, and would strengthen indexation.

JSI. Grieve

for LEON BRITTAN
15 February 1983

[Approved by Chief Secretary]

Mr Ridley

550/2

→ Mr French.

Government Chief Whip

12 Downing Street, London SW1

16 February 1983.

My Dear Geoffrey,

CENTRAL COUNCIL MEETING, LONDON
SATURDAY 26TH MARCH 1983

I enclose a copy of the Motion on Economic Policy which has been selected for debate from 2.15 - 3.15 on Saturday 26th March.

I have been asked to invite you to reply in a speech of not more than 15 minutes.

I should be grateful if you would confirm as soon as possible that you are able to do this.

Yours Ever,
Michael

The Rt Hon Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer.

ECONOMIC POLICY AND TAXATION

SOUTH EAST ESSEX CONSERVATIVE ASSOCIATION

"That this conference recognises that despite continuing world wide recession the Government has brought down the level of inflation and has not reneged on measures for which it was elected, based on a policy of paying our way without printing money, and further repudiates opposition policies advocating action which would lead to heavy borrowing with extra taxation and do nothing for long-term employment prospects."

CONFIDENTIAL

FROM: MISS M O'MARA
DATE: 16 February 1983

MR BAILEY

cc: Mr Kemp
Mr Moore
Mr Lovell (o.r)
Mr Mountfield
Mr Chivers

PS/Inland Revenue

DEPARTMENT OF INDUSTRY BUDGET REPRESENTATIONS

Following this morning's meeting on the enterprise package, the Chancellor would be grateful if, as part of the briefing for his meeting with the Secretary of State for Industry on Friday, you could supply him with a check-list indicating where we now stand on the various tax and expenditure proposals which Mr Jenkin has canvassed in his letters of 6 and 12 January.

MOM

MISS M O'MARA

FROM: MISS J M SWIFT

DATE: 16 February 1983

(pup)

MR STUBBINGTON

cc ~~PPS~~
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Kemp
Mr French
Mr T Burns
Mr Harris
Mr Allen
Mr Hall
Mr Williams
Miss Deyes

PARLIAMENTARY QUESTIONS: FIRST ORDER, THURSDAY 24 FEBRUARY 1983

The Chief Secretary is content with the allocation attached to your minute of 14 February.

MISS J M SWIFT

MP

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Michael Scholar, Esq
10 Downing Street
LONDON SW1

17 February 1983

Dear Michael,

BUDGET

I promised last night to let you see some material showing where we now are on Budget work. I accordingly enclose a set of records of the weekly "stock-taking" meetings, together with a copy of the score card which was discussed at this week's one. Budget B on the score card shows where we are now heading, though much of course depends on what surprises the forecasters have for us next week.

We plan to send you a minute on 22 February, for discussion on 23 February. And we are priming our incendiary device on Mortgages.

Yours ever,

John K

J O KERR
Principal Private Secretary

.R COSTS (indexed base) £m

		Firm or Open	Budget A 1983-84	Budget A 1984-85	Budget B 1983-84	Budget B 1984-85	Budget C 1983-84	Budget C 1984-85	Comment
Specific Duties	Overall	F	10	10	10	10	10	10	Cigarettes and Cider
	Petrol	O	-	-	-	-	50	50	Possible petrol
Industry	NIS	F	200	300	200	300	200	300	½% NIS from August, private sector only
	Oil	F	90	140	90	140	90	140	Oil - Package B) Note: Mr Lawson looking
	Oil	O	-	-	-	-	15	(30)	Oil - PRT reliefs) for £200m in total) 1983-84
	CT	O	-	-	130	180	130	180	Cockfield on CT or Reduce CT rate by 2% etc
	CT	O	-	-	-	-	-	100	ACT/DTR options
Persons	R/W	O	700	730	990	1040	1140	1200	R/W + 6-8½-10%
	CB	O	[90]	[250]	[90]	[250]	[90]	[250]	CB (P/Ex charged to the Reserve)
	IIS	O	-	-	-	-	5	35	Reduce IIS to 10%
Packages/Risks	Misc	O	400	550	400	550	400	550	(say) see separate notes
			1400	1730	1820	2220	2040	2535	
Fiscal Adjustments		O	2000	3000	2000	3000	2000	3000	Depending on forecast.
PSBR		O	8000	7500	8000	7500	8000	7500	Depending on decisions.
REVENUE COSTS OF BUDGETS £m									
Indexed			1530	2130	2015	2805	2255	3290	) These might appear in Table 1 of the FSBR
Non-indexed			1760	2585	2345	3260	2485	3745	)
Direct Split - Revenue costs									
Budget									
Persons			1020	1315	1360	1735	1570	2085	
Businesses			510	815	655	1070	685	1205	
As above			1530	2130	2015	2805	2255	3290	Indexed revenue costs as above
Budget plus Autumn									
Persons			1020	1315	1360	1735	1570	2085	
Businesses			1210	1615	1455	1870	1485	2005	
As above plus Autumn			2230	2930	2815	3605	3055	4090	Indexed revenue costs as above plus 1% NIS from April (£700m 1983-84, £800m 1984-85)

CONFIDENTIAL

FROM: A M W BATTISHILL

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

17 February 1983

1. MR GREEN 17/2
2. MINISTER OF STATE (REVENUE)
3. CHANCELLOR OF THE EXCHEQUER

CORPORATION TAX RATES AND SMALL COMPANIES

1. At the meeting yesterday you effectively narrowed the choice on corporation tax rate changes to two broad options, depending on whether you can afford to reduce the main rate from 52% to 50%. We were asked to consider whether these options could be improved still further at small extra cost.

2. I attach a short table which offers some further possibilities. They are all minor variants of options 6 and 17. None costs significantly more than these two basic cases.

Option 6 variants

3. Option 6 is basically a small companies package. It cuts the small companies rate from 40% to 38%; but leaves the main rate unchanged at 52%. The profits limit for the small companies rate goes up from £90,000 to £100,000. The upper limit goes up from

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cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Sir Douglas Wass
Mr Middleton
Mr Kemp
Mr Moore
Mr Robson
Mr French
Mr Ridley
Sir Lawrence Airey
Mr Green
Mr Battishill
Mr Lawrance
Mr Painter
Mr McConnachie
Mr S W Jones
PS/IR

£225,000 to £400,000. The marginal rate drops from 60% to 56.2/3%.

Cost: £m35 in 1983-84; £m60 in 1984-85.

4. We have identified three possible variants of option 6. The only difference in each case is in the width of the marginal profits band - and thus in the marginal rate.

5. Their features are as follows:

Option 6.a. This simply increases the width of the marginal band by another £50,000. With a run-out point of £450,000 the marginal rate is brought down to 56%. The extra cost over option 6. is trivial.

Cost: £m37 in 1983-84; £m65 in 1984-85.

Option 6.b. Compared with Option 6., this increases the width of the marginal band by another £100,000 profits. The run-out point is then £500,000. The marginal rate comes down to 55½%.

Cost: £m40 in 1983-84; £m70 in 1984-85.

Option 6.c. This brings the marginal rate down to 55% exactly; but provides an awkward run-out point of £566,666.

Cost: £m42 in 1983-84; £m75 in 1984-85.

6. There is little to choose in terms of cost between Option 6. and its three variants. If you want to make a real impact on the marginal rate, Option 6.b. looks attractive. It brings the marginal rate down from 60% to 55½% (more than 10 points since the Government took office), and produces nicely rounded profits limits of £100,000 and £500,000. If you are unable to cut the main 52% rate this option would give some help to all companies with profits

up to £½ million. But by roughly trebling the width of the marginal band (to get the marginal rate down) it might perhaps double the number of companies with profits within it. In "poverty trap" terms you would be widening the trap but making it noticeably shallower. The difference between the main rate and the marginal rate would be 3½ percentage points.

Option 17 variants

7. Option 17 is the package which benefits all companies paying corporation tax. The 52% rate and the 40% rate are both cut by 2 percentage points to 50% and 38% respectively. The small profits limits are raised to £100,000 and £250,000 respectively. The marginal rate comes out at 58%.

Cost: £m155 in 1983-84; £m310 in 1984-85.

8. We have identified three possible variants of Option 17. In each case the variation is in the upper profits limit, and so in the marginal rate.

9. These are as follows:

Option 17.a. This raises the top of the marginal band to £300,000 and produces a marginal rate of 56%.

Cost: £m157 in 1983-84; £m315 in 1984-85.

Option 17.b. This raises the top of the marginal band to £340,000 and reduces the marginal rate to 55%.

Cost: £m160 in 1983-84; £m320 in 1984-85.

Option 17.c. This raises the top of the marginal band to £400,000, and reduces the marginal rate to 54%.

Cost: £m162 in 1983-84; £m325 in 1984-85.

The additional cost compared with Option 17 is small. The difference between the least (Option 17) and most expensive (Option 17.c.) is only £m7 in 1983-84 and £m15 in 1984-85.

10. Because the 40% and the 52% rates are each reduced, these options enable the marginal rate to be reduced more sharply without pushing up the upper profits limit so much. But by the same token if the 52% rate comes down to 50% the marginal rate <u>needs</u> to come down by more if the gap between the two is to be narrowed significantly. On this basis, if it can be afforded, Option 17.c. looks attractive.

ACT carry back

11. The cost of a 6 year carry back is independent of changes in the rates of corporation tax. Because of lack of data it is not an easy change to cost. But we have looked again at the range of £m50 to £m100 for 1984-85 to see if this can be refined. Our best central estimate is £m70. The cost in 1983-84 would be small.

A M W BATTISHILL

We have in each option made the lower profits limit £100,000: it is a good round figure, and there seems no need to raise it further, in addition to reducing the small companies rate itself.

17.2.83

CORPORATION TAX RATE OPTIONS

	CT rate	Small Companies rate	Lower profits limit	Upper profits limit	Marginal rate	Cost £m 1983/84	Cost £m 1984/85	Comments
			£000	£000				
OPTION 6 VARIANTS	52%	38%	100	400	$56\frac{2}{3}$%	35	60	The option 6 variants all benefit companies with taxable profits between zero and the appropriate upper limit. The maximum benefit compared with the present system occurs at profits of £225,000 and is shown below for each variant.
6a	52%	38%	100	450	56%	37	65	Maximum benfit £9000
6b	52%	38%	100	500	$55\frac{1}{2}$%	40	70	" " £9625
6c	52%	38%	100	566	55%	42	75	" " £10,250
OPTION 17	50%	38%	100	250	58%	155	310	The option 17 variants all benefit any company with taxable profits, because both the main rate and the small companies rate have been reduced and the profit limits increased.
17a	50%	38%	100	300	56%	157	315	
17b	50%	38%	100	340	55%	160	320	
17c	50%	38%	100	400	54%	162	325	

The House-Builders Federation
82, New Cavendish Street, London W1M 8AD
Telephone 01-580 5588 . Telex 265763.

HM TREASURY – MCU
RECD. 21 FEB 1983
ACTION
SIGNATURE
REF No.

PS/IR
PPS
Mr MURPHY

The Rt Hon Sir Geoffrey Howe, MP
Chancellor of the Exchequer
H M Treasury
Whitehall
London SW1

JRH/GM

17 February 1983

Dear Chancellor,

BUDGET MEMORANDUM 1983
SUPPLEMENTARY SUBMISSION

Since submitting our full 1983 Budget Memorandum on 24 January, we have become aware of a significant anomaly in levying stamp duty on houses sold under shared ownership arrangements. The anomaly has two aspects, though both are closely related.

1. At a narrow level, the current rules mean that a person buying a very small share (e.g. 25 percent) of a house costing under £25,000 will be liable for a larger amount of stamp duty than someone buying a large share (e.g. 75 percent) if each purchaser chooses to pay stamp duty on a lease basis.

   As this is such an obviously unsatisfactory situation, I assume that it is already receiving your attention.

2. A much wider concern must be that, under both the transfer and the lease bases, the current rules work directly against the stated objectives of shared ownership.

   The primary objective of shared ownership is to provide a form of home ownership to people with insufficient current income to purchase an adequate dwelling at full market value. Since the initial introduction of the scheme, it has been extended in several ways and has proved a very successful new form of house purchase. The most recent initiative, Do It Yourself Shared Ownership (DIYSO), has been enthusiastically supported by housebuilders.

   In addition to having relatively low incomes, families or individuals purchasing a house on a shared ownership basis are also likely to have minimal savings. For someone only able to purchase 25 percent or 50 percent of a house in London or the South East (where average house prices are well in excess of £25,000), it would invariably be impossible to afford to pay stamp duty on a transfer basis. However, by choosing a lease basis for payment, it is likely that the burden of stamp duty will be almost, if not equally great. In other words, a person's

Contd/2...

inability to afford the full purchase price is accepted as a legitimate reason for purchase on a shared ownership basis. However, it is not acceptable when it comes to levying stamp duty.

It seems likely that these problems were not foreseen when the stamp duty rules for shared ownership were first devised and that the adverse consequences of these rules are therefore unintended. It is also possible that the market potential of shared ownership was initially underrated. However, now that the scheme is being expanded and the number of transactions is growing, it is essential that these anomalies be addressed immediately. If they are not, the inevitable consequences will be that the overall success of shared ownership will be reduced and the potential of new initiatives, such as DIYSO, will be blunted.

Yours sincerely

Roger Humber

J R Humber
Director

FM. Cd you talk to G. Mauree? Geoff

Apologies for extending this game for some completeness sake – we should not now – for some completeness sake include: Butler, Churchill, Lloyd George – even at the price of some more word counting.

FROM: T BURNS
DATE: 18 FEBRUARY 1983

CHANCELLOR

cc. Sir D Wass
Mr Middleton
Mr Kemp

On Saturday night's Concorde I mentioned calculations of speaking pace for Budget Speeches. On the attached sheet I have added a column showing words/minute (and correcting for the error in the number of words in Mr Maudling's 64 speech). Averaging across speeches listed I obtain the following ranking

	Words/Minute
Howe	164
Amory	163
Callaghan	160
Selwyn Lloyd	160
Healey	152
Jenkins	151
Cripps	150
Maudling	149
Barber	146
Disraeli	144
Macmillan	143
Gladstone	123

2. Of course the figures are based on samples of other Chancellors' speeches but that is unlikely to make a huge difference. Most Chancellors are reasonably consistent, in speech at least!

T BURNS

Length and Duration of Budget Speeches

Listed below are some of the longest and shortest Budget speeches made since 1853.

CHANCELLOR	APPROX NO OF WORDS	DURATION	words/ minute	average
Sir Geoffrey Howe				
9 March 1982	18,200	1 hr 45	173	
10 March 1981	14,500	1 hr 30	161	164
26 March 1980	19,000	2 hr	158	
12 June 1979	11,500	1 hr 10	164	
Denis Healey				
11 April 1978	9,500	1 hr	158	152
26 March 1974	20,500	2 hr 20	146	
Anthony Barber				
6 March 1973	18,000	2 hr	150	146
30 March 1971	15,500	1 hr 50	141	
Roy Jenkins				
14 April 1970	17,000	1 hr 55	148	151
19 March 1968	20,000	2 hr 10	154	
James Callaghan				
3 May 1966	13,000	1 hr 20	163	160
6 April 1965	22,000	2 hr 20	157	
Reginald Maudling				
14 April 1964	13,000	1 hr 30	144	149
3 April 1963	17,000	1 hr 50	155	
Selwyn Lloyd				
9 April 1962	14,000	1 hr 30	156	160
17 April 1961	13,000	1 hr 20	163	
Derick Heathcoat Amory				
4 April 1960	13,000	1 hr 20	163	163
Harold Macmillan				
17 April 1956	15,000	1 hr 45	143	143
Sir Stafford Cripps				
18 April 1950	18,000	2 hrs	150	150
Benjamin Disraeli				
4 April 1867	6,500	45 min	144	144
Sir William Gladstone				
18 April 1853	35,000	4 hr 45	123	123

NOTE OF A MEETING HELD IN NO 11 DOWNING STREET AT 11.30AM ON FRIDAY 18 FEBRUARY 1983

Those Present:

Chancellor of the Exchequer	Secretary of State for Industry
Financial Secretary	
Mr Middleton	Mr Gill
Mr Bailey	Mr Liesner
Mr Kemp	
Mr Moore	
Mr Battishill - Inland Revenue	

DEPARTMENT OF INDUSTRY'S BUDGET REPRESENTATIONS

Opening the meeting, the Chancellor explained that at this stage the shape of the Budget was still unclear. He referred in particular to the uncertainty created by the recent exchange rate developments and the cut in North Sea oil prices. The final balance between measures to help industry and measures to help individuals in the Budget had not yet been struck but the Secretary of State for Industry would recall the recent Cabinet discussion of the subject. The Chancellor certainly acknowledged the need for the Budget to contain a significant commercial component.

2. The Chancellor stressed the importance of looking at the second or full year costs of any measures proposed. Thus the PSBR cost of total abolition of the NIS for the private sector would be £900 million in 1984-85. This demonstrated why he did not feel able to go beyond a ½ per cent cut in his 1983 Budget. The Secretary of State for Industry acknowledged the constraints under which the Chancellor was operating but emphasised the importance of cutting the NIS by at least ½ per cent.

3. The Chancellor noted that the industrial lobby had mounted no significant pressure for action on Corporation Tax. The responses which the Government had received on its Green Paper had been essentially conservative,

displaying a predisposition to retain the existing system. However, in the next Parliament, he would like the Government to address itself to the whole range of Corporation Tax incentives and the balance between taxes on capital and taxes on labour. The Secretary of State said that some pressure was building up for Corporation Tax relief from those engaged in inward investment in fields such as software where no substantial capital investment was involved and where liability for Corporation Tax payments thus fell due relatively quickly. He himself would press only for additional relief for small firms. The Chancellor explained that Treasury Ministers had not yet reached final conclusions but at the least they would want to revalorise the lower and upper limits. He and they were considering reducing the small companies' rate to 38 per cent in order to bring the marginal rate down to around 55 per cent. He was also pondering a reduction in the main rate of Corporation Tax but this would be expensive. The Secretary of State said that ideally he would prefer a smoother progression which would avoid high marginal rates for those firms which expanded and thus lost their small company status. However, he acknowledged the costs involved in moving to a slice system and for the present he would give much higher priority to action on the NIS than to reductions in Corporation Tax. The Financial Secretary added that in response to representations on the Green Paper, Ministers were also considering extending the carry back of ACT and reversing the order of set-off of DTR and ACT which might be linked with action on tax havens. The Chancellor confirmed that he was not proposing to introduce a system of capital allowances for the refurbishment of industrial and commercial buildings, as advocated by Mr Heseltine in his letter of 6 January.

4. On oil, the Secretary of State said that he was not enquiring about the details of the measures the Chancellor had in mind but he stressed the present down turn in the offshore oil industry. On car tax, he referred to his letter of 16 February. He accepted the broad thrust of the report by Treasury and DOI officials but he found it difficult to defend the taxation of such a key industry. He pointed out that if the Chancellor were looking for measures to aid the West Midlands in his

Budget, a reduction of 2½ per cent in the car tax would be a suitable candidate. The Chancellor pointed out that the tax could scarcely be repressing demand which currently stood at record levels. He drew attention to the high degree of import penetration in this sector. A 2½ per cent reduction in car tax would cost £160 million in a full year and would generate a maximum additional demand of 25,000 cars a year, of which 15,000 would be imported. Thus the measure would have a gross cost of over £60,000 per job. The Government had already removed HP controls from cars and he would not want to suggest any indication of action on car tax, given the costs involved. Although final decisions had not yet been taken, he thought it likely that he would be revalorising other motoring taxes across the board. However, he accepted the proposals of the Secretary of State for Transport for a reduction of around 10 per cent in VED on lighter lorries. Mr Jenkin welcomed this.

5. On the taxation of company car benefits, the Financial Secretary said that he believed that many of the representations from the industry were exaggerated. Nevertheless, he had it in mind to increase the charges for 1984-85 by less than the 20 per cent of recent years. This was an area which he believed warranted investigation in the next Parliament. The Chancellor confirmed that the Budget would include an extension of the transitional period for capital allowances for rented teletext TVs and for British films.

6. On share option and incentive schemes, the Financial Secretary said that Treasury Ministers had already agreed that the limit on profit sharing schemes should be £1,250 or 10 per cent of salary, subject to a £5,000 maximum. This would be of particular benefit to higher paid employees. The savings-related share option scheme monthly limit would be raised to £75 which represented an increase over and above revalorisation. Finally, it had been agreed that the instalment period for tax payment on share options should be extended from 3 to 5 years. The effect of all this would be to reduce the marginal rate of tax slightly.

Ministers had also investigated some further concessions. It would be possible to return to the 1972 relief, limited to small unquoted companies, but the dividing line would be difficult to defend and the relief would require some awkward protective provisions. It was also being considered whether the share option gain might be charged to CGT, rather than income tax, but given that CGT was now indexed, this looked too generous. The most promising option appeared to be to continue the present income tax charge on the exercise of the option but to charge only a proportion of the gain, say 75 per cent. The Secretary of State for Industry urged the Chancellor to consider charging only 50 per cent of the gain to income tax, thus reducing the top rate of tax effectively to 30 per cent. It was noted that for those currently paying lower rates of tax, the effective rate would be reduced below 30 per cent. The Chancellor said that Treasury Ministers would be giving further thought to the package on employee shareholding and stock options but he stressed the need to avoid introducing measures that appeared so ambitious that industry would fear that they were bound to be repealed by a Government of a different political complexion.

7. The Financial Secretary outlined the major improvements which the Chancellor would be announcing in the Business Start-Up Scheme. This was to be renamed the Business Expansion Scheme and would provide tax relief for new equity investment in all unquoted companies, other than those quoted on the USM. The annual limit for investment would be raised from £20,000 to £40,000, although the 30 per cent limit on an individual shareholding qualifying for relief would remain. The limitation of tax relief to only 50 per cent of the company's issued ordinary share capital would be dropped completely. The Chancellor stressed the importance of preserving the confidentiality of this aspect of his Budget proposals.

8. On the other text proposals, the Chancellor explained that he had in mind a package of CTT changes. Treasury Ministers had agreed to issue a consultative document on stamp duty reform at Budget time but were not proposing any changes in that area. The Secretary of State for Industry stated his opposition to any

increase in the mortgage interest relief threshold. The Chancellor said he would welcome support on this issue. He confirmed that the draft 1981 legislation on agency workers would not be reintroduced. The Financial Secretary noted that he was attempting to clarify the position on the frontier between schedules D and E and that he was considering whether anything more should be done to commend the use of "net of tax" pay tables. The Chancellor explained that Treasury Ministers had rejected the proposal to introduce enterprise bonds. VAT thresholds were to be revalorised. Ministers were considering embarking on low key consultation about the possibility of introducing annual VAT accounting.

9. On the Secretary of State's other minor tax proposals, the Financial Secretary said that he would investigate the position on scientific research allowances. Ministers were still considering the possibility of extending interest relief to employee buy-outs. Mr Battishill noted that Ministers had rejected the Secretary of State's proposal to make relief available for business formation and other legal costs. The Financial Secretary agreed that there was a case for extending CGT rollover relief but pointed out that this was relevant to decisions on the IIS and could probably not be introduced in 1983-84. He had rejected the possibility of loss relief carry back for new companies. Finally, the Chancellor drew the Secretary of State's attention to the consultative document which had been issued on the tax treatment on zero and deep-discounted stock.

10. The Chancellor referred to the letter which he had received from Mr MacGregor on the Loan Guarantee Scheme. He had broadly accepted Mr MacGregor's proposals and would be replying that day. However, he thought it important that news of the extension of the scheme should be reserved for the Budget. The Secretary of State for Industry said that he understood that the Chancellor had it in mind to announce a £200 million 3 year innovation package in the Budget. The Chancellor confirmed this. The package would contain provision for expenditure on SEFIS, which could be given a West Midlands slant, as could the

provision for science parks, for which funds would have to be found within the £200 million total. The Secretary of State said that he was planning to take on an additional industrial adviser who would be charged with promoting innovation. Here too the focus could be placed on assistance to the West Midlands. A note was handed to the Secretary of State detailing the Chancellor's proposals for the innovation package. This provision had been made without prejudice to future decisions to be taken on Alvey, following discussion in the Health of Industry Group at the beginning of March.

11. At this point, the Secretary of State left the meeting for another engagement.

12. At the close of the meeting, there was a brief discussion of the handling of the second report of the Working Group on Petrochemicals. It was agreed that this was not a matter for the Budget but Mr Gill explained that his Secretary of State felt that it was a subject which should be considered by Ministers collectively. Mr Bailey doubted whether sufficient material had yet been amassed to make a Ministerial discussion worthwhile. The Chancellor said that he was therefore proposing that a full study should be undertaken by outside consultants. Mr Gill suggested that there might in fact be sufficient resources within the DOI's Industrial Development Unit to undertake this work. The Chancellor proposed that officials should discuss this possibility. The temms of reference of the study and the method of proceeding should then be approved jointly by the Secretary of State for Industry and himself.

13. The meeting closed at 12.55pm.

MOM

MISS M O'MARA

Distribution:

Treasury Ministers and officials present
Chief Secretary
Minister of State (R)
Sir D Wass
Mr Ridley
Mr Harris

COVERING

BUDGET SECRET

FROM: E P KEMP
21 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir Douglas Wass
Mr Norgrove
Mr Evans

BUDGET - MINUTE TO THE PRIME MINISTER

I attach a draft based on the analysis set out in my minute to you of Friday. I am still clearing one or two bits and pieces of this - notably the reference to the forecast - with those responsible.

2. The draft is pretty rough and can probably be shortened. And as I say one or two points need clearing with others. I will let you have amendments etc very quickly.

EPK

E P KEMP

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO :

PRIME MINISTER

BUDGET ARITHMETIC

A brief note on the Budget arithmetic may
today's
I ~~thought it would~~ be useful ~~is~~ before ~~this afternoon~~'s meeting ~~I let you have a brief note as to how the Budget arithmetic is beginning to shape up.~~ on social security matters.

As you know, I envisage that in
2. ~~My preliminary thinking is that~~ the Budget : ~~should go along the following main lines :-~~

Most would be
a. Specific duties ~~to be~~ fully revalorised. ~~though with possibly some exception eg in the area of petrol and derv.~~

b. For industry there should be a further ½ per cent NIS cut from August, some concessions (which I am still discussing with Nigel Lawson) on the North Sea oil regime, and some movement on Corporation Tax. ~~On this last I certainly want to do something that will help small firms and the so-called "Corporation Tax poverty trap", but I would like to go further and reduce the main rate from 52 to 50 per cent.~~

envisage a major increase in the
c. For individuals I ~~want to take a big step in the~~ thresholds – perhaps ~~direction of restoring some of the shortfall on thresholds of two years ago. I propose~~ 8½ percentage points, over ~~the statutory minimum~~ Rooker-Wise, ~~of~~ (5.4 per cent), for all bands and rates.
~~Subject to Norman Fowler's views I propose that~~ I also hope to
child benefit
~~child benefit should also~~ increase substantially,
– hopefully taking
~~so as to take~~ ~~its level higher than it has been since 1970.~~
it back to its level in April 197

d. I ~~would also expect to put~~ am also putting together a series of lesser measures ~~in the~~ to assist enterprise and small firms, technology and innovation, construction, ~~and caring~~ and charities ~~fields, which even in total are relatively inexpensive but which have economic and presentational appeal.~~

– including a major (but not inexpensive) simplification of the Business Statistics Scheme.

~~The PSBR cost~~

~~2. At the lower end of the possible ranges~~ 3. The PSBR cost of ~~these~~ the Budget measures in 1983-84 is of the order of £1.6 billion, ~~At the higher end, and if one includes something for unemployment measures (which we are discussing later this week), [some move on Mortgage Interest Relief ceiling], and something further on oil tax, the costs come~~ and to ~~around~~ £1.9 billion. ~~in 1983-84.~~ The comparable costs for 1984-85 are about £1.9 billion ~~at the lower end and~~ to £2.4 billion ~~at the upper end.~~

(and it looks likely to do so)

4. These figures have to be seen against our present estimate — which may contract — of "fiscal adjustments" - that is, room for manoeuvre - of £2 billion for ~~1982-83~~ 1983-84 and between £2.5 and £3 billion for 1984-85. ~~We could in short. So we ought to be able to show~~ ~~If the forecast expected this week shows that,~~ If this week's forecast narrows ~~our~~ the room for manoeuvre, I would be driven to the lower figures in para 3 above, and might if necessary have to pare down some of the measures described in para 2 above — not least because we must be able to show

~~5. [The attached summary tables show the position in figures].~~

~~6. As you will see, on the face of it we can accommodate the upper end of the sort of ranges I have just sketched out, and still leave~~ a reasonable "fiscal adjustment" ~~showing~~ remaining for 1984-85. But I would hope that the main ~~measures~~ measures would stand, for they ~~would~~ constitute an effective package, ~~This has the makings of an attractive and effective package of fiscal measures,~~ splitting almost exactly equally between businesses and persons (if ~~one takes~~ taking into account ~~the~~ measures announced in the Autumn), and would be seen as politically helpful while also continuing ~~And these packages can be presented within a continuation of~~ our prudent monetary and fiscal policies. There would be ~~including~~ a continued reduction in planned borrowing.

~~8. But there are two serious risks which overhang this picture.~~ The first concerns the forecast. ~~This is under constant review, but I understand that~~ The ~~Treasury's~~ latest figures - which may

again - stripping may

yet change ~~and which I have yet to consider~~ - ~~show that the fiscal adjustments for each year may be a little less than we had thought, [perhaps to the extent of say £½ billion in each year].~~ ~~If this were so - and I emphasise that the figures can change and in any case I still want to consider them - we~~ should I think be forced to go for the bottom end of the sort of range of possibilities which I have just mentioned, or - which would not be to your liking or to mine - do a little less over the statutory minimum on personal tax thresholds. But we could live with the position.

5. But overhanging all this is

~~8. The other serious risk is the one we are to discuss this afternoon, namely~~ the question of the social security over-provision. The amount at stake here, ~~as we know,~~ amounts to some £180 million in 1983-84 and £530 million in 1984-85. ~~or if we do not only have to leave untouched the full over-provision but also give some of the concessions that some of our colleagues have in mind~~ £250 million in 1983-84 and £725 million in 1984-85.

So, if we were to have to drop all action to deal with the over-provision, and also to proceed with some of the attractive concessions which we have been considering, with Norman Fowler, the figures would rise to

~~9.~~ 6 You will see that these amounts would have a very serious affect on ~~our~~ the Budget arithmetic. If the ~~Assuming the~~ fiscal adjustment does have to be revised downwards ~~in the way suggested, it is clear that we should have to cut into some of the measures we are particularly attached to for 1983-84, and we could still be left with a derisory~~ (in response to the latest forecasts, some of the key para 2 measures would have to be dropped. Even if no revision proves necessary, we could, following the forecast, we would still be left with a derisory, negative, or ~~nil~~ fiscal adjustment ~~for~~ 1984-85. Moreover, the public expenditure position, particularly for 1984-85, would be particularly difficult.

~~10. I would summarise the position as follows~~ :-

7. In short:-

~~a.~~ On our present forecast and treating the social security over-provision in the manner the Chief Secretary proposes, we have the makings of an attractive Budget, within prudent fiscal and monetary policies, which would be welcomed, in my view, both by individuals and businesses.

9. ~~However we are risk on the forecast;~~ If ~~this~~ the forecast turns against us ~~- and assuming the Chief Secretary has his way on the social security over-provision - we are down towards the lower end of the Budgets~~ we shall have to keep the cost of our Budget measures to the lower figures in para 3, ~~I have in mind,~~ which means ~~that~~ omitting some attractive measures ~~would have to fall, or we would do something less than would otherwise be the case on the thresholds.~~

(or even lower)

~~c. If we decide other than as proposed by the Chief Secretary on the social security provision, but the forecast holds up, then the position is not very different from (b) - we could accommodate the cost but some attractive measures would have to fall out and, what is more, the balance of the Budget as between persons and businesses would be perceived by business as not being in its favour.~~

we were

6. If in addition we were to drop action on ~~the forecast does have to be shaded down, and the Chief Secretary does not secure his position on the~~ social security over-provision, ~~then we may be faced with~~ The result would be a most unattractive Budget; a relatively small amount of reliefs etc, with (certainly ~~with~~ in the second year) the social security beneficiaries taking a very large part, leaving relatively little for ~~other~~ the rest of the personal ~~claims~~ sector and for industry.

8. It follows that, whether we proceed by ~~the~~ the Chief Secretary's route or by Norman Fowler's, we really must act on ~~I am of course as conscious as anyone of the political difficulties of what is proposed on~~ the over-provision. ~~But as you will see to give way could have serious consequences for my Budget and its general shape even if the forecast does hold up; and very serious consequences indeed if it does not. These are further reasons for holding our position.~~

~~I~~ However my preference is for the Chief Secretary's route, because I judge it easier to win that way in the House. ~~But win the key point is the~~ But win we must: that is the key point.

G.H

10, DOWNING STREET,
WHITEHALL S.W.1

Seen by Mr Seaman.

With the Private Secretary's Compliments

Jill.
Pl. tell Sir A Rawlinson
Mr Mayes
that this is available here
if they want to see it.

24/2

24/2

10 DOWNING STREET

From the Private Secretary

21 February 1983

Dear David

UP-RATING OF PENSIONS AND OTHER BENEFITS

The Prime Minister held a discussion this afternoon of the matters set out in your Secretary of State's minute of 11 February, and the Chief Secretary's minute of 15 February. In addition to your Secretary of State, the Home Secretary, Chancellor of the Exchequer, Chancellor of the Duchy of Lancaster, the Chief Secretary, and Mr. Gregson, Cabinet Office, were also present.

The Prime Minister explained the background to the discussion. She saw considerable attraction in the longer-run in moving from the forecast to the historic method of up-rating. Such a move would enable the Government to by-pass continuing political difficulty in years to come stemming from over-shoots and under-shoots. She would prefer the historic method to be based, if possible, on the June RPI figure which would become available in July; but she recognised that this would depend upon how quickly the pension, and so on, books could be produced.

The Chancellor said that it would be most important for his Budget arithmetic to secure the savings which were shown in the Public Expenditure White Paper on account of recovery of last year's over-shoot. Your Secretary of State's proposal was designed to be neutral on this point, on the basis that the November RPI figure, whatever it was, minus the 2 per cent adjustment was likely to be roughly equal to the May RPI figure, whatever that proved to be. From the pensioners' point of view, therefore, the cash increase would be the same whatever method of up-rating was chosen.

In discussion it was argued that a return to the historic method would make the handling of the social security up-rating much easier in political terms not only this year but in the future. Only twice since the forecast method had been adopted had forecasts proved correct. The Opposition would have difficulty in attacking the Government for making this move, given the circumstances in which the Labour Government moved from the historical to the forecast method. The attraction of making the change now

/was that it

was that it would be a very expensive change to make when inflation was falling; the present situation, in which the change could be made without cost to Government or pensioner, would not easily recur. Furthermore, a move to the historic method on the basis proposed might well seem to the Government supporters to produce a deal generous to the pensioners in relation to what the Public Expenditure White Paper had led them to expect. Against this it was argued that a move to the historic method involved a greater risk of a more expensive uprating than otherwise would occur. The cost of every additional one per centage point would be £100 million in the first year and £300 million in a full year. It would not be possible to choose this course in preference to various improvements in other social security benefits, since some of these improvements were in any event inescapable: restoration of the 5 per cent abatement of unemployment benefit now seemed unavoidable; nor did it seem likely that the increase in child benefit could be kept down to 3 per cent. In addition to these financial arguments, a political case could also be made: since the Government would not be giving up the savings it had scored for recovery of over-shoot, its critics would direct all their fire against the move to the historic method. They would charge the Government with being devious as well as mean. Finally, the change would be taken as a signal that the Government believed inflation would rise rapidly.

Summing up the discussion, the Prime Minister said that it was agreed that the Government should seize this opportunity of returning to the historic method of uprating, which was methodologically far more satisfactory. She would wish to consider further how public service pensioners should be treated, but her initial conclusion was that they, too, should be switched to the historic method. She would raise the matter orally at Cabinet on 3 March. Knowledge of the decision should be restricted to as few people as possible: the Prime Minister asked your Secretary of State to consider whether the timetable made it necessary for legislation to be prepared in the meantime.

I am sending copies of this letter to John Kerr (HM Treasury), John Gieve (Chief Secretary's Office) and Peter Gregson (Cabinet Office). I should be grateful if you and they would ensure that it is neither copied nor circulated outside your Private Offices; and that it is seen by only those specifically authorised by your Ministers to do so.

Yours sincerely,

Michael Scholar

David J. Clark, Esq.,
Department of Health and Social Security.

BUDGET SECRET

DATE: 21 FEBRUARY 1983

million PSBR COSTS		BUDGET B 1983-84	1984-85
Specific Duties:	Cigarettes and Cider	10	10
	Petrol and Derv	30	30
Industry:	NIS ½% from August	200	300
	Oil "Package B" (but see also "packages")	90	140
	CT Option 6 - Option 17	35- 140	60- 270
	ACT Option	-	0- 70 ?
	DTR Option	-	0- 40 ?
Persons:	8½% over R/W	1010	1060
	CB (Public Expenditure)	[90]	[250]
Packages:	See separate note	200-435	275-500
		1575-1915	1875-2420
Fiscal Adjustment	) but see covering	2000	3000-2500
With PSBR of	) minute	8000	7500-7000

REVENUE COSTS

		1983-84	1984-85
Indexed	) As in Table 1	1860-2280	2640-3350
Non-indexed	) of FSBR (approximate)	2090-2510	3090-3800

Direct Split (Revenue costs, indexed) :-

		1983-84	1984-85
Budget			
Persons		1290-1390	1760-1880
Business		570- 890	880-1470
	As above	1860-2280	2640-3350
Budget plus Autumn			
Persons		1290-1390	1760-1880
Business		920-1240	1280-1870
	As above plus ½% NIS (£350-£400)	2210-2630	3040-3750

DATE: 21 FEBRUARY 1983

"PACKAGES" SUMMARY

£million

		Annex	1983-84	1984-85	
Enterprise and Small Firms (Note 1)		A	67	205	
Technology and Innovation		B	44	84	
Construction		C	85	25	
Caring and Charities		D	30	60	
Miscellaneous (including "Fairness")		E	-	(40)	
Mortgage Interest Relief (to £35,000)	up to		100	125	←
Employment	up to		120	120	X ?
Oil Tax - additional to settled package	up to		100	100	X
Child Benefit - in main Progress Report			90	250	?
			316-636	584-929	
Less Public Expenditure element already allowed for in forecast (say) (Note 2)			(100-150)	(200-250)	
Less Reduction to adjust to PSBR costs (say) (Note 2)			(20- 50)	(100-180)	
In Progress Report (say)			200-435	275-500	
Gross Public Expenditure elements			224-344	229-449	

Notes:

1. No provision is made for anything on electricity prices for big users or tax reliefs on NIS for the self-employed, on grounds that these are unlikely to proceed. ✓

2. Adjustments still under review.

3. Due to further refinement some of these figures differ from those in Summary of 18 February. Yet further changes remain possible.

BUDGET CONFIDENTIAL

BUDGET - CONFIDENTIAL DATE: 21 February 1983

BUDGET PACKAGES [Note: items marked * are public expenditure]

TABLE A

ALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

	1983-84	1984-85	Full Year
Settled			
1. Business Expansion Scheme	nil	75	75
2. Loan Guarantee Scheme*	5	5	-
3. Wider share ownership	20	35	40-45
4. Capital Gains Tax			
(a) monetary limits	nil	under 1	under 1
(b) retirement relief	nil	under 1	1-2
5. VAT registration thresholds	5	10	10
6. De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7. Acceptance credits	1-2	1-2	1-2
Revenue cost	27	122	
Public expenditure cost	5	5	-
TOTAL PACKAGE COST	32	127	129-134
Still outstanding	23	55	?
8. Capital Transfer Tax (22.2.83 mtg)	34	70	90
9. Zero/deep-discounted stock (FST to minute Chancellor)	na	na	na
10. Net of tax pay tables) (FST dealing)	na	na	na
11. Schedule D/E issues)	na	na	na
12. Relief for interest, employee buy-outs (IR submission 18.2.83 to FST)	under 1	2	5
13. Close companies - ACT limit on loans (depends on mortgage interest relief ceiling)	under 1	under 1	under 1
14. Tax treatment of interest paid by companies to non-residents (comments on consultative document by 22.2.83)	under 1	under 1	10
15. Other wider share ownership	nil	5	5-10
[16. Tax relief for self-employed NICs (CST/FST/EST against) - pm only	50	100	100]
OUTSTANDING ITEMS COST (excluding No 16)	35	78	110-115
GRAND TOTAL	67	205	239-249

BUDGET - CONFIDENTIAL

TABLE B

DATE: 18 February 1983

BUDGET PACKAGES

TECHNOLOGY AND INNOVATION

[Note: items marked * are public expenditure]

Settled	1983-84	1984-85	1985-86
1. Extension of transitional period for capital allowances - films	nil	nil	30
2. Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3. SEFIS*	20	40	40
4. Information technology*	7	10	13
5. Innovation linked investment*	5	15	20
6. Advisory services*	12	9	9
7. Science Parks (see note)	-	-	-
Revenue costs	nil	10	45
Public expenditure costs	44	74	82
TOTAL PACKAGE COSTS	44	84	127

Note: The total public expenditure cost over three years is £200 million; any science park cost is to be accommodated within this total. The cost of the whole package over three years is £255 million.

DATE: 18 February 1983

BUDGET - CONFIDENTIAL

DATE: 21 February 1983

BUDGET PACKAGES

CONSTRUCTION

[Note: items marked * are public expenditure]

	1983-84	1984-85	Full Year
Settled			
1. Enveloping*	50	nil	-
2. Improvement grants*	35	nil	-
3. Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
4. Extension of hotel allowance to self catering	nil	up to 5	up to 10
5. DLT - extension of own-use deferment	nil	under 1	5
6. Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
Revenue costs	nil	15	40
Public expenditure costs	85	nil	-
TOTAL PACKAGE COSTS	85	15	40
Still outstanding			
7. Stock relief: householders part exchange (IR submission pending)	under 1	10	10 ?
Tourism items			
8. Section 4 grants	nil	nil	nil
GRAND TOTAL	85	25	50

Notes

(1) The mortgage interest relief item previously listed in the construction package is now listed separately.

(2) Item 8 on Section 4 grants would involve expenditure of £3 million each year, but with offsetting savings from Tourist Boards.

BUDGET - CONFIDENTIAL

TABLE D

BUDGET CONFIDENTIAL

DATE: 21 February 1983

BUDGET PACKAGES

CARING AND CHARITIES

[Note: items marked * are public expenditure]

	1983-84	1984-85	Full year
Settled			
1. Extension of widows bereavement allowance	20-25	25-30	25-30
2. Real increase in mobility allowance*	2	6	-
3. Real increase in therapeutic earnings limit*	0.1	0.3	-
4. Abolition of £250,000 limit for CTT exemption -gifts to charities	under 1	under 1	under 1
5. Deeds of covenant; increase in ceiling for higher rate relief to £5,000	nil	3	3
6. New war pensioners mobility supplement*	-0.1	1	-
7. Supplementary benefit capital disregards*	3.5	10	-
8. Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1	under 1
9. Removal of invalidity trap*	7.5	23	-
Revenue costs	20-25	28-33	28-33
Public expenditure costs	13	40	-
Public expenditure costs after offsetting savings	nil	11	-
TOTAL PACKAGE COSTS	20-25	39-44	28-33
Still outstanding			
10. Real increase in housing benefit childrens' needs allowance * (see note)	5	15	-
11. Grants to bodies involved in voluntary service for elderly * (see note)	2	2	-
GRAND TOTAL	27-32	56-61	28-33

Note: Decision on items 10 and 11 to be taken after meeting with Secretary of State for Social Services.

DATE: 21 February 198

BUDGET - CONFIDENTIAL

BUDGET - CONFIDENTIAL

DATE: 21 February 1983

BUDGET PACKAGES

TABLE E

MISCELLANEOUS (INCLUDING FAIRNESS IN TAXATION)

Note: All figures are yields unless otherwise specified

	1983-84	1984-85	Full Year
Settled			
1. Fringe benefits - scholarships	1-10	1-10	1-10
2. Fringe benefits - car and car fuel scales V clear/hard	nil	35-40	35-40
3. Fringe benefits - "Marks & Spencer" device	nil	nil	1
4. Beneficial loans - official rate COST:	nil	1-2	1-2
5. Life assurance: chargeable events: secondhand bonds	under 1	under 1	under 1
6. CGT: non-resident trusts	under 1	under 1	under 1
TOTAL PACKAGE YIELD	2-11	36-49	37-50
Still outstanding			
7. Group relief: avoidance (BL)	nil	10	10
8. DLT: disposals by non-residents	1	2	2
9. Taxation of international business.	under 1	under 1	100
Note: MST(R) recommends proceeding with items 7-9			
10. Fringe benefits; double £25,000 device (depends on mortgage interest relief ceiling)	nil	under 1	under 1 ?
11. Directors PAYE tax (decision in context of Keith and package as a whole).	nil	10	10 ?
12. TSBs to be treated as bodies corporate (inclusion depends on Budget arithmetic) COST:	10	20	20
13. Company cars: capital allowances (FST dealing)	nil	nil	nil
14. Company cars: easement of potential double charge	nil	nil	nil

15. /...

	1983-84	1984-85	Full year
15. Stamp duty - selective reform package (awaiting Chancellor's decision) COST:	5	5	5
16. VAT exemption for work of art accepted in lieu of tax (Customs to advise)	na	na	na
17. Agricultural rental income to be treated as earned income (FST dealing)	na	na	na
OUTSTANDING ITEMS YIELD	14 (COST)	2 (COST)	97
GRAND YIELD TOTAL	3-12 (COST)	34-47	134-147
Taken as	nil	(40) yield	

CHANCELLOR OF THE EXCHEQUER

1. Regulator allows

i. 25% either way on VAT

ii 10% either way, à la carte, on excise duties

~~together~~

i. would produce up to £2.5B extra p.a.

ii would produce up to £1B

2. A further $5 fall in the oil price (below the $29 built in the forecast) would raise the PSBR by

1983/4	1984/5	Date of Fall
£1B	£1.75B	1/4/83
£0.75B	£1.5B	1/7/83
£0.25B	£1.5B	1/10/83
—	£1.25B	1/1/84.

[signature]

CH/EX REF NO 13(83)9

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

BUDGET ARITHMETIC

A brief note on the Budget arithmetic may be useful before today's meeting on social security matters.

2. As you know, I envisage that in the Budget:-

(a) Most specific duties would be fully revalorised.

(b) For industry there should be a further ½ per cent NIS cut from August, some concessions (which I am still discussing with Nigel Lawson) on the North Sea oil regime, and some movement on Corporation Tax.

(c) For individuals I envisage a major increase in the thresholds - perhaps 8½ percentage points, over Rooker-Wise (5.4 per cent), for all bands and rates. I also hope to increase child benefit substantially - hopefully taking it back to its level in April 1979

(d) I am also putting together a series of lesser measures to assist enterprise and small firms, technology and innovation, oonstruction, and charities - including a major (but not inexpensive) simplification of the Business Start-Up Scheme.

3. The PSBR cost of the Budget measures in 1983-84 is of the order of £1.6 billion to £1.9 billion. The comparable costs for 1984-85 are about £1.9 billion to £2.4 billion.

/These

4. These figures have to be seen against our present estimate - which may contract - of "fiscal adjustments" - that is, room for manoeuvre - of £2 billion for 1983-84 and between £2.5 and £3 billion for 1984-85. If this week's forecast narrows the room for manoeuvre (and it looks likely to do so), I would be driven to the lower figures in paragraph 3 above, and might if necessary have to pare down some of the measures described in paragraph 2 above - not least because we must be able to show a reasonable "fiscal adjustment" remaining for 1984-85. But I would hope that the main measures would stand, for they constitute an effective package, split almost exactly equally between businesses and persons (taking into account measures announced in the Autumn), and would be seen as politically helpful while also continuing our prudent monetary and fiscal policies. (There would be a continued reduction in planned borrowing.)

5. But overhanging all this is the question of the social security over-provision. The amount at stake here amounts to some £180 million in 1983-84 and £530 million in 1984-85. If we were to have to drop all action to deal with the over-provision, and also to proceed with some of the attractive concessions which we have been considering, with Norman Fowler, the figures would rise to £250 million in 1983-84 and £725 million in 1984-85.

6. You will see that these amounts would have a very serious effect on the Budget arithmetic. If the fiscal adjustment does have to be revised downwards in response to the latest forecasts, some of the key paragraph 2 measures would have to be dropped. Even if no revision proves necessary, following the forecast, we would still be left with a derisory, or negative, fiscal adjustment for 1984-85. Moreover, the public expenditure position, particularly for 1984-85, would be particularly difficult.

7. In short:-

(a) If the forecast turns against us we shall have to keep the cost of our Budget measures to the lower figures in paragraph 3 (or even lower), which means omitting some attractive measures.

/In

(b) If in addition we were to drop action on social security over-provision, the result would be a most unattractive Budget: a relatively small amount of reliefs etc, with (certainly in the second year) the social security beneficiaries taking a very large part, leaving relatively little for the rest of the personal sector and for industry.

8. It follows that, whether we proceed by the Chief Secretary's route or by Norman Fowler's, we really must act on the over-provision. My preference is for the Chief Secretary's route, because I judge it easier to win that way in the House. But win we must: that is the key point.

Margaret O'Mara

for (G.H.)

21 February 1983

(approved by the Chancellor and signed in his absence)

CONFIDENTIAL

3.28

Sir A Rawlinson
Date: 21 February 1983

CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Wilding
Mr Mountfield
Mr H Evans
Mr Lovell
Mr Monger
Mr Burgner
Mr Moore
Mr Kemp
Mr Cassell
Mr Hart
Mr Kelly
Mr Ridley
Mr Harris

Schedule re. [illegible] in light of adjustment. See comments.

BUDGET: PUBLIC EXPENDITURE

This minute is to give an updated assessment of the public expenditure aspects of the Budget.

2. It assumes that the announced policy concerning adjustment of the social security uprating is sustained. You are discussing this today. To hold the policy here is especially important for 1984-85 and later years, where the amounts at stake are over £500m a year, but any weakening would also affect 1983-84 and make necessary a reassessment of what new spending can be afforded in the Budget.

3. Since I last reported (my minute of 7 February), things have become tighter. Some new threats have appeared for the Contingency Reserve. On the assumption, which is reasonable, that these will not all materialise, or not fully, I believe that the Budget expenditure decisions so far emerging can still be held, just, within the general framework intended. But there is no room for significant further additions. It would be more comfortable if the Budget public expenditure bill were reduced by dropping one of the bigger items.

4. There are powerful reasons for sticking to the intention that Budget decisions to add to public expenditure on certain programmes should be charged to the Contingency Reserve. To be able to say that these additions will thus be contained within the planning total

already announced will minimise damage to discipline within Whitehall, and minimise the political and market risks of criticism that the claim to have public expenditure under control is being eroded less than two months after the White Paper.

5. We have been saying that up to £350m of the Reserve for 1983-84 might be committed for Budget measures, of which anything over £100m must be regarded as reducing forecast shortfall and thus be scored against the fiscal adjustment. The current Budget proposals to be charged to the Reserve add to £344m. So we are at present just within the £350m.

6. The calculation is as follows. The small "caring" items are omitted from the table because they can be covered, along with the "sweeteners", within the £70m by which we have reduced to £180m net the £250m gross saving from the social security adjustment The other items are:

		£m	
Child benefit	[illegible]?	90	£6.40
Employment measures	How serious? What damage?	120	(latest estimate; revised down)
Construction		85	
Innovation		44	
Enterprise		5	
		344	

~~[illegible]~~
Energy pricing?

7. I think that £350m can stand as the upper limit, but the risks to the Contingency Reserve are increasing. We now have foreseen threats amounting to £735m. There will certainly be some bids not now foreseeable coming forward during the year. In order to have room for £350m from the Budget we now have to rely on some of the foreseen threats disappearing, or taking a form which removes them from the Reserve, or the nationalised industries taking less than the £500m PE thinks it necessary to allow.

8. Appendix 1 shows the latest list of threats. Significant changes since the last report are the possible loan to Yugoslavia shifting into 1983-84, and £140m for overseas students grants as a result of a Court judgment as to eligibility. (This however needs further examination as to whether there is a Government decision involved which brings it into the Reserve.) ?

9. The planning total for 1983-84 will also be affected by estimating changes not charged to the Reserve resulting from revised economic assumptions. Happily the net result of these estimating changes looks to be insignificant. Additions resulting from an increase

in the foreseen number of unemployed are offset by decreases in certain demand led services as a result of lower inflation.

10. We should also consider the impact of Budget measures on later years. Apart from the social security adjustment the important item here is child benefit, which has a much bigger full year cost than in 1983-84. The total addition in 1984-85 from the Budget public expenditure decisions listed in paragraph 5 is put at about £450m. This can and will be charged against the £3000m provisional reserve, but reduces the room for manoeuvre in the 1983 Survey.

AKR

A K RAWLINSON

Appendix 1

CONTINGENCY RESERVE 1983-84

The Contingency Reserve for 1983-84 in the White Paper is set at £1500 million.

2. Apart from the nationalised industries the main threats foreseen at present, apart from Budget measures, are:

		£ million
Industry		
(i)	Finance for BL	150
(ii)	Launch aid Various airframe and aero engine projects for which there is currently no PES provision.	50
Defence		
(iii)	Armed Forces pay To allow for possiblity of acceptance of AFPRB recommendations higher than 3½ per cent. But some underspending is possible on defence budget in 1983-84, so that an amount of this size could be absorbable unless something unexpected happens to the exchange rate or to inflation.	70
Health		
(iv)	Restoration of DDRB abatement Left on one side in PES discussion. Could be difficult to resist. Might be some offsetting savings.	45
(v)	Pharmacists' profits	10
Home Office		
(vi)	Police pay	25
(vii)	Enhanced civil defence planning.	15
Treasury		
(viii)	Indemnities to Bank of England for support to Mexico and Brazil	135
FCO		
(ix)	UK contributions to peace-keeping force in Namibia. Contingent on events. Probability may be small.	20
(x)	Overseas students fees: Agreed package Court judgment about eligibility.	5 140
(xi)	Loan to Yugoslavia	40
Public services pay		
(xii)	If increases exceed 3½% but are less than say 4½%, they should be containable, but some small departments may be in difficulty: say	10
Other		
(xiii)	Including territoral consequentials	20
	TOTAL	735

3. Some of these items may not materialise. But further threats not included above must be mentioned:

a) If public services pay increases were more than say 4½%, containment would be difficult generally. Each 1% represents about £50m.

b) Failure to hold the decision to recover the overshoot on national insurance benefits would cost £180m if the sweeteners were not conceded, £250m if the sweeteners were conceded as well.

c) Nothing is included for petrochemicals, or for energy prices.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 February 1983

The Rt Hon Nigel Lawson, Esq, MP
Secretary of State for Energy

Dear Nigel

NORTH SEA FISCAL REGIME

I have been considering your letter of 4 February.

My proposal on APRT would be to accelerate phase out by commencing the 15% rate from 1 July 1983 and otherwise leaving the timetable as previously discussed (20% 1 January to 30 June 1983, 15% 1 July 1983 to 31 December 1984, 10% 1 January to 31 December 1985, 5% 1 January to 31 December 1986, and nil thereafter). This would produce a total oil tax package (excluding the Consultative Document proposals about which John Wakeham wrote to you on 4 February) costing an average of rather over £200m a year over the next few years. The cost in 1983/84 would be £90m viz £50m APRT plus £40m appraisal relief.

I note you propose advancement by a full year and feel that the minimum cost in 1983/84 should be around £200m. As you appreciate I have to look at what we propose on the North Sea against the background of the overall budget arithmetic and in the light of the priorities we discussed in Cabinet the other week. I think the total amount I have in mind in terms of an immediate improvement to company cash flow is about right. What will be of most interest to the industry - apart of course from the valuable future field concessions - is the average amount of cash flow improvement over the next few years and this, as I have said, would be over £200m a year.

I have also thought further about the commencement date for "new field" status. I explained at the meeting that I do have difficulties about backdating this to 1 April 1982. Although the cost is deferred to the late 1980's it is substantial (some £280m). I am not totally convinced that this would be really justified for fields which are already firmly going ahead. Nevertheless, if it were sufficient to bring us together on the package as a whole, I would be prepared to concede backdating to

/1 April 1982 provided

1 April 1982 provided you do not press for phasing out of royalties on existing fields and accept the broad pattern of phasing out of APRT I have outlined. (I may need to look at the detailed profile of phase out as my Budget as a whole takes shape in the light of the latest forecasts.)

This would also be on the basis that we can reach agreement on the two subsidiary issues to be settled - the consultative document proposals on which John Wakeham has written to you and which would raise the net cost of the package to £100m and the question of whether "new field" treatment for royalties and PRT oil allowances should extend to onshore and Southern Basin fields. I understand our officials will be putting up a paper shortly on this question.

GEOFFREY HOWE

NOTE OF A MEETING ON TUESDAY 1 MARCH, 1983 AT 3.00PM
IN THE CHANCELLOR'S ROOM HM TREASURY.

Present: Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Cassell
Mr Kemp
Mr Moore
Mr Kerr
Mr Robson

Mr Green)
Mr Isaac)
Mr Blythe)
Mr Beighton) Inland Revenue
Mr Taylor-Thompson)
Mr Battishill)
Mr O'Leary)

MINOR FISCAL ISSUES

The meeting discussed the items set out in Mr Isaac's minute of 25 February ("Fairness in Taxation") and those set out in Mr Kerr's minute of 25 February.

1. Group relief: BL Device

It was agreed that action should be taken to stop this avoidance device.

Employer's Scholarships

It was noted that the Department of Education had not yet replied to the Chancellor's letter. It was agreed that it was possible to envisage a fall-back position whereby the run-out date for existing beneficiaries would be put back to September 1984.

2. Marks and Spencers Device: Directors' Houses

It was agreed that action should be taken to stop this device.

3. Double £25,000 device

It was agreed that action should be taken on this only if the mortgage interest relief ceiling were raised.

4. Threshold for benefits in kind and the official rate for beneficial loans.

It was agreed that there was no need for change or mention in the Budget speech.

5. Car fuel and petrol scales for 1984/5

There was some discussion of the appropriate rise in the scale in 1984/5. It was noted that they were still far from reflecting the real value of the benefit. The Chancellor thought that the lower rate of inflation should be reflected in a lower rise in the scale. He would be grateful if the Inland Revenue could work out a scale based on a 14 to 15 per cent increase. The Chancellor thought that for the longer term it would be worth having a fact-finding study to square outside views on the value of these perks.

6. Capital allowances on cars

The Chancellor did not think there was a case for any change on this.

7. Easement of potential double charge on company cars

The Chancellor did not feel that there was a space in the finance bill for this.

8. Second-hand bonds

Action on this should go ahead as already agreed.

9. <u>DLT disposals of development land by non-residents</u>

Mr Beighton explained that the Inland Revenue had been consulting the Law Society and the Royal Society of Chartered Surveyors. While the Law Society had responded helpfully, the latter put up an alternative scheme. There had not yet been time to study it. The <u>Chancellor</u> asked the Minister of State (R) to reconsider in the light of the Chartered Surveyor's comments.

10. <u>CGT: Non-resident trusts</u>

It was agreed that action should be taken to stop this loophole.

11. <u>Taxation of international business</u>

The <u>Chancellor</u> would consider further when he had seen the Minister of State's views on Mr Green and Mr Taylor-Thompson's submission.

12. <u>Denial of stock relief to commodity and bullion dealers</u>

The <u>Chancellor</u> had already agreed to drop this item.

13. <u>Denial of stock relief on payments of account</u>

The <u>Chancellor</u> had already agreed to drop this item.

14. <u>Trustee Savings Bank</u>

It was noted that a virtual undertaking had been given to the TSBs to give them corporate status. Some doubt was expressed about the speed at which the costs would come through. <u>Mr Battishill</u> was asked to look again at the arithmetic, particularly for 1984/5.

15. <u>Mortgage interest relief ceiling</u>

This was under discussion.

16. Job relation mortgage interest relief for the self-employed.

It was agreed that this should be included in the Budget.

17. Interest relief for employee buy-outs

The Chancellor agreed that this item should be included in the small firms and enterprise package, although he noted that he would want to look at the shape of the packages before final inclusion in the Budget.

18. Employee share schemes

The Chancellor thought that it would be sufficient to extend the instalment period from three to five years. He was not attracted by charging only 75 per cent of the gained tax.

19. Capital transfer tax

The minor items were agreed. On the scale and the relieb the Chancellor said he would want to look at that again in the context of the overall shape of the Budget.

20. Net of tax paytables

This is not a matter for legislation. The Inland Revenue would be discussing further with the Financial Secretary what might be included in a Ministerial speech in the Finance Bill debate.

21. Schedule D/Schedule E

The Financial Secretary noted that there was pressure from No 10 for a response. He was not satisfied with the answers come up with so far. And he did not think No 10 would be satisfied. He thought there was a case for a leaflet clarifying the position which was very unclear. The Chancellor noted No 10 should be informed of the problem.

/He would be

He would be grateful if the Financial Secretary could provide a suitable draft.

22. ACT limits on loans

The Chancellor did not see any attraction in changing this limit.

23. Tax treatment of interest paid by companies to non-residents

The Chancellor awaited the Inland Revenue's submission reflecting the outcome of consultation.

24. Small industrial workshops - extension of 2,500 sq ft limit until March 1985

It was agreed that the deadline should not be extended. The FST withdrew his suggestion that the average for a conversion should be raised to 1,750 sq ft after Mr Battishill explained that the average size of such workshops was 200 sq ft.

25. Stock relief: Housebuilders part exchange schemes

It was agreed that stock relief should be extended to houses taken in part exchange by housebuilders along the lines set out in paragraph 6 of Mr McConnachie's minute of 25 February.

26. Stamp duty, selective reform package

The Chancellor said that his inclination was against seeking out selective measures from the stamp duty consultative document for inclusion in the Budget speech. He asked the Inland Revenue to look at a possible workable scheme for a transition from the slab to a slice system.

27. Treatment of rental income

The Chancellor was not enthused by the prospect of a change in the tax treatment of rental income which would throw up

/ a whole range of

a whole range of problems on the investment income surcharge. Other measures in the tourism package would be looked at subsequently.

Director's PAYE Tax

Mr Isaac mentioned that Lord Keith had not made any specific recommendations on this. It was felt that measures should be taken straight away to stop this device.

JR

JILL RUTTER
2 March 1983

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PRIME MINISTER

BUDGET ARITHMETIC

A brief note on the Budget arithmetic may be useful before today's meeting on social security matters.

2. As you know, I envisage that in the Budget:-

(a) Most specific duties would be fully revalorised.

(b) For industry there should be a further ½ per cent NIS cut from August, some concessions (which I am still discussing with Nigel Lawson) on the North Sea oil regime, and some movement on Corporation Tax.

(c) For individuals I envisage a major increase in the thresholds - perhaps 8½ percentage points, over Rooker-Wise (5.4 per cent), for all bands and rates. I also hope to increase child benefit substantially - hopefully taking it back to its level in April 1979

(d) I am also putting together a series of lesser measures to assist enterprise and small firms, technology and innovation, construction, and charities - including a major (but not inexpensive) simplification of the Business Start-Up Scheme.

3. The PSBR cost of the Budget measures in 1983-84 is of the order of £1.6 billion to £1.9 billion. The comparable costs for 1984-85 are about £1.9 billion to £2.4 billion.

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4. These figures have to be seen against our present estimate - which may contract - of "fiscal adjustments" - that is, room for manoeuvre - of £2 billion for 1983-84 and between £2.5 and £3 billion for 1984-85. If this week's forecast narrows the room for manoeuvre (and it looks likely to do so), I would be driven to the lower figures in paragraph 3 above, and might if necessary have to pare down some of the measures described in paragraph 2 above - not least because we must be able to show a reasonable "fiscal adjustment" remaining for 1984-85. But I would hope that the main measures would stand, for they constitute an effective package, split almost exactly equally between businesses and persons (taking into account measures announced in the Autumn), and would be seen as politically helpful while also continuing our prudent monetary and fiscal policies. (There would be a continued reduction in planned borrowing.)

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/In

(b) If in addition we were to drop action on social security over-provision, the result would be a most unattractive Budget: a relatively small amount of reliefs etc, with (certainly in the second year) the social security beneficiaries taking a very large part, leaving relatively little for the rest of the personal sector and for industry.

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Margaret O'Mara

for (G.H.)

21 February 1983

(approved by the Chancellor and signed in his absence)

4.1

FROM: MISS M O'MARA
DATE: 14 February 1983

cc Mr Kemp
Mr Mackellar
Mr Corcoran
Miss Young
Mr Ridley
Mr Harris

MR FRENCH

CPC CITY FORUM ON THE BUDGET

The Chancellor has seen your minute of 7 November and is in principle happy to speak to the CPC City Forum but he has noted that the 11 April date you have suggested immediately precedes his speech to the Westminster Chamber of Commerce on 12 April. Perhaps the timing could be reconsidered at the next meeting of the Speech Committee.

MOM

MISS M O'MARA