



NOTE OF A MEETING WITH THE SECRETARY OF STATE FOR ENERGY ON  
WEDNESDAY 2 FEBRUARY 1983 AT 3.00PM IN THE CHANCELLOR'S ROOM  
IN THE TREASURY

Present:

Chancellor of the Exchequer  
Chief Secretary  
Minister of State (Revenue)  
Mr Middleton  
Mr Wicks  
Mr Crawley (Inland Revenue)

Secretary of State for Energy  
Sir Kenneth Couzens  
Mr T P Jones  
Mr J Wiggins

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THE NORTH SEA FISCAL REGIME

The Chancellor opened by referring back to the previous meeting on 13 January. Then it had been agreed that PRT relief for appraisal expenditure would be introduced, royalties would be abolished on future fields, and APRT would be phased out from 1984-86. He was now attracted to the idea of bringing forward the phasing out of APRT to start in 1983. The Secretary of State for Energy's bid for phasing out of royalties on existing fields had been left on the table. The Secretary of State for Energy suggested that the Chancellor had also agreed at that meeting to two of his other points, namely the doubling of the oil allowance on future fields and the definition of future fields being backdated to 1 April 1982. Those elements were an integral part of the Department of Energy package. The Chancellor said that that had not been his impression of what had been agreed at the meeting. He had thought that the Secretary of State had not pressed the doubling of the oil allowance. He had taken note of the Secretary of State's points on backdating but had asked for costings. He said that he was nonetheless disposed towards the doubling of the oil allowance on future fields but he still had some reservations about abolition of royalties on existing fields. He thought that the package agreed so far ie appraisal relief, phasing out of APRT, the doubling of the oil allowance and abolition of royalties on future fields went a considerable way towards meeting UKOOA's points. The Secretary of State for Energy pointed out that UKOOA were also pressing for a reduction in PRT - that was

/why





why he was suggesting the phasing out of royalties. He thought that a critical point had been reached in the development of activity in the North Sea. With hindsight the Government would have done more to alleviate the regime in last year's budget. This was the Government's last chance to show that the North Sea was worth investing in. He thought a significant move was now vital. The outstanding question was how large that move should be.

The Chancellor pointed out that the measures already agreed represented a substantial alleviation of the regime for future fields. Abolishing royalties forthwith had substantial costs. The Secretary of State for Energy pointed out that the concession on phasing out APRT merely shifted tax liabilities through time. Sir Kenneth Couzens thought that action on existing fields was necessary because the economic rent was being reduced by events. The justification for the very high rates of taxation on North Sea oil had been the high profitability of these fields. Mr Middleton pointed out that the costs of developing existing fields were already sunk; Mr Wicks thought that even on the least optimistic scenario there was no suggestion that the profitability of existing fields would be such that companies would abandon the investment they had already made and withdraw. The Secretary of State for Energy said that he thought some action on existing fields was necessary to affect oil company psychology. Confidence was deteriorating and the industry needed to see money on the table now. The Minister of State (Revenue) pointed out that was the argument for phasing out APRT on existing fields.

The Secretary of State for Energy then raised the question of the operative date for the measures applying to future fields. The Chancellor said that backdating to include the North Alwyn and Clyde fields yielded a considerable difference in the net present value of abolishing royalties and doubling the oil allowance. It added some £280m in net present value terms to the cost of the package. The Secretary of State for Energy said that he thought it very important because it bore so strongly on a future development. If companies who had their arms twisted were thereby disadvantaged others would hold back. He was more concerned at the breach of faith on North Alwyn than on Clyde. Hamish Gray had given the





companies involved assurances that if they went ahead with development they would not be disadvantaged. They would certainly feel that there had been a breach of faith if they were excluded from a future fields regime. It was easy to pick 1 April 1982 as the operative date because there was a 2-year gap between development of North Alwyn and Clyde and the last fields to be developed in the North Sea. Given the heavy involvement of the French Government in North Alwyn there would be diplomatic consequences if the French felt there was a breach of faith. The Chancellor said that the impression he gave last time was rather different; he had thought that the argument for including North Alwyn and Clyde was that of doing the gentlemanly thing. He understood the case that had been put on those grounds. But that was something qualitatively different suggesting that there could be a breach of undertaking. The Secretary of State for Energy said that the Minister of State (Mr Gray) had had to indulge in substantial arm twisting to ensure that the development went ahead. General assurances had been given and not to include North Alwyn in a future fields regime would be regarded as bad faith. There was no exact equivalent in the case of Britoil and the Clyde field but on a political point the shareholders of Britoil might feel hard done by if the Government disadvantaged them in this way. The Chancellor said he was anxious about North Alwyn. He wanted to see the strength of the case against Government. The Secretary of State for Energy pointed out that there was no legal undertaking. Mr Wiggins said that in discussion with ELF/Total nothing specific had been said on tax. But the manner of the discussions would certainly have been interpreted by the French as suggesting there would be no advantage to be gained in delaying development. The Secretary of State for Energy said that there had been a very careful note of the meeting. That made clear the impression given. The Chief Secretary asked if it would be possible for Treasury Ministers to see that note. The Chancellor said that in a case of substantial sums involved he was anxious to know the case against the Government.

/Mr Crawley



BUDGET CONFIDENTIAL



Mr Crawley suggested that it might be possible to differentiate the treatment of royalties and the oil allowance. Royalties were at the discretion of the Department of Energy and to some extent the same rigid fiscal principles which applied to doubling the oil allowance would not apply there. The Secretary of State for Energy pointed out that EIF/Total had specifically raised questions on tax at the meeting. There were precedents for tax changes being backdated. But his main case was on the political point. The Chancellor acknowledged the Secretary of State's arguments but said he would like to know the precise colour of the French problem before finally deciding.

The Chancellor said that given the uncertainties over the size of the fiscal adjustment he found it very difficult to expand the package to include the phasing out of royalties on existing fields. If the Secretary of State saw his way to dropping that bid then he might feel able to look more favourably on the proposition backdating the definition of future fields. The Secretary of State for Energy said that he would be prepared to consider a package which included backdating but dropped phasing out of royalties and advanced APRT in the manner suggested as long as there was no back door increase in taxation through action on PRT expenditure relief and oil and gas related receipts. He would like to consider further. The Chancellor then left.

There was a brief discussion of possible action on pipeline tariffs. The Minister of State (Revenue) said that he was prepared to recommend what the oil companies were asking. That was option C in the paper. That was to offer a better return than the claw back option. The net cost in the first year would be nil. In the second year there would be a yield of £50m but that would be less than under existing rules.\* The Secretary of State for Energy said that he would like to think further on this subject.

The meeting closed at 4.10pm.

JRK

JILL RUTTER  
9 February 1983

\*The Minister's views are set out in more detail, with revised costings, in his letter of 4 February to the Secretary of State.

BUDGET CONFIDENTIAL





Distribution:

PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State(R)  
Mr Middleton  
Mr Wicks  
Mr Robson  
Mr Barber  
Mr French

PS/IR  
Mr Crawley

Secretary of State for Energy  
PS/PUS Department of Energy





FROM: J O KERR  
DATE: 3 February 1983

C/EX REF NO B(83)6  
COPY NO 10 OF 10 COPIES

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Minister of State (R)  
Mr Middleton  
Mr Moore  
Mr Kemp  
Mr R Martin - IR  
PS/IR

EMPLOYEE SHAREHOLDING

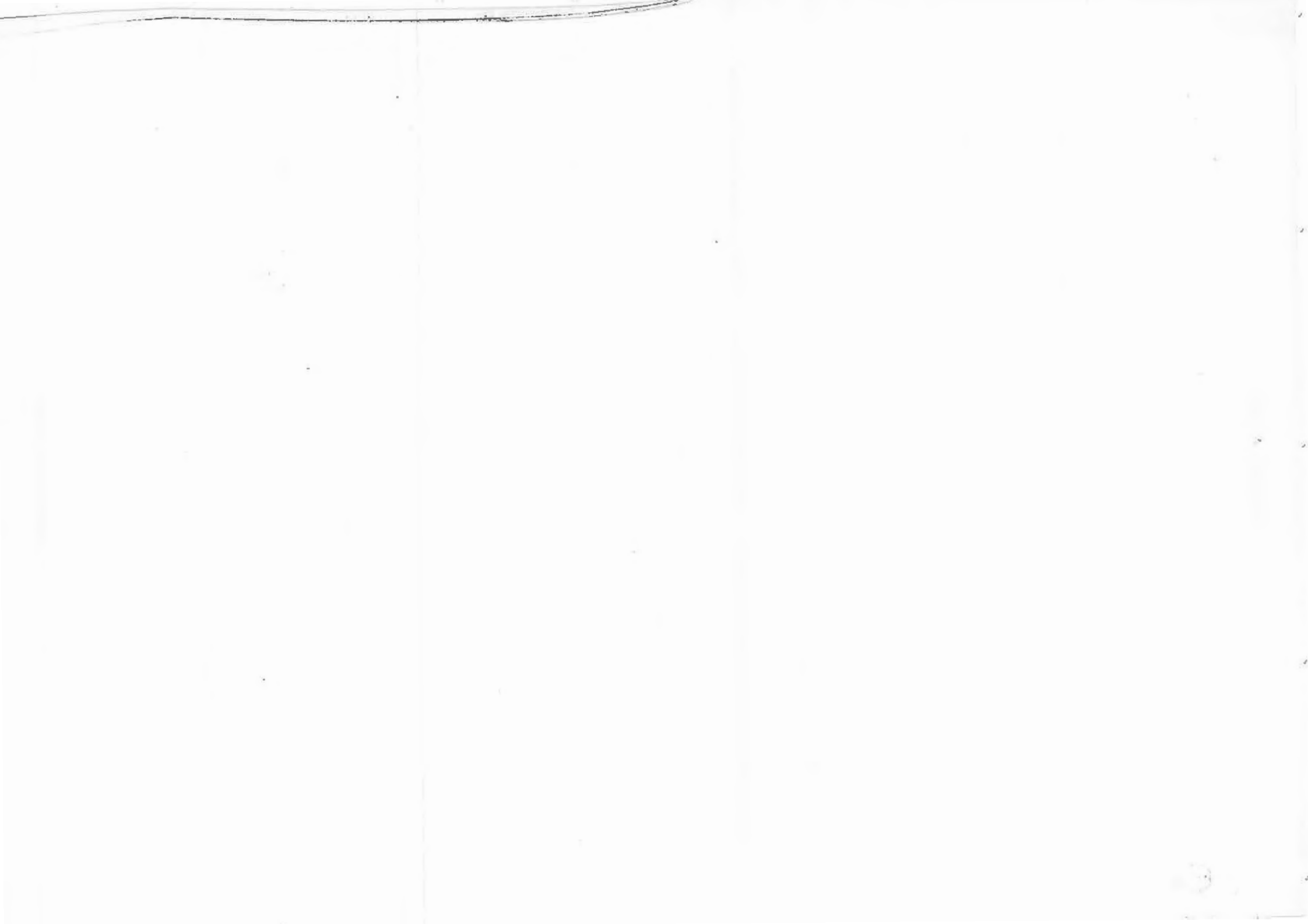
The Chancellor was grateful for your minute of 2 February, conveying the Financial Secretary's reactions to mine of 1 February. He would now like planning to proceed on the basis that the Budget package on Employee Shareholding will consist of:-

- (a) changing the current £1250 limit for the 1978 profit-sharing schemes to include an alternative limit of 10 per cent of salary, subject to an overall maximum of £5000;
- (b) raising the monthly limit for the 1980 savings-related share option scheme from £50 to £75;
- (c) lengthening the instalments period for options outside approved schemes from 3 years to 5 years.

2. The final decision on whether to proceed with this package will be taken at an overview meeting, when the scope for packages, and the relative attractions of the various ones on offer, has been established more clearly.

A handwritten signature in black ink, appearing to be 'J O Kerr'.

J O KERR





FROM C W CORLETT

INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

3 February 1983

1. MR BATTISHILL
2. CHIEF SECRETARY

CAPITAL ALLOWANCES FOR SELF-CATERING ACCOMMODATION

1. At your meeting earlier in the week to discuss the construction package, you decided to recommend to the Chancellor that the package should include the introduction of capital allowances for self-catering accommodation, at the same rate as presently applies to hotels. Mr Robson is letting you have a composite note on the package, which includes a reference to the self-catering proposal in very general terms; but he promises a separate note from us, indicating the points on which Ministers will now have urgently to focus, if a scheme is to be put together for the Budget.
2. The purpose of this note is not to seek detailed decisions on the new allowance at this stage, but to give some indication of the broad questions which need to be settled, and to alert you to some of the wider ramifications of introducing allowances in this new area.

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cc 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 French  
Mr Graham (Parliamentary  
Counsel)

Sir Lawrence Airey  
Mr Green  
Mr Rogers  
Mr Battishill  
Mr Lawrance  
Mr Corlett  
Mr Skinner  
Mr Elmer

PS/IR



### Existing allowances for hotels

3. At present, capital allowances for buildings used for holiday accommodation are restricted to hotels only.

4. The hotel allowance was introduced in 1978, and it consists of an initial allowance of 20 per cent and annual writing down allowances (straight line basis) of 4 per cent.

5. The allowance is pretty tightly drawn. For example, the hotel must be open for at least four months in the season; it must have at least 10 letting bedrooms; and it must provide breakfast and an evening meal, and the servicing of rooms.

### The broad approach to self-catering

6. The English Tourist Board's general approach is that tourists and holiday-makers are tending to move away from traditional hotel accommodation towards modern holiday complexes consisting of self-catering accommodation, often with leisure facilities attached. This is perhaps the logical starting point: ~~the~~ what we are talking about are groups of self-catering units, broadly comparable with the accommodation presently available in qualifying hotels. This led us to think of the new allowance in terms of development of 10 or more self-catering units (this being the figure you favoured) located on a single site. The units could be separate, in the case of chalets, villas or houses; or part of a larger building, in the case of flats.





Type of units which would qualify

7. If that general approach is consistent with your own thinking, there is then a range of questions about the type of unit which would qualify. These include:

- i. Would sleeping accommodation be sufficient; or should the unit include a bathroom; and would it have to have cooking facilities?
- ii. For how much of the year would the owner be required to have it available for letting? Should it be for a minimum of 4 months during the season - as with hotels? Or should it be for somewhat longer (to avoid criticisms that the allowances were going to premises shut up for 8 months in the year)? Should alternative use of the unit - eg for residential letting - be allowed outside the season?
- iii. What restrictions should be placed on the owner using a unit himself? Should any use by him disqualify it from qualifying for the allowance? If not, to what extent should self-occupation be permitted?
- iv. Should there be a limit to the length of time the unit can be let to the same holiday-maker (to prevent long lets which are in effect permanent residential use)?

Alterations and improvements to existing buildings, and the purchase of second-hand buildings

8. The English Tourist Board expressed their proposal in



terms of the construction of new self-catering accommodation. But there is a strong case for extending the allowance to the cost of converting existing buildings to self-catering units, and to the cost of alterations. This would encourage the modernisation of existing run-down facilities - as well as being broadly comparable to what is already available under the industrial buildings allowance (upon which this new allowance would have to be built).

9. There would also probably have to be allowances for the purchase of second-hand self-catering units. Again, following the industrial buildings allowance, the allowances would in this case be limited to the 4 per cent writing down allowances.

#### Leisure facilities

10. The English Tourist Board proposal is that the capital allowances should extend also to leisure facilities located on the site. This is a major policy issue. It would take the allowance beyond accommodation, to cover such things as squash courts, sports halls, bars, restaurants, discos etc. And it could add considerably to the cost. But the English Tourist Board will probably argue that, without capital allowances for the leisure facilities, the sophisticated holiday complex which they are particularly interested in will not be sufficiently viable.

11. On the other hand, there will have to be some protection to prevent the capital allowances being freely available for the construction of massive entertainment facilities, or even conference centres, with a minimum of 10 self-catering units constructed on the site simply to meet the qualifying condition. One way of dealing with this might



be to put a monetary limit on the amount of leisure facilities that could qualify - eg if expenditure on leisure facilities exceeded a certain percentage of the total expenditure on the self-catering accommodation units on the site, the excess would not qualify for allowances. This could result in some very complicated legislation and be difficult to administer.

#### Implications for the hotel allowance

12. As explained above - paragraph 5 - the hotel allowance is at present tightly defined. It will not be possible to sustain those restrictions if the allowance is extended to self-catering accommodation. The requirement that the hotel should provide breakfast, evening meal and room servicing will all probably have to go. But the 10 bedroom requirement could probably stay, so long as we hold to the 10 unit requirement for a self-catering site.

13. There will also, therefore, need to be some amendments to the hotel allowance legislation. The effect would be to bring in bed and breakfast hotels, and also possibly hostels and such like, so long as the room requirement is met.

#### Caravan sites

14. There is an awkwardness with caravans which will need to be sorted out. At present, holiday (but not residential) caravans are treated as qualifying for 100 per cent first year allowances as "plant", and there is no requirement that they be on a site of 10 or more. So a single static caravan in a farmer's field



can qualify for 100 per cent allowance.

15. The anomaly of this very generous treatment will be highlighted if a group of purpose-built self-catering chalets on one site qualifies for the new 20 per cent allowance, whereas a single static caravan in the next field qualifies for 100 per cent. Although there is a technical difference here - in the case of the chalet there is land attached, whereas in the case of the caravan there isn't - Ministers will find the contrast virtually impossible to defend, and would no doubt come under intense pressure to raise the new allowance for chalets to 100 per cent.

16. This might be the opportunity to reduce or withdraw the allowances for caravans. Apart from the read-across to the new allowance, there are strong environmental grounds for doing this in any case. One approach would be to bring caravans as close to the self-catering rules as possible - so that they would qualify only if on a site of at least 10, with the rate of allowance reduced perhaps to that applicable for cars (25 per cent writing down allowances (reducing balance basis)).

#### The assured tenancy allowance

17. There are two points here: First, Mr Stanley will certainly be looking at this new allowance very carefully. He will contrast what is being done for holiday accommodation with what is not being done for let residential accommodation outside the assured tenancy scheme. He may use this as a further excuse for reopening the assured tenancy allowance debate. Take two blocks of





flats side by side at the seaside: one is used for controlled full-time lettings and gets nothing, while the other is used during the season for holiday lets and gets the new allowance.

18. Second, our experience of drafting the assured tenancy allowance legislation last year, in similar circumstances, was that tax legislation dealing with property, particularly property that can be used for different types of occupation, can be complicated and lengthy, especially if it breaks away from the general practice of industrial buildings allowance.

19. As with all capital allowances, there will need to be provisions dealing with the calculation of balancing adjustments on the sale of self-catering units in respect of which allowances have already been given, as well as dealing with the consequences of a change in use etc. The hotel allowance takes up about 3 pages, and it may be possible to model the new allowance on that. If we are to include allowances for leisure facilities, the total requirement may be about 5 pages. However, the assured tenancy allowance legislation ran to about 11 pages, and depending on the shape the legislation takes, it is not out of the question that we would end up with something of that order.



C W CORLETT



CONFIDENTIAL



FROM: C D HARRISON  
DATE: 4 FEBRUARY 1983

PS/CHIEF SECRETARY

cc PS/Chancellor  
PS/Financial Secretary  
PS/Minister of State (R)  
Sir D Wass  
Sir A Rawlinson  
Mr Bailey  
Mr Middleton  
Mr Moore  
Mr Mountfield  
Mr Chivers  
Mr Gordon  
Mr Robson  
Mr Kelly  
Mr Godber  
Mr Andren  
Mr French  
PS/IR  
Mr Graham (Parliamentary Counsel)

CONSTRUCTION PACKAGE: CAPITAL ALLOWANCES FOR SELF-CATERING  
ACCOMMODATION

The Economic Secretary has seen Mr Corlett's submission of 3 February on capital allowances for self-catering accommodation. He has also seen the record of the meeting on 31 January which the Chief Secretary held to discuss the construction package.

2. On Mr Corlett's submission, the Economic Secretary remains unattracted to the prospect of capital allowances for self-catering accommodation on the same lines as for hotels. As he has said before, the long-term potential for extra employment is zero; and the new frontier which would be necessitated in the hotel sector looks very vulnerable. The implications for capital allowances for caravans look most undesirable; the Economic Secretary doubts whether this would all be worth the trouble it would cause.



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3. The Economic Secretary has also asked me to point out again that he did not unconditionally recommend an increase in capital allowances for hotels, as is suggested in the note of the Chief Secretary's meeting; he simply views this as the most acceptable gesture if such is deemed to be necessary to placate the backbench hotel lobby.

CDH

C D HARRISON



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INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

(purp)  
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FROM: R G LUSK

Date: 4 February 1983

PS/CHANCELLOR OF THE EXCHEQUER

BUDGET PACKAGES

DEPARTMENT OF ENVIRONMENT PROPOSALS

*R*

... So as to maintain the position that Ministers will have notes on all the items put forward for packages we were asked to provide a brief submission on the two miscellaneous unpackaged items in the heritage field. Notes are attached on Mr Heseltine's proposal for tax relief for business contributions to preservation and environmental trusts and Lord Bellwin's proposal for tax allowances for repairs to listed buildings.

*R*  
R G LUSK

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cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (R)  
Sir Douglas Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin

Mr Green  
Mr Battishill  
Mr O'Leary  
Mr Lusk  
Mr Wiltshire  
Mr Kuczys  
PS/IR





DOE (MR HESELTINE) BUDGET PROPOSAL : TAX RELIEF FOR CONTRIBUTIONS TO PRESERVATION AND ENVIRONMENTAL TRUSTS

1. The general rule is that a business may deduct for tax purposes expenditure of a revenue nature incurred "wholly and exclusively" for the purposes of its trade. This business purpose test is a cornerstone of the rules. Relief is also allowed for contributions to charities under the long established deed of covenant system. Last year a very special exception was made in favour of contributions to approved local enterprise agencies set up to promote or encourage industrial and commercial enterprise, in particular, small businesses.
2. Any further departure from the business purpose test for donations to "community" trusts or to enterprise agencies with more widely drawn objectives of the "general good" and which would have little or no direct connection with the business would make it that much more difficult to hold the line against other kinds of socially desirable expenditures; and the converse argument to disallow legitimate business expenditure which may not be approved of is just round the corner. Once on to the slippery slope the objectivity of the present test is lost and there would be pressure to go further.
3. There could be very real problems in defining these trusts. It proved impossible to frame a statutory definition of an enterprise agency last year and there was concern that tax relief should depend on an administrative discretion. The difficulties of this approach are that much greater where the body has wider objectives of a social nature.
4. The tax treatment would be at odds with that for charities. Contributions to charities must be under covenant to qualify for relief and the Revenue is able to check that the charities' income is being applied to charitable purposes. There is the added safeguard that charities have to be registered with the Charity Commissioners and are subject to charity law. In contrast these quasi-charitable trusts etc would enjoy a more favourable tax treatment in that one-off contributions would rank for relief (we have separately advised against extending relief to one-off contributions to charities) and without any ready means of keeping tabs on how the money is spent.
5. Ministers had these considerations before them last year when they decided on the narrow form of relief for enterprise agencies. We advise against any widening of the relief.

Official responsible : Mr Lusk



DOE (LORD BELLWIN) BUDGET PROPOSAL :  
TAX ALLOWANCE FOR REPAIRS TO LISTED BUILDINGS

1. A tax allowance (whether a fixed allowance or one related to actual repair costs) to the owner-occupier of a listed building which could then be set against his general income would cut-across a fundamental principle of the tax system that deductions against income are limited to expenditure incurred for the purpose of obtaining that income. The home owner is no longer taxed on the notional value of his property and so has no income against which to set his repair costs. It is difficult to see why he should be given a tax allowance - these costs are really just one sort of personal domestic expenditure.
2. Concede the principle at one point and it would be very difficult to hold the line at owners of listed buildings. Most owner-occupiers incur maintenance and repair costs each year caring for their homes and they would press for similar relief.
3. Cost would depend on the scope and coverage of any scheme but it could be pretty costly both in terms of staff costs and revenue loss. Broad estimates produced in 1980 quoted a tax cost of £m60/80 and staff cost of 500 units.
4. If more help is to be given surely the grants system offers better value for money. Tax reliefs are not discriminatory and so go to all whereas grants can be made more selective and directed to areas of greatest need.
5. This idea is an old chestnut, which is put forward from time to time by the heritage lobby. We advise against this proposal.

Official responsible : Mr Lusk



FROM: CHIEF SECRETARY

DATE: 4 FEBRUARY 1983



CHANCELLOR OF THE EXCHEQUER

+ De-roofing no  
consider at same  
time

See 3 11

Meeting next Monday

Learn all options  
open, etc. for work for

2/11

BUDGET PACKAGES : CONSTRUCTION

This minute sets out my recommendations on a budget package for the construction industry.

(Page 1)

2. I have discussed with officials Mr Robson's submission of January 27 and Mr Kelly's submission of January 28. (Page 6)

3. I do not consider that a case for a construction package can be made out on the basis of the current position and prospects of the industry. It has been through a bad time but its prospects now look better than those of the manufacturing industry.

4. The case rests rather on the fact that money spent on the industry represents a "good buy" in terms of output and employment. This applies especially to public expenditure on construction. Tax reliefs for the industry, on the other hand, have effects much more akin to those of other budget measures.

5. Against this background I set out below the measures on the expenditure and on the tax side which I consider could form a package. They are listed in order of priority. You will wish to judge how far down the list we can afford to go in each category.

A. Public Expenditure

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6. I consider any package must have a significant public expenditure element. There are two reasons. First, the macro-economic point in paragraph 4 above. Second, without this the package will lack credibility with the industry and with the CBI.



7. It would be possible to make relatively small additions to a range of spending programmes. I do not recommend this. It amounts to tinkering with the agreed programmes, would give the wrong signals to spending authorities, and has no presentational advantage.

8. The most fruitful area for visible new initiatives is housing. This would build on the initiative on public sector home improvement in the last Budget. The two possibilities are:-

(i) Enveloping - this is the repair of the external fabric of complete terraces/streets of run-down private sector houses by local authorities at no cost to the owner. A few schemes have been undertaken, particularly in Birmingham, through the Urban Programme. John Stanley has recently announced that schemes can now be financed through the housing programme. He has asked me to help local authorities to find the funds for this.

(ii) Changes to the scope of improvement grants - mainly by making inter-war houses eligible for repairs grants. This figures in Michael Heseltine's budget shopping list. I had previously turned it down on the grounds that there were no funds to pay for it. It would amount to a very significant extension; some 60-70,000 more houses would become eligible for grant.

9. Of the two I prefer enveloping. It is a new initiative which means any support we give would be particularly visible. Projects are approved by central Government so we can be sure of additionality. Local authorities choose the area to be treated and this means the impact on run down areas is likely to be greater and cost-effectiveness higher.

10. Expenditure on enveloping is within our control. Any sum can be allocated on a first come, first served basis. The most it would be possible to spend might be up to £50 million in 1983-84 - but we would need to consult DOE to be sure. It would of course be possible to go for a smaller sum.







11. In the case of improvement grants there is a danger of overloading local authorities with applications they cannot process. In addition, the impact is out of our control; a change in the rules will simply stimulate demand and lead to more local authority expenditure. But our best estimate is that changing the rules would cost £50 million in 1983-84.

12. Neither measure need add to spending in 1984-85. Any overspill would have to be contained in existing programmes.

13. There is one further measure for which you could claim credit in the budget. As a result of changes in the treatment of capital receipts, some local authorities are finding difficulty in meeting their commitments or plans for capital spending. Tom King and I are considering whether to give these authorities, and others, additional capital allocations for 1983-84. We should reach a decision by the end of February. Additional allocations of at least £20 million will be made but possibly the total could be as high as £100 million or more. This will not be an addition to the programme but a measure to stop underspending being bigger than we have allowed for. Nonetheless there is no reason why presentational use should not be made of it.

#### B. Tax measures

14. I offer three candidates on this side - again in order of preference.

15. First, increasing the proportion of an industrial building which may be used for non-industrial purposes while still qualifying for the industrial building allowance. At present this proportion is 10 per cent. Michael Heseltine asked us to (Heseltine) increase the percentage disregard to 25 per cent. The electrical and electronic industry ask for 20 per cent; and the building industry and Monty Finniston as Chairman of the Building EDC have suggested 30 per cent.

16. I propose we go to 25 per cent. The higher the percentage is pitched, the less it can be regarded as a de minimis disregard for administrative purposes, and the greater the anomaly there will be between buildings just above and just below the limit. The



attraction is that this is something we can do to help the non-commercial user. It will allow developers and landlords of industrial buildings more flexibility in the way in which they plan and use their building. In particular, it should help some of the high technology industries where significant office and design facilities often need to be situated immediately adjacent to the industrial accommodation. For this reason it can score in the innovation package as well as in the construction one. We could indeed limit the 25% disregard to office and design facilities and not let it run for the other things covered by the present 10% figure such as shops and residential accommodation.

17. The cost even of the more generous measure would be negligible in 1983-84 and about £25 million in a full year.

18. Second, extension of the 20 per cent capital allowance for hotels to self-catering accommodation. This item can be used in both the construction package and in the tourism package.

(ilag E)

19. In his minute of 19 January on the tourism package the Economic Secretary said that, if any measures for tourism were necessary, he would favour increasing the capital allowance for hotels from 20 per cent to 50 per cent. He did not favour extending it to self-catering.

20. I prefer extending the allowance to self-catering as this seems to be the part of the industry with greatest growth potential. It is top of the English Tourist Board's list of proposals and was one of the measures proposed by Arthur Cockfield and supported by Nicholas Edwards. Arthur also favoured the Economic Secretary's proposal - as do the British Tourist Authority. I am not so keen on this as there is no shortage of hotels and the 50 per cent allowance would provide a difficult contrast with the generally zero allowance for commercial buildings.

21. I would like to extend the allowance to developments of ten or more self-catering units. But there are a number of issues which would need to be settled and these would affect the length of legislation (which is unlikely to be less than five pages). Moreover the move might create pressure to let in ordinary let residential property and the bed and breakfast trade. The



(Flag H)

issues are set out in Mr Corlett's minute of 3 February.

22. I suggest we include it for consideration in the package for now, but look again when we have considered the full ramifications. I will pursue these with officials urgently. *(now done - Flag F)*

23. The cost would be negligible in 1983-84 and £10 million in a full year.

24. Third, development land tax. In the 1981 budget you introduced a deferment of DLT on developments for the owners' own use. This was to stimulate the construction industry. It runs out in April 1984. I recommend extending this deferment for two more years. The cost would be negligible in 1983-84 and £5 million in a full year.

### C. Conclusion

25. In summary my priorities are:-

	<u>Cost</u>	
	<u>1983-84</u>	<u>Full Year (£m)</u>
A. Public expenditure		
1. Enveloping	up to 50	n.a.
2. Improvement grants	50	n.a.
B. Tax		
1. Increasing disregard	negligible	10
2. Self-catering	negligible	25
3. DLT	negligible	5

I have not included the increased capital allocations of £20 - 100 million in the priorities because we are committed to movement on those in any case. However in part they will affect the scope for a fiscal adjustment by reducing forecast under-spending.





26. I consider we have the making here of a very respectable package. Of course, if we have eventually to move on mortgage interest relief or stamp duty, that also would go into the package.

L.B.

✓  
De  
                      
(Flag 6)

LEON BRITTAN  
4 FEBRUARY 1983

cc. Financial Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Mr Middleton  
Mr Bailey  
Mr Byatt  
Mr Kemp  
Mr Lovell  
Mr Moore  
Mr Mountfield  
Mr Gordon  
Mr Kelly  
Mr R Allen  
Mr Robson  
Mr Godber  
Mr Ridley  
Mr French  
Mr Harris  
Mr Corlett/IR  
PS/IR  
PS/C&E





CONFIDENTIAL



FROM: MISS M O'MARA *(signature)*  
DATE: 7 February 1983

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir Douglas Wass  
Mr Middleton  
Mr Kemp  
Mr Moore  
Mr Griffiths  
Mr Robson  
Mr French

PS/IR  
PS/C&E

BUDGET REPRESENTATIONS: ROYAL INSTITUTE OF BRITISH ARCHITECTS

The Chancellor has seen Mr Luder's letter of 1 February and would be grateful if the Chief Secretary could peruse it, to see whether it contains any sensible proposals for a possible Budget construction package.

*Mom*

MISS M O'MARA

CONFIDENTIAL



CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 7 February 1983

PS/CHANCELLOR →

*Carried - carried in  
partly  
CS's view?*

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
Mr Lusk - IR  
PS/IR

BUDGET PACKAGES: DEPARTMENT OF THE ENVIRONMENT PROPOSALS

The Financial Secretary has seen Mr Lusk's note of 4 February.

He agrees with Mr Lusk that neither one of these items is desirable.

E KWIECINSKI  
7 February 1983



## CONFIDENTIAL

FROM: DOUGLAS WASS  
DATE: 7 FEBRUARY 1983

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Anthony Rawlinson  
Mr Burns  
Mr Littler  
Mr Middleton  
Mr Bailey  
Mr Cassell  
Mr Kemp  
Mr Moore  
Mr Hall  
Mr Ridley  
Sir Lawrence Airey IR  
Mr Angus Fraser C&E  
Mr Kerr

### BUDGET PACKAGES

Attached are updated versions of the now familiar three notes on the arithmetic of the packages and the Budget, a listing of the package items, and fiscal risks and possibilities.

2. There is a full agenda for the overview tomorrow, and you will probably not wish to spend time on the packages. You will see that, as shown in Note A, the cost of the packages now begins to fit quite well into the overall Budget arithmetic, though there are still a number of uncertainties. (Some of the risks are beginning to fade away - car tax for example).

3. There are meetings with you lined up for next week on several of the packages. At this stage there are a few more detailed points I would draw to your attention.

(a) It may make sense for the next return to merge the proposals under wider share ownership with the small firms and enterprise package, as last year.

(b) Similarly the vestigial proposals under tourism might next week be merged into construction unless Mr Sproat puts forward some further ideas. (Your Private Office may like to enquire after these again.)

(c) Mr Fowler's letter has now arrived, though his ideas have not yet been taken into account in the caring package. We still await Mr Tebbit's proposals.



4. The fairness in taxation package will require careful handling. There are some connections with other packages (item g on payments on account for stock relief needs to be seen alongside the construction package for example) and we shall need to take into account the results of the consultation exercise on tax havens. The Financial Secretary and Minister of State (R) will be submitting notes to you on the items under their command, and I think it would be helpful if you were to hold a meeting before the end of next week. Generally, the proposals will need to be seen in the context of other Budget proposals affecting companies and the higher paid, and you may feel it would be right to inform the Prime Minister before you come to final decisions.

A handwritten signature in black ink, consisting of the letters 'D' and 'W' in a stylized, cursive script.

DOUGLAS WASS





CONFIDENTIAL

NOTE A

DATE: 7 February 1983

£ million revenue costs

BUDGET 1983 - PACKAGES ETC - SUMMARY

	<u>1983-84</u>		<u>1984-85</u>	
	<u>Total</u>	<u>P/Ex element</u>	<u>Total</u>	<u>P/Ex element</u>
Packages (Note B below)	340-360	170	330-440	125
Other Risks and possibilities (Note C below)	0-470	0-290	0-500	0-275
Child Benefit (In main Progress Report)	90	90	250	250
	<hr/> 430-920	<hr/> 260-550	<hr/> 580-1190	<hr/> 375-650

If the Public Expenditure element is all charged to the Reserve, the potential cost to the Budget becomes :-

	<u>1983-84</u>	<u>1984-85</u>
Total as above	430-920	580-1190
Less Public Expenditure	260-550	375-650
Net totals	<hr/> <u>170-370</u>	<hr/> <u>205-540</u>
Provided in Progress Report in total	<hr/> <u>300-400</u>	<hr/> <u>450-600</u>

Notes:

1. Numbers are uncertain at present, and the final figures will not necessarily fall within the ranges shown.
2. These are revenue costs. PSBR costs are likely to be a little lower. Against that any public expenditure measures, even if charged to the Reserve, could nevertheless increase the forecast PSBR by necessitating a review of the shortfall estimate. The extent to which, on balance, the PSBR costs of these measures might differ from the revenue costs cannot be assessed at this stage.



# CONFIDENTIAL

NOTE B

## BUDGET PACKAGES: COSTS SUMMARY TABLE

7. February 1983

	<u>1983-84</u>	<u>1984-85</u>	£ million <u>Full year</u>
Enterprise and Small Firms*	50	100-200	125-225
of which public expenditure:	5	5	-
Wider Share Ownership	20	35	40-45
of which public expenditure:	-	-	-
Technology and Innovation	50	84	120 (85-86)
of which public expenditure:	50	74	76
Construction	185-210	125-150	125-150
of which public expenditure:	100	-	-
Oil Taxation	Not counted in packages		
of which public expenditure			
Tourism	-	-	-
of which public expenditure:	-	-	-
Agriculture	-	-	-
of which public expenditure:	-	-	-
Betting and Breeding	Package dropped		
of which public expenditure			
Caring and Charities	38-43	73-78	74-79
of which public expenditure:	18	45	46
Fairness in Taxation <u>Yields</u>	2-10	90-105	225-235
of which public expenditure:	-	-	-

\* Costs now include highly tentative estimates for Business Expansion Scheme.

7. February 1983

TOTALS	340-360	330-440	260-360
of which public expenditure	170	125	120
Miscellaneous unpackaged tax items	5-10	40-45	90-95
Covered elsewhere			

# CONFIDENTIAL



Minister in lead: FST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST · £m		
		1983-84	1984-85	Full Year
(a) Business Expansion Scheme	Meeting to discuss package arranged for 17.2.83. FST minuted Chancellor 31.1.83 with recommendations on main elements of scheme. <u>Costs highly tentative.</u>	under 1	10-100	10-100
(b) Joint venture vehicles for institutional investment.	FST meeting 20.1.83 requested FP/IR to sound out institutions on possible constraint on their investment in small firms: meeting in week beginning 7.2.83.	na	na	na
(c) Zero and deep-discounted stock.	Consultative document issued 12.1.83, with comments requested by 11.2.83. Not costed since no definite proposal yet decided. Shelf issues will need to be considered in light of response.	na	na	na
(d) Simplification of PAYE and NIC payment; Schedule E/D issues.	Discussed at FST meeting 17.1.83. Further Revenue (Mr Blythe) submissions on "net of tax" pay tables and Schedule E/D issues commissioned by FST minute 27.1.83; submission on former 8.2.83 and on latter in week ending 18.2.83.			
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST. £m		
		1983-84	1984-85	Full Year
(e) Capital transfer tax	FST minuted Chancellor 18.1.83 proposing package of improved rate scale, higher agricultural/business reliefs and extended instalments period. Additional Revenue submissions 20.1.83 (Mr Isaac) and 25.1.83 (Mr Beighton). Discussed at Chancellor's meeting 4.2.83.	34	70	90
(f) Loan Guarantee Scheme	Discussed at HIG meeting 11.1.83. Detailed DOI proposals awaited: interim submission (Mr Bailey) to Chancellor 24.1.83.	(pe) 5	(pe) 5	-
(g) Enterprise agencies: widening of qualifying conditions for relief.	Proposed in Mr Heseltine's letter of 6.1.83. Presumption at Chancellor's meeting on 12.1.83 against and Revenue (Mr Lusk) submission so recommended.	-	-	-
(h) VAT registration etc thresholds  EST	Customs submission 24.12.82. Ministerial decision reached.  <u>SETTLED</u>	5	10	10
(Continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Corporation tax: small companies profits limits and rates.  MST(R)	Revenue submission (Mr Battishill) 26.1.83. 1% reduction in rate would cost £10 million in 1983-84 and £15 million in full year. Cost of increase in limits to £100,000 and £250,000 shown opposite.	6	9	10
(j) Schedule D case V trading losses (starter number 124)	Revenue submission (Mr Keith) of 22.12.82 to FST; Chancellor's meeting 12.1.83 agreed that should remain on table.	under 1	under 1	under 1
(k) De minimis limit for assessment of apportioned income (starter number 152)	MST(R) recommended increase to Chancellor 26.1.83: query in Chancellor's minute 1.2.83 on size of increase. (£750 or £1000)	under 1	under 1	under 1
(l) Relief for interest-employee buy-outs (starter number 189)	Revenue submission (Mr Stewart) to FST 28.1.83. Costs dependent on take-up: figures assume 100,000 employees with relief of £150 each. Wider repercussions could increase costs.	under 1	2	5
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(m) Close companies: ACT limit on loans (starter number 181) MST(R)	Chancellor's minute 1.2.83 agreed that should be kept in line with mortgage interest relief ceiling.	under 1	under 1	under 1
(n) CGT monetary limits	Revenue (Mr Bryce) submission to FST 13.1.83. FST (17.1.83) commended package to Chancellor. Discussed at Chancellor's mtg 4.2.83 <u>SETTLED</u>	under 1	under 1	under 1
(o) CGT - retirement relief	Revenue (Mr Beighton) submission to FST 7.1.83. FST (12.1.83) suggested an increase to £100,000 should form part of package. Discussed at Chancellor's mtg 4.2.83 <u>SETTLED</u>	under 1	under 1	under 1
(p) VAT - annual accounting (starter number 5) EST	Chancellor's meeting 28.1.83 agreed unlikely but not ruled out: Chancellor's minute 1.2.83 asked for further discussion. Cost in 1983-84 £20 million and 1984-85 £170 million; once-for-all and not included at this stage.	-	-	-
(q) VAT - bad debts EST	Suggested in Lord Cockfield's letter of 12.1.83. Customs (Mrs Strachan) submission shortly: will advise against and costs therefore no included. Costs would be substantial if extensive relief granted.	-	-	-
TOTALS of which public expenditure		50 5	100-200 5	125-225 -



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Reintroduction of relief for "top hat" schemes.	Mr Jenkin's proposal (Letter 6.12.82) rejected at Chancellor's meeting 12.1.83; meeting also discussed similar but more restricted Bank proposal (paper 10.1.83). FST minute to Chancellor (24.1.82) recommended that this should not be included in package. Cost of up to £20 million therefore <u>not</u> included.	-	-	-
(b) Changes to existing schemes.	FST's recommendations to Chancellor 24.1.83. Chancellor's response 3.2.83,  <u>SETTLED</u>  Parallel submission on related SAYE issues from HF (Mr Monck) to EST 24.1.83: meeting 1.2.83, EST decided not to pursue.	20	35	40-45
	TOTALS of which public expenditure	20 nil	35 nil	40-45 nil
	<u>Note:</u> Questionable whether there is sufficient content for free-standing package. Measure could alternatively form part of Small Firms and Enterprise package (as in previous Budgets)			



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films. FST	Financial Secretary agreed extension 12.1.83 following Revenue (Mr Battishill) submission 3.12.81. Announced on 19.1.83.  <u>SETTLED</u>	nil	nil	- (30 in 1985-86, 65 over 1985-88 period)
(b) Extension of transitional period for capital allowances for rented teletext televisions. FST	Financial Secretary agreed extension 7.1.83 following Revenue (Mr Battishill) submission 23.12.82.  <u>SETTLED</u>	nil	10	- (15 in 1985-86, 35 over 1984-87 period)
(c) Small Engineering Firms Investment Scheme.	Mr Jenkin's proposals of 12.1.83 involve total bids of £67 million for 1983-84, £128 million for 1984-85 and £145 million in 1985-86. IA submission (Mr Bailey/Mr Lovell) to Chancellor of 24.1.83 recommends proposals involving expenditure of £45 million, £75 million and £75 million respectively. Meeting with CST 3.2.83: CST to minute Chancellor.	(pe) 50	(pe) 74	(pe) 76 (1985-86)
(d) "Alvey" - support for research in advanced IT.				
(e) "Support for Innovation" programme.				
(f) Other expenditure items.				
TOTALS of which public expenditure		50 50	84 74	120 (1985-86) 76





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage interest relief ceiling (starter no 105)	FP (Mr Robson) submission on tax candidates and GE (Mr Kelly) submission on public expenditure aspects to CST 27.1.83. Discussed at CST's meeting 31.1.83; CST minuted Chancellor 4.2.83; meeting on 14.2.83. Inclination against at Chancellor's meeting 24.1.83. Further FP note (Mr Moore) 28.1.83. Pending final decision costs included in package; assume increase to £35,000, which after 5 years would cost £200-300 million.	75-100	100-125	75-100
(b) Stamp duty threshold	Revenue (Mr Draper) note to Chancellor 1.2.83; Chancellor's response 3.2.83; option stands pending decision on (a).	-	-	-
(c) DLT - own use deferment and write off of deferred tax	MST(R) 28.1.83 recommended. CST agreed in minute of 4.2.83.	-	less than 1	5
(d) Changes in home improvement grant rules.	) Recommendations in CST's minute 4.2.83; ) preference is for (e)	(pe) 50	-	-
(e) Funds for enveloping.	)	(pe) 50	-	-
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Extend capital allowances for assured tenancies to shared ownership properties.	Mr Heseltine's letter of 6.1.83. FST minuted Chancellor (19.1.83) advising against action. Dropped at CST's meeting 31.1.83.	-	-	-
(g) Minor items in Mr Hesletine's 6.1.83 letter including:				
(i) capital allowances for refurbishment of industrial and commercial buildings;	Dropped at CST's meeting 31.1.83.	-	-	-
(ii) increase proportion of office space qualifying for Industrial Building Allowance.	CST recommends increase to 25% in minute of 4.2.83.	5	10	25
(iii) Allow private landlords to offset repair costs against <u>all</u> income.	Revenue (Mr Kuczys) submission 24.1.83 recommend against. FST minute 28.1.83 to Chancellor endorsed recommendation:dropped at CST's meeting 31.1.83.	-	-	-
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Other capital allowances	<p>There are two items which have previously been candidates for tourism package which CST at 31.1.83 meeting considered should be examined in construction package:-</p> <p>(i) increase in allowance for hotels to 50%</p> <p>(ii) extension of 20% allowance to self-catering accommodation.</p> <p>CST's minute to Chancellor 4.2.83 recommends for (ii) in preference to (i).</p>	<p>nil</p> <p>up to 5</p>	<p>5</p> <p>up to 10</p>	<p>(around 10 after 4 yrs)</p> <p>up to 10</p>
	<p>TOTALS</p> <p>of which public expenditure</p>	<p>185-210</p> <p>100</p>	<p>125-150</p> <p>nil</p>	<p>125-150</p> <p>nil</p>



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) North Sea regime, phasing out APRT etc (starter no 109)	Chancellor's overview meeting 1.2.83 agreed that option B (plus doubling of oil allowance for future fields, which has no short-term cost) should be proposed to Mr Lawson at meeting 2.2.83.	90	140	340 (1985-86)
(b) PRT expenditure reliefs and receipts (starter no 115)	Consultative document issued May 1982. Revenue (Mr Crawley) submissions 26.1.83. and 4.2.83.	15 <u>cost</u>	30 <u>yield</u>	50 <u>yield</u>
(c) PRT. Minor provisions (starter nos 162, 163, 164, 167, 184, 187 and 192).	MST(R)'s recommendations in minute to Chancellor 26.1.83. Chancellor's reply 31.1.83 indicated that he is content. Items involve roughly balancing mix of small costs and yields.  <u>SETTLED</u>	-	-	-
(d) PRT. exempt gas and payback (starter no 166)	Inland Revenue awaiting details from company which may be affected. Submission from Mr Crawley next month. No costings possible until details received.	na	na	na
TOTALS		105	110	290
of which public expenditure		nil	nil	(1985-86) nil





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rating reliefs	EST's recommendations in minute to Chancellor 19.1.83. Chancellor's office has asked Mr Sproat to write with any proposals as soon as possible.  EST's recommendation against, unless action on industrial/commercial rating relief.	-	-	-
(b) Capital allowances	Two proposals:  (i) increase allowance for hotels to 50%; (ii) extend 20% allowance to self-catering accommodation (and smaller hotels). These are now being examined in context of construction package: costs <u>not</u> included here.	-	-	-
(c) Increased grants under section 4, Development of Tourism Act.	EST recommended against.	-	-	-
	TOTALS	nil	nil	nil
	of which public expenditure	nil	nil	nil



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rental income to be treated as earned income.	FST asked (10.1.83) Revenue (Mr Battishill) to examine: submission pending. This is among proposals in Lord Ferrer's letter of 21.1.83; FST's reply of 24.1.83 indicates presumption against all these proposals and therefore <u>no</u> costs included at this stage.	-	-	-
	TOTALS of which public expenditure	nil nil	nil nil	nil nil
	<u>Note:</u> Questionable whether there is sufficient for free-standing package. CTT agricultural reliefs included in item (e) of small firms and enterprise package.			



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Discussed at CST meeting 25.1.83; note by ST (Mr Monger) 1.2.83 sets out preliminary results, which are indicated below. CST to minute Chancellor; meeting fixed for 14.2.83. Proposals in Mr Fowler's letter 4.1.83 not included as yet.			
(a) Extension of Widow's Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission of 23.12.83: CST in favour.	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	CST inclined against: costs <u>not</u> included.	-	-	-
(c) Removal of invalidity benefit "trap".	CST in favour	(pe) 7	(pe) 16	(pe) 17 (1985-86)
(d) Development of voluntary etc care service for elderly.	) Proposals in Mr Fowler's paper, for ) discussion at Family Policy Group (9.2.83), ) on care of the elderly. CST inclined to (d) ) but not (e) at 31.1.83 meeting. Since (f) ) considered unlikely, yields not counted.	(pe) 2	(pe) 2	(pe) 2 (1985-86)
(e) Extension of Invalid Care Allowance.		(pe) 4	(pe) 12	(pe) 12 (1985-86)
(f) Abolition of Dependent Relatives Allowance.		-	-	-
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) Abolition of £250,000 ceiling for CTT exemption on gifts to charities	CST in favour.	under 1	under 1	under 1
(h) Deeds of covenant: increase in ceiling for higher rate relief to £5,000.	CST in favour.	nil	3	3
(i) Other fiscal measures:				
(i) relief for payroll giving;	CST inclined against.	-	-	-
(ii) relief for individual donations;	CST inclined against.	-	-	-
(iii) relief for company donations;	CST inclined against.	-	-	-
(iv) relief for seconded staff;	CST in favour.	under 1	under 1	under 1
(v) covenanted payments gross	CST inclined against.	-	-	-
(Continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(j) Other public expenditure measures:				
(i) investment grants to voluntary sector;	) CST inclined against.	-	-	-
(ii) central grant to National Association of Councils of Voluntary Service.		-	-	-
	Notes:			
	1. Opposite is additional provision as a contingency margin against bids by Mr Fowler: letter received 4.2.83.	(pe) 5	(pe) 15	(pe) 15 (1985-86)
	2. Mr Heseltine's letter of 6.1.83 also proposed that charitable status should be extended to sport and recreational bodies. CST ruled out at 25.1.83 meeting.			
	3. NCVO shopping list forwarded 21.1.83. Preliminary comment in ST note of 1.2.83.			
	4. CST office to ask Mr Whitelaw to forward any proposals on charities side.			
	TOTALS of which public expenditure	38-43 18	73-78 45	74-79 46



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no 197)	Chancellor's meeting 22.12.82 agreed on legislation. <u>SETTLED</u>	1-10 <u>yield</u>	1-10 <u>yield</u>	1-10 <u>yield</u>
(b) Fringe benefits: others (starter nos 133 and 134)	Budget will contain announcement about uprated car and car fuel benefit scales for 1984-85. Revenue (Mr Driscoll) submission on this and other benefits 31.1.83. Yield of 20% increase in car scales opposite. (Revenue (Mr Corlett) submission 2.2.83 to FST on potentially related issue of capital allowances for company cars.)	na	45	45
(c) CGT: capital loss buying: groups of companies (starter no 142)	) Revenue submission (Messrs Battishill and Bryce) 27.1.83: discussed at MST(R) meeting 2.2.83. MST minuted Chancellor 4.2.83, recommending (d) but against (c).	Nil	5 <u>yield</u>	30 <u>yield</u>
(d) Group relief: avoidance (BL). (starters no 119)		na	30 <u>yield</u>	30 <u>yield</u>
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Life assurance: chargeable events: secondhand bonds (starters no 110)	Announcement of intention to legislate. 24.6.82. <u>SETTLED</u>	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(f) DLT: disposals by non-residents (starters no 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions being held with Law Society and RICS.	1 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>
(g) Stock relief: payments on account (Starters no 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting (19.1.83); item to be reviewed in light of other measures affecting construction industry though inclination against at starters mtg 27.1.83.	under 1 <u>yield</u>	10-15 <u>yield</u>	15 <u>yield</u>
(h) Stock relief: deny to commodity/bullion dealers (Starters no 153)	Revenue (Mr McConnell) submission 4.2.83. MST(R) minute to Chancellor 7.2.83 recommends against for this year.	-	-	-

(Continued/...)



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Taxation of international business (starters 157)	Draft legislation published December 1982; comments requested by mid February.	-	-	-
		under 1 <u>yield</u>	under 1 <u>yield</u>	100 <u>yield</u>
	TOTAL <u>YIELDS</u>	2-10 yield	90-105 yield	225-235 yield





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Investment income surcharge - abolition/ options.	Revenue (Mr Spence) submission 2.1.83: discussed at Chancellor's meeting 3.2.83. which requested further submission on options. Figures are for reduction to 10%	5	35	85
(b) Stamp duty - selective reform package.	MST(R) note to Chancellor 4.2.83.	5-10	5-10	5-10
TOTALS		10-15	40-45	90-95
<p>Note: There are in addition a number of unplaced "heritage" proposals. These are:-</p> <p><u>Mr Heseltine, 6.1.83</u></p> <p>(i) VAT exemption for works of art accepted in lieu of tax; Customs (Mr Knox) submission 4.2.83.</p> <p>(ii) tax relief for business contributions to preservation and environmental trusts; Revenue (Mr Lusk) submission 4.2.83 recommended against.</p> <p><u>Lord Bellwin, 18.1.83</u></p> <p>(iii) tax allowances for repairs to listed buildings: Revenue (Mr Lusk) submission against 4.2.83 recommended against.</p>		na	na	na
		na	na	na



## CONFIDENTIAL

NOTE C

7 February 1983

## OTHER FISCAL RISKS AND POSSIBILITIES

£ million

1983-841984-85

## Possible Public Expenditure

**Unemployment.** Mr Tebbit putting proposals to Prime Minister. Three candidates may be proposed:-

i. Extension and modification of TSTWCS	115	100
ii. Continuation and extension of Enterprise Allowance Pilot Scheme.	50	48
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	<u>25</u>	<u>27</u>
	190	175

**Petrochemicals.** A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means. Submission to Chief Secretary next week

	<u>100</u>	<u>100</u>
	<u>290</u>	<u>275</u>

## Possible Tax

**Empty Property Rates.** Wide range of possible options for reductions with widely varying costs. Say

50	50
----	----

**Stamp Duty.** Various reforms, say up to

10	10
----	----

**Car Tax.** Suggestions have been made that this tax (currently 10 per cent) should be reduced or abolished. A 2½ per cent reduction would cost

<u>120</u>	<u>160</u>
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<u>180</u>	<u>220</u>
------------	------------

TOTAL

<u>470</u>	<u>495</u>
------------	------------



*Pl. past mail  
22 1983  
M. O'Mara*



FROM: MISS M O'MARA

DATE: 8 February 1983

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
Mr Lusk - IR  
PS/IR

APS/FINANCIAL SECRETARY

**BUDGET PACKAGES: DEPARTMENT OF THE ENVIRONMENT PROPOSALS**

The Chancellor has seen Mr Lusk's submission of 4 February and the Financial Secretary's reaction, as recorded in your minute of 7 February. He would also be interested to know the Chief Secretary's view and suggests that these proposals might be considered in the context of the construction package at next Monday's meeting.

*msm*

MISS M O'MARA





FROM: MISS M O'MARA  
DATE: 8 February 1983

PS/CHIEF SECRETARY

cc: PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Mr Middleton  
Mr Bailey  
Mr Byatt  
Mr Kemp  
Mr Lovell  
Mr Moore  
Mr Mountfield  
Mr Gordon  
Mr Kelly  
Mr R Allen  
Mr Robson  
Mr Godber  
Mr Ridley  
Mr French  
Mr Harris  
Mr Corlett/IR  
PS/IR  
PS/C&E  
Mr Culpin

BUDGET PACKAGES: CONSTRUCTION

The Chancellor was grateful for the Chief Secretary's minute of 4 February and suggests that all the options he lists should be left open for the time being, until further work has been done in preparation for next Monday's meeting on the construction package. He would also like the question of the rating of empty property to be considered at the same time.

*MOM*

MISS M O'MARA





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CHANCELLOR

CONSTRUCTION AND TOURISM PACKAGE

Officials have recommended that you take the construction and rapidly shrinking tourism package together on Monday.

Construction

You will want to go through the possible items for inclusion in the package in the order of priority which the Chief Secretary has allocated in his minute and it seems sensible to split them, as he has, between public expenditure and tax proposals.-

A. <u>Public expenditure</u>	Cost	
	1983/84	1984/85
i. enveloping	£50m or less	-
ii. changes to scope of improvement grants	£50m	-
iii. de-roofing (not in CST's package)	less than £100m	-
iv. additional capital allocations for (presentational only)	as tax ?	but reduces forecast underspending/

B. <u>Tax measures</u>	Cost	
	1983/84	Full Year
i. increase in proportion of industrial building which may be used for non-industrial purposes, while remaining eligible for allowance	-	£25m
ii. extension of 20% capital allowances for hotels to self-catering accommodation	-	£10m

EST would prefer increase in allowances for hotels only from 20% to 50%, if any action necessary in this field. FST also sees difficulty in CST's proposal/

iii. Extension of DLT deferment on developments for owners' own use.	-	£5m
<u>MST(R) consider this helpful in its own right/</u>		

C. Other measures

- i. Mortgage interest relief) if we are obliged to make
- ii. Stamp duty ) concessions here, we can add them to the package.

(iii) tax relief



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- iii. tax relief for business)
  - contributions to ) both put forward by DOE but
  - preservation and ) rejected by Chief Secretary
  - environmental trusts ) and FST
  - )
- iv. tax allowances for )
  - repairs to listed )
  - buildings )
- v. RIBA representations - you asked for this to be
  - considered in the construction
  - package context. The Chief
  - Secretary does not think they
  - reveal any additional options
  - worth considering.

Tourism

Items for possible inclusion in a tourism package are:

	Cost	Full Year	CST	FST	EST	MST(R)
i. Reduction in VAT eg selective VAT relief for services to overseas visitors	1983/84 £120m for hotel accommodation + £40m for other meals out			x	x	x
ii. 10% rating relief for hotels and boarding houses	£12-16m			x	x	(only worth consid- ering if meeting CBI proposals)
iii. Capital allowances:						
a. increase to 50% for initial hotel capital allow- ances		£10m (after 4 years)	x	x	✓	✓ (if some (at an conces- earlier sion stage) nessary)

/b. extension to smaller



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	Cost	Full Year	CST	FST	EST	MST(R)
b. extension to smaller hotels and self catering		(?) £10m	✓ (if something necessary)	x	x	
iv. Section 4 grants for individual tourist projects	£3-4m		x	x	x	
v. clarification of tax treatment of landlady's income from self catering						✓

There is a general lack of enthusiasm from both Ministers and officials for a tourism package, although the MST(R) thinks modest changes in this area would have clear political advantage. If some concession is deemed necessary (and no one seems to be pressing for one), the choice appears to lie between an increase in the rate of capital allowances for existing qualifying hotels (the EST's preference) or an extension of the existing relief to smaller hotels and self-catering accommodation (favoured by the CST).

You will recall that we are awaiting proposals from Mr Sproat, resulting from his tourism review. Both Jill and I have chased and the Chief Secretary has now written. The basic problem seems to be that Mr Sproat, like the Treasury, sees little cause for making any concession to the tourist industry. He does have one or two ideas apparently but Lord Cockfield is anxious that they should not be put before his own earlier proposals so there is an impasse within DOT. In the circumstances, I think we can probably reach fairly firm decisions without waiting for Mr Sproat.

*ms*



CONFIDENTIAL

FROM: JOHN GIEVE

DATE: 10 FEBRUARY 1983



(H)

~~MISS O'MARA~~

*FST*  
cc. PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
Mr Lusk - IR  
PS/IR

BUDGET PACKAGES: DEPARTMENT OF THE ENVIRONMENT PROPOSALS

The Chief Secretary has seen Mr Lusk's submission of 4 February and the Financial Secretary's reactions as recorded in his Private Secretary's minute of 7 February. He agrees with the Financial Secretary that neither of the items is desirable.

JG

JOHN GIEVE  
10 February 1983

CONFIDENTIAL





CONFIDENTIAL



FROM: C D HARRISON  
DATE: 11 FEBRUARY 1983

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
PS/IR

BUDGET PACKAGES: DEPARTMENT OF ENVIRONMENT PROPOSALS

The Economic Secretary has seen Mr Lusk's note of 4 February on the Department of Environment's Budget proposals.

2. He would be very much against Lord Bellwin's proposal for tax allowances for repairs to listed buildings; and he does not see anything much to commend Mr Heseltine's proposal for tax relief for business contributions to preservation and environmental trusts.

CDH

C D HARRISON



CONFIDENTIAL



FROM: C D HARRISON  
DATE: 11 FEBRUARY 1983

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
PS/IR

BUDGET PACKAGES: DEPARTMENT OF ENVIRONMENT PROPOSALS

The Economic Secretary has seen Mr Lusk's note of 4 February on the Department of Environment's Budget proposals.

2. He would be very much against Lord Bellwin's proposal for tax allowances for repairs to listed buildings; and he does not see anything much to commend Mr Heseltine's proposal for tax relief for business contributions to preservation and environmental trusts.

CDH

C D HARRISON





NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY AT 11.45AM  
ON MONDAY 14 FEBRUARY 1983

Those Present:

Chancellor of the Exchequer	Mr Kemp	Mr Battishill)	Inland
Chief Secretary	Mr Moore	Mr Corlett	) Revenue
Economic Secretary	Mr Chivers		
Minister of State (C)	Mr Culpin		
Minister of State (R)	Mr Gordon		
Sir A Rawlinson	Mr Robson		
Mr Bailey	Mr Ridley		
	Mr French		

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BUDGET CONSTRUCTION AND TOURISM PACKAGES

The meeting had before it the Chief Secretary's minute of 4 February. It was noted that Mr Sproat should have completed his review of tourism by Easter. The Chief Secretary had asked to be informed of any recommendations which might have a bearing on the Budget but although he had not yet received a reply, it was thought unlikely that Mr Sproat would be putting forward any proposals which had not already been considered by the Chancellor's own officials.

2. The Chief Secretary said that on the basis of assistance for a specific industry, there was no particular reason to help the construction sector in the 1983 Budget. He had seen the construction industry's Joint Taxation Committee the previous week and while there was no doubt that the sector was hard pressed, it was also clear that the pressure was easing. The main burden of the industry's representations had been that the Government should do all it could to ensure that public expenditure provision on capital projects was validated. However, on political and employment grounds, the Chief Secretary did see a good case for giving assistance to construction.

3. The meeting then discussed the possible elements of a construction package identified in the Chief Secretary's minute.





## Construction

### A. Public Expenditure

- (i) enveloping: The Chief Secretary thought this a worthwhile measure. It would provide an uplift to whole sectors of individual towns and the Minister for Housing and Construction had recently announced that schemes could be financed through the housing programme. Spending on the scheme would be totally within the Government's control. The Minister of State (C) drew attention to the useful "knock on" effect of the scheme in encouraging owners to improve the internal fabric of their houses. It was agreed that enveloping should be included in the construction package.
- (ii) improvement grants: Mr Culpin explained that 3 changes in the scope of improvement grants were under consideration. Inter-war houses might be made eligible for repairs grant at a cost of £25 million; the eligible expense limits on improvement and repairs grants might be increased at a cost of £10 million and the rateable value limits might be increased at a cost of £15 million. It was agreed that the first element was by far the most important but that only the third should be ruled out at this stage. There was a choice as to whether this should be regarded as another measure to reduce local authority underspending on capital or whether it should represent an increase in the local authority capital cash limit. No immediate decision needed to be taken. In either case up to an additional £50 million would be spent.
- (iii) empty property rating: The Chief Secretary suggested that this was an issue on which not all the arguments ran in the same direction. The principle of charging rates on empty property was a sound one. In practice, in view of the rapid deterioration which would set in, no owner was likely to remove the roof of a building in order to avoid payment of







rates unless he had decided to demolish the property in any case. Nevertheless, he wondered whether it would be worth making a modest gesture, given the many representations on this issue. It was pointed out that the evidence so far was wholly anecdotal and the scale of the problem was not at all clear. It appeared to be centred in the West Midlands and it could be that no more than 7 large buildings were involved. There was therefore a danger in introducing costly and wide-ranging reliefs. The Department of Environment had, for instance, estimated that on 1981 data, it would cost around £50 million to lower the limit from 50 per cent to 20 per cent. However, this assumed that the relief would be given across the board. It should be possible to make it much more specific, perhaps by confining it to manufacturing industry. The Chancellor asked officials to investigate the possibility of introducing a relief along these lines, the cost of which could be contained in the existing RSG. It was noted that the Chief Secretary would shortly be meeting the Secretaries of State for the Environment and Industry to discuss the problem.

## B. Tax Measures

2. (i) increase in disregard: The Chief Secretary said that the Joint Taxation Committee had endorsed the proposal for increasing the proportion of an industrial building which might be used for non-industrial purposes while still qualifying for the industrial building allowance. He suggested that this was an important measure which would reflect the changing pattern of industrial





use. The Minister of State (R) pointed out that the increased relief should encourage investment by making subsequent disposal of the property easier. It was agreed that the disregard should be increased to 25 per cent and should apply to all non-industrial uses.

- (ii) self-catering: The Chief Secretary expressed his preference for extending the 20 per cent capital allowance for hotels to self-catering accommodation. He suggested that this made sense in the context both of a construction and a tourism package; it headed the English Tourist Board's list of proposals and was supported by the Secretaries of State for Trade and Wales. Again, the measure would reflect the changing pattern of tourist provision. He acknowledged that the necessary legislation would be fairly lengthy and complex and the choice of boundary would inevitably be rather arbitrary. Nevertheless, he believed the problems could be overcome. The Economic Secretary did not favour such an extension which he thought would give rise to great definitional difficulties. If any measure were considered necessary in this area, he would favour an increase in the rate of the allowance for hotels alone. Reference was made to the encouragement which the adoption of the Chief Secretary's proposal might give to property developers at the expense of local purchasers. It was suggested that problems might also arise in relation to student accommodation which was let to tourists during vacations. The Chief Secretary accepted that whatever measure was introduced would be complex and controversial. Nevertheless, he believed there was still a strong case for extending the allowance to self-catering. In conclusion the Chancellor asked officials to proceed on the basis that the Chief Secretary's proposal would be taken up.





- (iii) development land tax: It was agreed that deferment of DLT on developments for the owners' own use should be extended for a further two years.
- (iv) capital allowances for inner cities: Mr Bailey referred to the proposals set out in the Secretary of State for the Environment's letter of 11 February for using capital allowances to give incentives for new commercial buildings in inner city partnerships areas. He noted that this measure would be comparatively expensive (£30 million in the first year). Officials would be submitting urgent advice.
- (v) proposal by Joint Taxation Committee: The Chief Secretary referred to a small measure put forward by the Joint Taxation Committee at the previous week's meeting. The Inland Revenue had just submitted advice on the point but Ministers had not yet had an opportunity to study their note. However, it did not look a likely runner for the Budget.
- (vi) Viva Gas: Mr Knox noted that the construction industry could benefit by an additional £10 million if Customs were to lose the current Viva Gas case. The Chancellor would not, of course, want to refer to the case in his Budget Statement but the point might arise in the course of the Budget Debate.

### C. Tourism

- (i) Section 4 grants: Mr Chivers explained that officials understood that Mr Sproat on the basis of a consultants' report was planning to switch around £3 million expenditure from the Tourist Boards to Section 4 grants. It was agreed that this would be a sensible re-ordering of priorities, provided the Department of Trade could assure the Treasury that no additional expenditure would be incurred.





(ii) VAT on language schools: Mr Ridley drew attention to the reference which Mr Rees-Davies had made in his letter to the Chancellor of 10 February to a "anomaly" in the VAT treatment of private sector language schools. Mr Knox agreed to provide a note.

*MOM*

MISS M O'MARA

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Circulation:

Those present  
Financial Secretary  
Sir D Wass  
Mr Middleton  
Mr Byatt  
Mr Lovell or  
Mr Mountfield  
Mr Kelly  
Mr R Allen  
Mr Griffiths  
Mr Robson  
Mr Godber  
Mr Harris





(pup)

**BUDGET CONFIDENTIAL**

FROM: DOUGLAS WASS  
 DATE: 14 FEBRUARY 1983

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State (C)  
 Minister of State (R)  
 Sir Anthony Rawlinson  
 Mr Burns  
 Mr Littler  
 Mr Middleton  
 Mr Bailey  
~~Mr Cassell~~  
 Mr Cassell  
 Mr Kemp  
 Mr Moore  
 Mr Hall  
 Mr Ridley  
 Sir Lawrence Airey (IR)  
 Mr Fraser (C&E)  
 Mr Kerr

**BUDGET PACKAGES**

Attached are the familiar three notes reporting progress on the packages: Note A, summary table; Note B, listing of the packages; Note C, fiscal risks and possibilities. The notes do not reflect the results of the meeting you took this morning on the construction package (though the arithmetic would not be altered substantially).

2. The totals for the packages remain in the right range, though at the top end they would cost more than has been provided in the Budgets we have been discussing. Some of the risks seem to be fading, but others seem now to have greater strength. I might mention two. First, to give Development Area status to the West Midlands would cost around £100 million a year. A note on this possibility is in preparation. Secondly, to drop the social security adjustment would cost £158-250 million in 1983-84 and £530-725 million in 1984-85. This latter risk is substantial even in terms of the overall Budget arithmetic.

3. The packages are in general moving forward satisfactorily and you will be holding a number of meetings on them this week. But "fairness in taxation" could well



prove sensitive and troublesome. The Financial Secretary and the Minister of State (R) will I understand be reporting to you on various aspects of the package, and I think it would be useful for you to hold a meeting on it early next week. It seems right for the moment to continue to see this as a package, though you may not want to present it as such in the Speech.

A handwritten signature in black ink, appearing to be 'D.W.' with a small flourish at the end.

DOUGLAS WASS



DATE : 14 February 1983

## BUDGET 1983 - PACKAGES ETC - SUMMARY

(£m revenue costs)	1983-84		1984-85	
	<u>Total</u>	<u>P/Ex element</u>	<u>Total</u>	<u>P/Ex element</u>
Packages (Note B below)	315-335	150	265-350	92
Other risks and possibilities (Note C below)	0-410	0-255	0-510	0-355
Child Benefit (In main Progress Report)	90	90	250	250
	<hr/> 405-835	<hr/> 240-495	<hr/> 515-1110	<hr/> 342-697
Less: net amount absorbed by virtue of P/Ex charged to Reserve (see Note 1)	(100)		(100)	
Reduction to convert revenue costs to PSBR	<hr/> (50-80)		<hr/> (60-120)	
Net PSBR charge to Fiscal Adjustment	<hr/> 255-655		<hr/> 355-890	
Provided in Progress Report	<hr/> 400		<hr/> 550	

Note 1. How much of the public expenditure element should be charged to the Reserve, and the scope within the Reserve for this, is under review. But whatever the treatment, the allowance for shortfall in the forecast has to be reduced, thus giving rise to a charge to the fiscal adjustment. It is estimated that for 1983-84 allowance for shortfall has to be reduced to the extent of the whole excess of the additional public expenditure elements over £100 million; for 1984-85 the figure is less certain but a similar amount, which may be on the prudent side, is deducted.

Note 2. For mention of some other risks see covering minute. There is also of course the continuing risk on oil prices.

Note 3. All figures still tentative and subject to change.



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BUDG PACKAGES: COSTS SUMMARY TABLE

14 February 1983

	1983-84	1984-85	£ million Full year
Enterprise and Small Firms of which public expenditure:	73-74 5	145-236 5	179-276 --
Wider Share Ownership of which public expenditure:	Now incorporated in enterprise package		
Technology and Innovation of which public expenditure:	44 44	84 74	127 82
Construction of which public expenditure:	175-200 100	120-145 --	125-150 --
(of which mortgage interest relief: 75-100)		100-125	75-100)
Oil Taxation of which public expenditure	Not counted in package totals		
Tourism of which public expenditure:	--	--	--
Agriculture of which public expenditure:	--	--	--
Betting and Breeding of which public expenditure	Package dropped		
Caring and Charities of which public expenditure:	24-29 --	41-46 13	69-74 41
Fairness in Taxation of which public expenditure:	3-12 --	125-160 --	230-260 --

Note on business/persons split of package items is overleaf

11 February 1983

TOTALS	315-335	265-350	270-370
of which public expenditure	150	92	123

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BUDGET PACKAGES : BUSINESS/PERSONS SPLIT

£ million

1983-84

1984-85

## PERSONS:-

Capital transfer tax	34	70
Mortgage interest relief	75-100	100-125
Caring and charities package	24-29	47-46
<hr/>		
TOTAL	133-163	211-241
of which public expenditure	-	13
<hr/>		

## BUSINESS:

ALL other package items

TOTAL	182-172	54-110
of which public expenditure	150	79
<hr/>		

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: SMALL FIRMS AND ENTERPRISE

DATE : 11 February 1983

Minister in lead: FST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Business Expansion Scheme	Meeting to discuss package arranged for 16.2.83. FST to circulate note on package 14.2.83 FST minuted Chancellor 31.1.83 with recommendations on main elements of scheme. Chancellor (minute 3.2.83) endorsed broad approach. <u>Costs highly tentative.</u>	under 1	10-100	10-100
(b) Joint venture vehicles for institutional investment.	FST meeting 20.1.83 requested FP/IR to sound out institutions on possible constraint on their investment in small firms: meetings to be completed by 11.2.83.	na	na	na
(c) Zero and deep-discounted stock.	Consultative document issued 12.1.83, with comments requested by 11.2.83. Not costed since no definite proposal yet decided. Shelf issues will need to be considered in light of response.	na	na	na
(d) Simplification of PAYE and NIC payment: Schedule E/D issues.	Discussed at FST meeting 17.1.83. Revenue (Mr R Martin) submission on alternative PAYE system and tax free pay on 8.2.83. Revenue (Mr R Martin) submission on <u>Schedule D/E issues</u> in week ending <u>16.2.83.</u>	na	na	na

(Continued/..)

CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Capital transfer tax	FST minuted Chancellor 18.1.83 proposing package of improved rate scale, higher agricultural/business reliefs and extended instalments period. Additional Revenue submissions 20.1.83 (Mr Isaac) and 25.1.83 (Mr Beighton). Discussed at Chancellor's meeting 4.2.83.	34	70	90
(f) Loan Guarantee Scheme	Discussed at HIG meeting 11.1.83. Interim submission (Mr Bailey) to Chancellor 24.1.83. Detailed DOI proposals now received; IA submission today.	(pe) 5	(pe) 5	-
(g) Enterprise agencies: widening of qualifying conditions for relief.	Proposed in Mr Heseltine's letter of 6.1.83. Presumption at Chancellor's meeting on 12.1.83 against and Revenue (Mr Lusk) submission so recommended. FST minuted Chancellor (7.2.83) endorsing recommendation - costs not therefore included.	-	-	-
(h) VAT registration etc thresholds	Customs submission 24.12.82. Ministerial decision reached.	5	10	10
EST	<u>SETTLED</u>			
(Continued/..)				

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Corporation tax: small companies profits limits and rates.  MST(R)	Revenue submission (Mr Battishill) 26.1.83. 1% reduction in rate would cost £10 million in 1983-84 and £15 million in full year. Cost of broad revalorisation limits, to £100,000 & £250,000 shown opposite. To be considered in light of main options for changes in corporation tax.	6	10	10
(j) Schedule D case V trading losses (starter number 124)	Revenue submission (Mr Keith) of 22.12.82 to FST; Chancellor's meeting 12.1.83 agreed that should remain on table.	under 1	under 1	under 1
(k) De minimis limit for assessment of apportioned income (starter number 152)	MST(R) recommended increase to Chancellor 26.1.83; Chancellor's minute 7.2.83 approved increase to £1000 <u>SETTLED</u>	under 1	under 1	under 1
(l) Relief for interest-employee buy-outs (starter number 189)	Revenue submission (Mr Stewart) to FST 28.1.83. Costs dependent on take-up: figures assume 100,000 employees with relief on £150 each. Wider repercussions could increase costs. Discussed at FST meeting 9.2.83: further Revenue submission pending.	under 1	2	5
(Continued/..)				

CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(m) Close companies: ACT limit on loans (starter number 181) MST(R)	Chancellor's minute 1.2.83 agreed that limit should go hand in hand with mortgage interest relief ceiling.	under 1	under 1	under 1
(n) CGT monetary limits	Revenue (Mr Bryce) submission to FST 13.1.83. FST (17.1.83) commended package to Chancellor. Discussed at Chancellor's mtg 4.2.83 <u>SETTLED</u>	-	under 1	under 1
(o) CGT - retirement relief	Revenue (Mr Beighton) submission to FST 7.1.83. FST (12.1.83) suggested an increase to £100,000 should form part of package. Discussed at Chancellor's mtg 4.2.83 <u>SETTLED</u>	-	under 1	1 - 2
(p) VAT - annual accounting (starter number 5) EST	Chancellor's meeting 28.1.83 agreed unlikely but not ruled out: Chancellor's minute 1.2.83 asked for further discussion. Cost in 1983-84 £20 million and 1984-85 £170 million; once-for-all and not included at this stage. Customs (Mrs Strachan) submission 8.2.83 to Chancellor on consultation tactics. EST to hold meeting 14.2.83.	-	-	-
(q) VAT - bad debts EST	Suggested in Lord Cockfield's letter of 12.1.83. Customs (Mrs Strachan) submission 8.2.83: advised against and costs therefore not included. Costs would be substantial (in range £150-200m) if comprehensive relief granted. EST (10.2.83) agreed no action.	-	-	-

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BUDGET PACKAGES  
SUMMARY NOTEPACKAGE: SMALL FIRMS AND ENTERPRISE  
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(r) Changes to existing wider share ownership schemes	FST's recommendations to Chancellor 24.1.83. Chancellor's response 3.2.83. Provisionally settled, but FST to put note to Chancellor on possible further options. Costs are for changes already agreed	20	35	40-45
(s) Discounts on bills of exchange (acceptance credits)	Revenue (Mr Stewart) submission 31.1.83. FST agreed proposal 1.2.83 <u>SETTLED</u>	1-2	1-2	1-2
(t) Interest on foreign borrowing (Eurobonds)	Consultative document issued 26.1.83, with comments requested by mid-February. Cost estimates uncertain.	under 1	under 1	10
	TOTAL	73-74	145-236	179-276
	of which public expenditure	5	5	-

CONFIDENTIAL





BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: TECHNOLOGY AND INNOVATION

DATE : 10 February 1983

Minister in lead: CST

Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films.	CST minuted Chancellor 9.2.83: meeting 15.2.83 <u>SETTLED</u>	nil	nil	- (30 in 1985-86, 55 over 1985-88 period)
(b) Extension of transitional period for capital allowances for rented teletext televisions.	<u>SETTLED</u>	nil	10	- (15 in 1985-86, 55 over 1984-87 period)
(c) Small Engineering Firms Investment Scheme.	These items recommended in CST's minute of 9.2.83; costs opposite. If resources available, also recommended additional items (science parks, advanced equipment for education) with additional costs of £5, 11 and 17 million in the three years; these costs <u>not</u> included.	(pe) 44	(pe) 74	(pe) 82 (1985-86)
(d) Information technology				
(e) Innovation-linked investment.				
(f) Advisory services				
	TOTALS	44	84	127 (1985-86)
	of which public expenditure	44	74	82

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CONSTRUCTION  
DATE : 11 February 1983  
Minister in lead: CST  
Official in lead: Mr Moore

Note: CST minuted Chancellor 4.2.83 on package:  
meeting on 14.2.83.

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage interest relief ceiling (starter no 105)	Inclination against at Chancellor's meeting 24.1.83. Further FP note (Mr Moore) 10.2.83. Pending final decision costs included in package; assume increase to £35,000, which after 5 years would cost £200-300 million.	75-100	100-125	75-100
(b) Stamp duty threshold	Revenue (Mr Draper) note to Chancellor 1.2.83: Chancellor's response 3.2.83: option stands pending decision on (a).	-	-	-
(c) DLT - own use deferment and write off of deferred tax.	MST(R) 28.1.83 recommended: CST endorsed in minute of 4.2.83.	-	less than 1	5
(d) Changes in home improvement grant rules.	) Recommendations in CST's minute 4.2.83; ) preference is for (e).	(pe) 50	-	-
(e) Funds for enveloping.		(pe) 50		
(f) Increase proportion of office space qualifying for Industrial Building Allowance.	One of proposals in Mr Heseltine's 6.1.83 letter. CST recommends increase to 25% in minute of 4.2.83.	nil	10	25

(Continued/..)

CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) "Tourism" capital allowances.	There are two items which have previously been candidates for tourism package which are now being examined in construction package:-			
	(i) increase in allowance for hotels to 50%	nil	5	(around 10 after 4 yrs)
	(ii) extension of 20% allowance to self-catering accommodation.	nil	up to 5	up to 10
	CST's minute to Chancellor 4.2.83 recommends (ii) in preference to (i).			
	TOTALS	175-200	120-145	125-150
	of which public expenditure	100	nil	nil

BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION

DATE : 10 February 1983

Minister in lead: MST(R)

Official in lead: Mr Middleton

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) North Sea regime, phasing out APRT etc (starter no 109)	Option B (plus doubling of oil allowance for future fields, which has no short-term cost) proposed to Mr Lawson at meeting 2.2.83: correspondence continuing.	90	140	340 (1985-86)
(b) PRT expenditure reliefs and receipts (starter no 115)	Consultative document issued May 1982. Revenue (Mr Crawley) submissions 25.1.83 and 4.2.83. Costs/yields are for MST(R)'s proposals on abatement put to Mr Lawson 4.2.83.	15	30 <u>yield</u>	50 <u>yield</u>
(c) PRT. Minor provision (starter nos 162, 163, 164, 167, 184, 187 and 192).	MST(R)'s recommendations in minute to Chancellor 26.1.83. Chancellor's reply 31.1.83 indicated that he is content. Items involve rough y balancing mix of small costs and yields. <u>SETTLED</u>	-	-	-
(d) PRT. Exempt gas and payback (starter no 166)	Inland Revenue analysing details from companies which may be affected. Submission from Mr Crawley next week. Likely to be unnecessary, so no cost included.	-	-	-
TOTALS		105	110	290 (1985-86)
of which public expenditure		nil	nil	nil

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: TOURISM

DATE : 10 February 1983

Minister in lead : EST

Official in lead : Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rating reliefs	EST's recommendations in minute to Chancellor 19.1.83. CST wrote to Lord Cockfield 9.4.83 regarding Mr Sproat's review. To be discussed at construction package meeting 14.2.83.  EST's recommendation against, unless action on industrial/commercial rating relief.	-	-	-
(b) Capital allowances	Two proposals:  (i) increase allowance for hotels to 50%; (ii) extend 20% allowance to self-catering accommodation (and smaller hotels). These are now being examined in context of construction package: costs <u>not</u> included here.	-	-	-
(c) Increased grants under section 4, Development of Tourism Act.	EST recommended against.	-	-	-
	TOTALS	nil	nil	nil
	of which public expenditure	nil	nil	nil

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: AGRICULTURE  
DATE : 10 February 1983

Minister in lead: FST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rental income to be treated as earned income.	FST asked (10.1.83) Revenue (Mr Battishill) to examine: submission pending. This is among proposals in Lord Ferrer's letter of 21.1.83; FST's reply of 24.1.83 indicates presumption against all these proposals and therefore <u>no</u> costs included at this stage.	-	-	-
	TOTALS of which public expenditure	nil nil	nil nil	nil nil
	<u>Note:</u> Questionable whether there is sufficient for free-standing package. CTT agricultural reliefs included in item (e) of small firms and enterprise package.			

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Proposals now received from Mr Fowler (4.2.83) and Mr Whitelaw (5.2.83). ST (Mr Monger) submission to CST 10.2.83. Meeting fixed for 15.2.83.			
(a) Extension of Widows Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission 23.12.83. CST in favour at 25.1.83 meeting on package.	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	<u>Not</u> proposed by Mr Fowler: costs therefore removed.	-	-	-
(c) Removal of invalidity benefit "trap".	A proposal in Mr Fowler's letter; covered in ST submission of 10.2.83.	(pe) 7	(pe) 23	(pe) 24 (1985-86)
(d) War pensioners mobility scheme.	A proposal in Mr Fowler's letter; covered in ST submission of 10.2.83.	-	(pe) 1	(pe) 3 (1985-86)
(e) Real increase in mobility allowance/therapeutic earnings limit.	A proposal in Mr Fowler's letter; covered in ST submission.	(pe) 2	(pe) 6	(pe) 6 (1985-85)

(Continued)

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CARING AND CHARITIES  
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Development of voluntary etc care service for elderly.	Discussed at FPG meeting 9.2.83: ST submission recommends against.	(pe) 2	(pe) 2	(pe) 2 (1985-86)
(g) Extension of Invalid Care Allowance.	Effectively rejected at FPG meeting 9.2.83: costs therefore removed.	-	-	-
(h) <u>Other social security measures:</u>				
(i) Housing benefit - children's needs allowance.	Mr Fowler likely to press: ST reservations.	(pe) 5	(pe) 15	(pe) 16 (1985-86)
(ii) SB - capital disregard	} ST recommend in 10.2.83 submission.	(pe) 2.5	(pe) 7	(pe) 7 (1985-86)
(iii) SB - single payment capital disregard		(pe) 1	(pe) 3	(pe) 3 (1985-86)
	Note: All other items in Mr Fowler's 4.2.83 letter recommended for rejection in ST 10.2.83 submission.			

(Continued/..)

CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Abolition of £250,000 ceiling for CTT exemption on gifts to charities.	CST in favour at 25.1.83 meeting. Increase proposed in Mr Whitelaw's 5.2.83 letter.	under 1	under 1	under 1
(j) Deeds of covenant: increase in ceiling for higher rate relief to £5,000.	CST in favour at 25.1.83 meeting. A proposal in Mr Whitelaw's 5.2.83 letter.	nil	3	3
(k) <u>Other fiscal measures:</u>				
(i) relief for payroll giving;	CST inclined against at 25.1.83 meeting. Mr Whitelaw's 5.2.83 letter suggests study.	-	-	-
(ii) relief for individual donations	CST inclined against at 25.1.83 meeting.	-	-	-
(iii) relief for company donations;	CST inclined against at 25.1.83 meeting.	--	-	-
(iv) relief for seconded staff;	CST in favour at 25.1.83 meeting. A proposal in Mr Whitelaw's 5.2.83 letter.	under 1	under 1	under 1
(v) covenanted payments gross.	CST inclined against at 25.1.83 meeting. Mr Whitelaw's letter of 5.2.83 proposes composite rate.	-	-	-

(Continued/.)

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(1) <u>Other public expenditure measures:</u>				
(i) investment grants to voluntary sector;	) CST inclined against at 25.1.83 meeting.	-	-	-
(ii) central grant to National Association of Councils of Voluntary Service.		-	-	-
	<u>Note: The total cost of the public expenditure measures in the package is £20 million for 1983-84, £57 million for 1984-85 and £61 million for 1985-86. However, taking into account offsetting savings, if the package recommended by ST is agreed, the net effect will be as shown opposite. It is these figures which are included in the package totals.</u>	nil	13	41
	TOTALS	24-29	41-46	69-74
	of which public expenditure	nil	13	41

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BUDGET PACKAGES  
SUMMARY NOTE

PACKAGE: FAIRNESS IN TAXATION

DATE : 11 February 1983

Minister in lead: FST and MST(R)  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no. 197)	Revenue (Mr Isaac) submission (9.2.83) to FST and MST (R) suggest measures should not be presented as a package. Further Revenue package summary note 10.2.83. Chancellor's meeting 22.12.82 agreed on legislation. <u>SETTLED</u>	1-10 <u>yield</u>	1-10 <u>yield</u>	1-10 <u>yield</u>
(b) Fringe benefits: car and car fuel scales (starter no. 134)	Revenue (Mr Driscoll) submission (11.2.83) suggests increase in car and car fuel scales of 20% for 1984-85, and possible package of other fringe benefit measures for 1983 Bill. FST to hold meeting on 14.2.83	-	45 <u>yield</u>	45 <u>yield</u>
(c) Fringe benefits: others (starter no. 133)		-	35-50 <u>yield</u>	35-50 <u>yield</u>
	(Revenue (Mr Corlett) submission 2.2.83 to FST on potentially related issue of capital allowances for company cars. FST (minute 4.2.83) requested further note; FF to submit week ending 18.2.83). No firm options yet; cost/yields not included.			

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BUDGET PACKAGES  
SUMMARY NOTE

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PACKAGE: FAIRNESS IN TAXATION  
DATE : 14 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) CGT: capital loss buying; group of companies (starter no. 142)	Revenue submission (Messrs. Battishill and Bryce) 27.1.83. MST(R) minuted Chancellor 4.2.83 recommending (e) but against (d) this year. Chancellor agreed 8.2.83. Costs included for (e) alone. <u>SETTLED</u>	..	<u>30-40</u> <u>yield</u>	<u>30-40</u> <u>yield</u>
(e) Group relief: avoidance (BL) (starter no. 119)	Announcement of intention to legislate 24.6.82 <u>SETTLED</u>			
(f) Life assurance: chargeable events: secondhand bonds (starters no. 110)		<u>under 1</u> <u>yield</u>	<u>under 1</u> <u>yield</u>	<u>under 1</u> <u>yield</u>
(g) DLT: disposals by non-residents (starters no. 149)		<u>1 yield</u>	<u>2 yield</u>	<u>2 yield</u>
	Revenue (Mr Beighton) submission on 5.11.82. Discussions held with Law Society and RICS; RICS not yet responded. Revenue (Mr Beighton) submission 10.2.83 recommends proceeding with measure.			

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BUDGET PACKAGES  
SUMMARY NOTE

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PACKAGE: FAIRNESS IN TAXATION  
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Stock relief: payments on account (Starters no. 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting (19.1.83); item to be reviewed in light of other measures affecting construction industry though inclination against at starters mtg 27.1.83.	<u>under 1 yield</u>	<u>10-15 yield</u>	<u>15 yield</u>
(i) Stock relief: deny to commodity/bullion dealers (Starters no. 153)	Revenue (Mr McConnachie) submission 4.2.83. MST(R) minute to Chancellor 6.2.83 recommends against for this year. CST 7.2.83 agrees.	-	-	-
(j) Taxation of international business (starter no. 157)	Draft legislation published December 1982; comments requested by mid-February.	<u>under 1 yield</u>	<u>under 1 yield</u>	<u>100 yield</u>
	<u>TOTAL YIELDS</u>	<u>3-12 yield</u>	<u>125-160 yield</u>	<u>230-260 yield</u>

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Investment income surcharge - abolition/options.	Revenue (Mr Spence) submission 2.1.83: discussed at Chancellor's meeting 3.2.83. Further submission on options 10/13.2.83. Figures are for reduction to 10%.	5	50	55
(b) Stamp duty - selective reform package.	MST(R) note to Chancellor 4.2.83: Chancellor's initial response 8.2.83.	5	5	5
TOTALS		10	55	90
<p>Note: There are in addition a number of "heritage" proposals. These are:-</p> <p><u>Mr Heseltine, 6.1.83</u></p> <p>(i) VAT exemption for works of art accepted in lieu of tax; Customs (Mr Knox) submission 4.2.83.</p> <p>(ii) tax relief for business contributions to preservation and environmental trusts; Revenue (Mr Lusk) submission 4.2.83 recommended against.</p>		na	na	na
		na	na	na

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	<p><u>Lord Bellwin, 18.1.83</u></p> <p>(iii) tax allowances for repairs to listed buildings: Revenue (Mr Lusk) submission against 4.2.83 recommended against.</p> <p>FST's minute to Chancellor 7.2.83 endorsed the Revenue recommendations on (ii) and (iii). CST's minute 10.2.83 agreed that neither item desirable, as did EST (minute 11.2.83).</p>	-	-	-

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## CONFIDENTIAL

NOTE C

14 February 1983

## OTHER FISCAL RISKS AND POSSIBILITIES

	£ million	
	<u>1983-84</u>	<u>1984-85</u>
<b>Possible Public Expenditure</b>		
<b>Unemployment.</b> Mr Tebbit's ideas put to Prime Minister starting 1983-84.		
i. Extension and modification of TSTWCS and/or	100	100
ii. Continuation and extension of Enterprise Allowance Scheme.	45	145
(Amended JRS would start 1984-85.) Other possible proposal:		
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	<u>10</u>	<u>10</u>
	155	255
<b>Petrochemicals.</b> A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means. Submission circulated.		
	<u>100</u>	<u>100</u>
	<u>255</u>	<u>355</u>
<b>Possible Tax</b>		
<b>Empty Property Rates.</b> Wide range of possible options for reductions with widely varying costs. Say		
	50	50
<b>Stamp duty - selective reform</b>		
	5	5
<b>Oil Taxation.</b> Further relief called for by Mr Lawson above amount provided in packages, say		
	<u>100</u>	<u>100</u>
	<u>155</u>	<u>155</u>
<b>TOTAL</b>	<u>410</u>	<u>510</u>





BUDGET CONFIDENTIAL 

FROM: DOUGLAS WASS  
 DATE: 14 FEBRUARY 1983

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State (C)  
 Minister of State (R)  
 Sir Anthony Rawlinson  
 Mr Burns  
 Mr Littler  
 Mr Middleton  
 Mr Bailey  
~~Mr Middleton~~  
 Mr Cassell  
 Mr Kemp  
 Mr Moore  
 Mr Hall  
 Mr Ridley  
 Sir Lawrence Airey (IR)  
 Mr Fraser (C&E)  
 Mr Kerr -

**BUDGET PACKAGES**

Attached are the familiar three notes reporting progress on the packages: Note A, summary table; Note B, listing of the packages; Note C, fiscal risks and possibilities. The notes do not reflect the results of the meeting you took this morning on the construction package (though the arithmetic would not be altered substantially).

2. The totals for the packages remain in the right range, though at the top end they would cost more than has been provided in the Budgets we have been discussing. Some of the risks seem to be fading, but others seem now to have greater strength. I might mention two. First, to give Development Area status to the West Midlands would cost around £100 million a year. A note on this possibility is in preparation. Secondly, to drop the social security adjustment would cost £158-250 million in 1983-84 and £530-725 million in 1984-85. This latter risk is substantial even in terms of the overall Budget arithmetic.

3. The packages are in general moving forward satisfactorily and you will be holding a number of meetings on them this week. But "fairness in taxation" could well



prove sensitive and troublesome. The Financial Secretary and the Minister of State (R) will I understand be reporting to you on various aspects of the package, and I think it would be useful for you to hold a meeting on it early next week. It seems right for the moment to continue to see this as a package, though you may not want to present it as such in the Speech.

A handwritten signature in dark ink, appearing to be 'DW' with a flourish underneath.

DOUGLAS WASS



DATE : 14 February 1983

## BUDGET 1983 - PACKAGES ETC - SUMMARY

(£m revenue costs)	1983-84		1984-85	
	<u>Total</u>	<u>P/Ex element</u>	<u>Total</u>	<u>P/Ex element</u>
Packages (Note B below)	315-335	150	265-350	92
Other risks and possibilities (Note C below)	0-410	0-255	0-510	0-355
Child Benefit (In main Progress Report)	90	90	250	250
	<u>405-835</u>	<u>240-495</u>	<u>515-1110</u>	<u>342-697</u>
Less: net amount absorbed by virtue of P/Ex charged to Reserve (see Note 1)	(100)		(100)	
Reduction to convert revenue costs to PSBR	<u>(50-80)</u>		<u>(60-120)</u>	
Net PSBR charge to Fiscal Adjustment	<u>255-655</u>		<u>355-890</u>	
Provided in Progress Report	<u>400</u>		<u>550</u>	

Note 1. How much of the public expenditure element should be charged to the Reserve, and the scope within the Reserve for this, is under review. But whatever the treatment, the allowance for shortfall in the forecast has to be reduced, thus giving rise to a charge to the fiscal adjustment. It is estimated that for 1983-84 allowance for shortfall has to be reduced to the extent of the whole excess of the additional public expenditure elements over £100 million; for 1984-85 the figure is less certain but a similar amount, which may be on the prudent side, is deducted.

Note 2. For mention of some other risks see covering minute. There is also of course the continuing risk on oil prices.

Note 3. All figures still tentative and subject to change.



## CONFIDENTIAL

BUDGET PACKAGES: COSTS SUMMARY TABLE

14 February 1983

	1983-84	1984-85	£ million Full year
Enterprise and Small Firms of which public expenditure:	73-74 5	145-236 5	179-276 ..
Wider Share Ownership of which public expenditure:	Now incorporated in enterprise package		
Technology and Innovation of which public expenditure:	44 44	84 74	127 82
Construction of which public expenditure:	175-200 100	120-145 ..	125-150 ..
(of which mortgage interest relief: 75-100)		100-125	75-100)
Oil Taxation of which public expenditure	Not counted in package totals		
Tourism of which public expenditure:	-	-	-
Agriculture of which public expenditure:	-	-	-
Betting and Breeding of which public expenditure	Package dropped		
Caring and Charities. of which public expenditure:	24-29 -	41-46 13	69-74 41
Fairness in Taxation of which public expenditure:	3-12 ..	125-160 ..	230-260 ..

Note on business/persons split of package items is overleaf

11 February 1983

TOTALS	315-335	265-350	270-370
of which public expenditure	150	92	123

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BUDGET PACKAGES : BUSINESS/PERSONS SPLIT

	£ million	
	1983-84	1984-85
<b>PERSONS:-</b>		
Capital transfer tax	34	70
Mortgage interest relief	75-100	100-125
Caring and charities package	24-29	41-46
<hr/>		
TOTAL	133-163	211-241
of which public expenditure	-	13
<hr/>		
<b>BUSINESS:</b>		
<u>ALL</u> other package items		
<hr/>		
TOTAL	182-172	54-110
of which public expenditure	150	79
<hr/>		

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: SMALL FIRMS AND ENTERPRISE

DATE : 11 February 1983

Minister in lead: FST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Business Expansion Scheme	Meeting to discuss package arranged for 16.2.83. FST to circulate note on package 14.2.83 FST minuted Chancellor 31.1.83 with recommendations on main elements of scheme. Chancellor (minute 3.2.83) endorsed broad approach. <u>Costs highly tentative.</u>	under 1	10-100	10-100
(b) Joint venture vehicles for institutional investment.	FST meeting 20.1.83 requested FP/IR to sound out institutions on possible constraint on their investment in small firms: meetings to be completed by 11.2.83.	na	na	na
(c) Zero and deep-discounted stock.	Consultative document issued 12.1.83, with comments requested by 11.2.83. Not costed since no definite proposal yet decided. Shelf issues will need to be considered in light of response.	na	na	na
(d) Simplification of PAYE and NIC payment: Schedule E/D issues.	Discussed at FST meeting 17.1.83. Revenue (Mr R Martin) submission on alternative PAYE system and tax free pay on 8.2.83. Revenue (Mr R Martin) submission on Schedule D/E issues in week ending 18.2.83.	na	na	na
(Continued/..)				

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Capital transfer tax	FST minuted Chancellor 18.1.83 proposing package of improved rate scale, higher agricultural/business reliefs and extended instalments period. Additional Revenue submissions 20.1.83 (Mr Isaac) and 25.1.83 (Mr Beighton). Discussed at Chancellor's meeting 4.2.83.	34	70	90
(f) Loan Guarantee Scheme	Discussed at HIG meeting 11.1.83. Interim submission (Mr Bailey) to Chancellor 24.1.83. Detailed DCI proposals now received: IA submission today.	(pe) 5	(pe) 5	-
(g) Enterprise agencies: widening of qualifying conditions for relief.	Proposed in Mr Heseltine's letter of 6.1.83. Presumption at Chancellor's meeting on 12.1.83 against and Revenue (Mr Lusk) submission so recommended. FST minuted Chancellor (7.2.83) endorsing recommendation costs not therefore included.	-	-	-
(h) VAT registration etc thresholds  EST	Customs submission 24.12.82. Ministerial decision reached.  <u>SETTLED</u>	5	10	10
(Continued/..)				

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Corporation tax: small companies profits limits and rates.  MST(R)	Revenue submission (Mr Battishill) 26.1.83. 1% reduction in rate would cost £10 million in 1983-84 and £15 million in full year. Cost of broad revalorisation limits, to £100,000 & £250,000 shown opposite. To be considered in light of main options for changes in corporation tax.	6	10	10
(j) Schedule D case V trading losses (starter number 124)	Revenue submission (Mr Keith) of 22.12.82 to FST; Chancellor's meeting 12.1.83 agreed that should remain on table.	under 1	under 1	under 1
(k) De minimis limit for assessment of apportioned income (starter number 152)	MST(R) recommended increase to Chancellor 26.1.83: Chancellor's minute 7.2.83 approved increase to £1000 <u>SETTLED</u>	under 1	under 1	under 1
(l) Relief for interest-employee buy-outs (starter number 189)	Revenue submission (Mr Stewart) to FST 28.1.83. Costs dependent on take-up: figures assume 100,000 employees with relief on £150 each. Wider repercussions could increase costs. Discussed at FST meeting 9.2.83; further Revenue submission pending.	under 1	2	5
(Continued/..)				

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(m) Close companies: ACT limit on loans (starter number 181) MST(R)	Chancellor's minute 1.2.83 agreed that limit should go hand in hand with mortgage interest relief ceiling.	under 1	under 1	under 1
(n) CGT monetary limits	Revenue (Mr Bryce) submission to EST 13.1.83. EST (17.1.83) commended package to Chancellor. Discussed at Chancellor's mtg 4.2.83 <u>SETTLED</u>	-	under 1	under 1
(o) CGT - retirement relief	Revenue (Mr Beighton) submission to EST 7.1.83. EST (12.1.83) suggested an increase to £100,000 should form part of package. Discussed at Chancellor's mtg 4.2.83 <u>SETTLED</u>	-	under 1	1 - 2
(p) VAT - annual accounting (starter number 5) EST	Chancellor's meeting 28.1.83 agreed unlikely but not ruled out: Chancellor's minute 1.2.83 asked for further discussion. Cost in 1983-84 £20 million and 1984-85 £170 million; once-for-all and not included at this stage. Customs (Mrs Strachan) submission 8.2.83 to Chancellor on consultation tactics. EST to hold meeting 14.2.83.	-	-	-
(q) VAT - bad debts EST	Suggested in Lord Cockfield's letter of 12.1.83. Customs (Mrs Strachan) submission 8.2.83: advised against and costs therefore not included. Costs would be substantial (in range £150-200m) if comprehensive relief granted. EST (10.2.83) agreed no action.	-	-	-

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BUDGET PACKAGES  
SUMMARY NOTE

PACKAGE: SMALL FIRMS AND ENTERPRISE

DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(r) Changes to existing wider share ownership schemes	FST's recommendations to Chancellor 24.1.83. Chancellor's response 3.2.83. Provisionally settled, but FST to put note to Chancellor on possible further options. Costs are for changes already agreed	20	35	40-45
(s) Discounts on bills of exchange (acceptance credits)	Revenue (Mr Stewart) submission 31.1.83. FST agreed proposal 1.2.83 <u>SETTLED</u>	1-2	1-2	1-2
(t) Interest on foreign borrowing (Eurobonds)	Consultative document issued 26.1.83, with comments requested by mid-February. Cost estimates uncertain.	under 1	under 1	10
	TOTAL	73-74	145-236	179-276
	of which public expenditure	5	5	-

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: TECHNOLOGY AND INNOVATION

DATE : 10 February 1983

Minister in lead: CST  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films.	CST minuted Chancellor 9.2.83: meeting 15.2.83 <u>SETTLED</u>	nil	nil	- (30 in 1985-86, 55 over 1985-88 period)
(b) Extension of transitional period for capital allowances for rented teletext televisions.	<u>SETTLED</u>	nil	10	- (15 in 1985-86, 35 over 1984-87 period)
(c) Small Engineering Firms Investment Scheme.	) These items recommended in CST's minute of 9.2.83; costs opposite. If resources available, also recommended additional items (science parks, advanced equipment for education) with <u>additional</u> costs of £6, 11 and 17 million in the three years; these costs <u>not</u> included.	(pe) 44	(pe) 74	(pe) 82 (1985-86)
(d) Information technology				
(e) Innovation-linked investment.				
(f) Advisory services				
	TOTALS	44	84	127 (1985-86)
	of which public expenditure	44	74	82

CONFIDENTIAL



BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CONSTRUCTION  
DATE : 11 February 1983  
Minister in lead: CST  
Official in lead: Mr Moore

Note: CST minuted Chancellor 4.2.83 on package:  
meeting on 14.2.83.

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage interest relief ceiling (starter no 105)	Inclination against at Chancellor's meeting 24.1.83. Further FP note (Mr Moore) 10.2.83. Pending final decision costs included in package; assume increase to £35,000, which after 5 years would cost £200-300 million.	75-100	100-125	75-100
(b) Stamp duty threshold	Revenue (Mr Draper) note to Chancellor 1.2.83; Chancellor's response 3.2.83: option stands pending decision on (a).	-	-	-
(c) DLT - own use deferment and write off of deferred tax.	MST(R) 28.1.83 recommended: CST endorsed in minute of 4.2.83.	-	less than 1	5
(d) Changes in home improvement grant rules.	) Recommendations in CST's minute 4.2.83; ) preference is for (e).	(pe) 50	-	-
(e) Funds for enveloping.		(pe) 50		
(f) Increase proportion of office space qualifying for Industrial Building Allowance.	One of proposals in Mr Heseltine's 6.1.83 letter. CST recommends increase to 25% in minute of 4.2.83.	nil	10	25

(Continued/..)

CONFIDENTIAL

BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CONSTRUCTION  
DATE : 10 February 1985

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) "Tourism" capital allowances.	There are two items which have previously been candidates for tourism package which are now being examined in construction package:-			
	<p>(i) increase in allowance for hotels to 50%</p> <p>(ii) extension of 20% allowance to self-catering accommodation.</p> <p>CST's minute to Chancellor 4.2.83 recommends (ii) in preference to (i).</p>	<p>nil</p> <p>nil</p>	<p>5</p> <p>up to 5</p>	<p>(around 10 after 4 yrs</p> <p>up to 10</p>
	TOTALS	175-200	120-145	125-150
	of which public expenditure	100	nil	nil

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION  
DATE : 10 February 1983

Minister in lead: MST(R)  
Official in lead: Mr Middleton

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year (1985-86)
(a) North Sea regime, phasing out APRT etc (starter no 109)	Option B (plus doubling of oil allowance for future fields, which has no short-term cost) proposed to Mr Lawson at meeting 2.2.83: correspondence continuing.	90	140	340
(b) PRT expenditure reliefs and receipts (starter no 115)	Consultative document issued May 1982. Revenue (Mr Crawley) submissions 26.1.83 and 4.2.83. Costs/yields are for MST(R)'s proposals on abatement put to Mr Lawson 4.2.83.	15	30 <u>yield</u>	50 <u>yield</u>
(c) PRT. Minor provision (starter nos 162, 163, 164, 167, 168, 187 and 192).	MST(R)'s recommendations in minute to Chancellor 26.1.83. Chancellor's reply 31.1.83 indicated that he is content. Items involve roughly balancing mix of small costs and yields. <u>SETTLED</u>	-	-	-
(d) PRT. Exempt gas and payback (starter no 166)	Inland Revenue analysing details from companies which may be affected. Submission from Mr Crawley next week. Likely to be unnecessary, so no cost included.	-	-	-
TOTALS		105	110	290
of which public expenditure		nil	nil	nil

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: TOURISM

DATE : 10 February 1983

Minister in lead : EST  
Official in lead : Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rating reliefs	EST's recommendations in minute to Chancellor 19.1.83. CST wrote to Lord Cockfield 9.4.83 regarding Mr Sproat's review. To be discussed at construction package meeting 14.2.83.  EST's recommendation against, unless action on industrial/commercial rating relief.	-	-	-
(b) Capital allowances	Two proposals:  (i) increase allowance for hotels to 50%; (ii) extend 20% allowance to self-catering accommodation (and smaller hotels). These are now being examined in context of construction package: costs <u>not</u> included here.	-	-	-
(c) Increased grants under section 4, Development of Tourism Act.	EST recommended against.	-	-	-
	TOTALS	nil	nil	nil
	of which public expenditure	nil	nil	nil

CONFIDENTIAL





BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: AGRICULTURE  
DATE : 10 February 1983

Minister in lead: FST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rental income to be treated as earned income.	FST asked (10.1.83) Revenue (Mr Battishill) to examine: submission pending. This is among proposals in Lord Ferrer's letter of 21.1.83; FST's reply of 24.1.83 indicates presumption against all these proposals and therefore <u>no</u> costs included at this stage.	-	-	-
	TOTALS of which public expenditure	nil nil	nil nil	nil nil
	Note: Questionable whether there is sufficient for free-standing package. CTT agricultural reliefs included in item (e) of small firms and enterprise package.			

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Proposals now received from Mr Fowler (4.2.83) and Mr Whitelaw (5.2.83). ST (Mr Monger) submission to CST 10.2.83. Meeting fixed for 15.2.83.			
(a) Extension of Widows Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission 23.12.83. CST in favour at 25.1.83 meeting on package.	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	<u>Not</u> proposed by Mr Fowler: costs therefore removed.	-	-	-
(c) Removal of invalidity benefit "trap".	A proposal in Mr Fowler's letter; covered in ST submission of 10.2.83.	(pe) 7	(pe) 23	(pe) 24 (1985-86)
(d) War pensioners mobility scheme.	A proposal in Mr Fowler's letter; covered in ST submission of 10.2.83.	-	(pe) 1	(pe) 3 (1985-86)
(e) Real increase in mobility allowance/therapeutic earnings limit.	A proposal in Mr Fowler's letter; covered in ST submission.	(pe) 2	(pe) 6	(pe) 6 (1985-85)
(Continued)				

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Development of voluntary etc care service for elderly.	Discussed at FPG meeting 9.2.83: ST submission recommends against.	(pe) 2	(pe) 2	(pe) 2 (1985-86)
(g) Extension of Invalid Care Allowance.	Effectively rejected at FPG meeting 9.2.83: costs therefore removed.	-	-	-
(h) <u>Other social security measures:</u>				
(i) Housing benefit - children's needs allowance.	Mr Fowler likely to press: ST reservations.	(pe) 5	(pe) 15	(pe) 16 (1985-86)
(ii) SB - capital disregard	} ST recommend in 10.2.83 submission.	(pe) 2.5	(pe) 7	(pe) 7 (1985-86)
(iii) SB - single payment capital disregard		(pe) 1	(pe) 3	(pe) 3 (1985-86)
	Note: All other items in Mr Fowler's 4.2.83 letter recommended for rejection in ST 10.2.83 submission.			

(Continued/..)

CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Abolition of £250,000 ceiling for CTT exemption on gifts to charities.	CST in favour at 25.1.83 meeting. Increase proposed in Mr Whitelaw's 5.2.83 letter.	under 1	under 1	under 1
(j) Deeds of covenant: increase in ceiling for higher rate relief to £5,000.	CST in favour at 25.1.83 meeting. A proposal in Mr Whitelaw's 5.2.83 letter.	nil	3	3
(k) <u>Other fiscal measures:</u>				
(i) relief for payroll giving;	CST inclined against at 25.1.83 meeting. Mr Whitelaw's 5.2.83 letter suggests study.	-	-	-
(ii) relief for individual donations	CST inclined against at 25.1.83 meeting.	-	-	-
(iii) relief for company donations;	CST inclined against at 25.1.83 meeting.	--	-	-
(iv) relief for seconded staff;	CST in favour at 25.1.83 meeting. A proposal in Mr Whitelaw's 5.2.83 letter.	under 1	under 1	under 1
(v) covenanted payments gross.	CST inclined against at 25.1.83 meeting. Mr Whitelaw's letter of 5.2.83 proposes composite rate.	-	-	-

(Continued/.)

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(1) <u>Other public expenditure measures:</u>				
(i) investment grants to voluntary sector;	) CST inclined against at 25.1.83 meeting.	-	-	-
(ii) central grant to National Association of Councils of Voluntary Service.		-	-	-
	<u>Note: The total cost of the public expenditure measures in the package is £20 million for 1983-84, £57 million for 1984-85 and £61 million for 1985-86. However, taking into account offsetting savings, if the package recommended by ST is agreed, the net effect will be as shown opposite. It is these figures which are included in the package totals.</u>	nil	13	41
	TOTALS	24-29	41-46	69- 74
	of which public expenditure	nil	13	

BUDGET PACKAGES  
SUMMARY NOTE

PACKAGE: FAIRNESS IN TAXATION

DATE : 11 February 1983

Minister in lead: FST and MST(R)  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no. 197)	Revenue (Mr Isaac) submission (9.2.83) to FST and MST (R) suggest measures should not be presented as a package. Further Revenue package summary note 10.2.83. Chancellor's meeting 22.12.82 agreed on legislation. <u>SETTLED</u>	1-10 <u>yield</u>	1-10 <u>yield</u>	1-10 <u>yield</u>
(b) Fringe benefits: car and car fuel scales (starter no. 134)	Revenue (Mr Driscoll) submission (11.2.83) suggests increase in car and car fuel scales of 20% for 1984-85, and possible package of other fringe benefit measures for 1983 Bill. FST to hold meeting on 14.2.83	--	45 <u>yield</u>	45 <u>yield</u>
(c) Fringe benefits: others (starter no. 135)	(Revenue (Mr Corlett) submission 2.2.83 to FST on potentially related issue of capital allowances for company cars. FST (minute 4.2.83) requested further note: FF to submit week ending 13.2.83). No firm options yet; cost/yields not included.	--	35-50 <u>yield</u>	35-50 <u>yield</u>

BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL  
**CONFIDENTIAL**

PACKAGE: FAIRNESS IN TAXATION  
DATE : 14 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) CGT: capital loss buying; group of companies (starter no. 142)	Revenue submission (Messrs. Battishill and Bryce) 27.1.83. MST(R) minuted Chancellor 4.2.83 recommending (a) but against (d) this year. Chancellor agreed 8.2.83. Costs included for (e) alone. <u>SETTLED</u>	--	<u>30-40 yield</u>	<u>30-40 yield</u>
(e) Group relief: avoidance (BL) (starter no. 119)	Announcement of intention to legislate 24.6.82 <u>SETTLED</u>	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(f) Life assurance: chargeable events: secondhand bonds (starters no. 110)				
(g) DLT: disposals by non-residents (starters no. 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions held with Law Society and RICS; RICS not yet responded. Revenue (Mr Beighton) submission 10.2.83 recommends proceeding with measure.	1 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Stock relief: payments on account (Starters no. 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting (19.1.83); item to be reviewed in light of other measures affecting construction industry though inclination against at starters mtg 27.1.83.	<u>under 1 yield</u>	<u>10-15 yield</u>	<u>15 yield</u>
(i) Stock relief: deny to commodity/bullion dealers (Starters no. 153)	Revenue (Mr McConnachie) submission 4.2.83. MST(R) minute to Chancellor 6.2.83 recommends against for this year. CST 7.2.83 agrees.	-	-	-
(j) Taxation of international business (starter no. 157)	Draft legislation published December 1982; comments requested by mid-February.	<u>under 1 yield</u>	<u>under 1 yield</u>	<u>100 yield</u>
	<u>TOTAL YIELDS</u>	<u>3-12 yield</u>	<u>125-160 yield</u>	<u>230-260 yield</u>



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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Investment income surcharge - abolition/ options.	Revenue (Mr Spence) submission 2.1.83: discussed at Chancellor's meeting 3.2.83. Further submission on options 10/13.2.83. Figures are for reduction to 10%.	5	50	85
(b) Stamp duty - selective reform package.	MST(R) note to Chancellor 4.2.83: Chancellor's initial response 8.2.83.	5	5	5
	TOTALS	10	55	90
	Note: There are in addition a number of "heritage" proposals. These are:-  <u>Mr Heseltine, 6.1.83</u> (i) VAT exemption for works of art accepted in lieu of tax; Customs (Mr Knox) submission 4.2.83. (ii) tax relief for business contributions to preservation and environmental trusts; Revenue (Mr Lusk) submission 4.2.83 recommended against.	na	na	na
		na	na	na

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	<p><u>Lord Bellwin, 18.1.83</u></p> <p>(iii) tax allowances for repairs to listed buildings: Revenue (Mr Lusk) submission against 4.2.83 recommended against.</p> <p>FST's minute to Chancellor 7.2.83 endorsed the Revenue recommendations on (ii) and (iii). CST's minute 10.2.83 agreed that neither item desirable, as did EST (minute 11.2.83).</p>	-	-	-

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## CONFIDENTIAL

NOTE C

14 February 1983

## OTHER FISCAL RISKS AND POSSIBILITIES

	£ million	
	<u>1983-84</u>	<u>1984-85</u>
<b>Possible Public Expenditure</b>		
<b>Unemployment.</b> Mr Tebbit's ideas put to Prime Minister starting 1983-84.		
i. Extension and modification of TSTWCS and/or	100	100
ii. Continuation and extension of Enterprise Allowance Scheme.	45	145
(Amended JRS would start 1984-85.) Other possible proposal:		
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	<u>10</u>	<u>10</u>
	155	255
<b>Petrochemicals.</b> A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means. Submission circulated.		
	<u>100</u>	<u>100</u>
	<u>255</u>	<u>355</u>
<b>Possible Tax</b>		
<b>Empty Property Rates.</b> Wide range of possible options for reductions with widely varying costs. Say		
	50	50
<b>Stamp duty - selective reform</b>		
	5	5
<b>Oil Taxation.</b> Further relief called for by Mr Lawson above amount provided in packages, say		
	<u>100</u>	<u>100</u>
	<u>155</u>	<u>155</u>
<b>TOTAL</b>	<u><u>410</u></u>	<u><u>510</u></u>





CONFIDENTIAL

FROM: A P HUDSON (PS/MS T(R))  
DATE: 14 February 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
Sir Douglas Wass  
Mr Middleton  
Mr Moore  
Mr Kemp  
Mr Robson  
Mr Martin  
Mr Ridley  
Mr French  
Mr Isaac IR  
PS/Inland Revenue

BUDGET PACKAGES: FAIRNESS IN TAXATION

At the last Budget overview meeting, there was a remit to the Financial Secretary and the Minister of State (R) to let the Chancellor have a note about the Fairness in Taxation packages.

2. I attach a note by the Inland Revenue, which consolidates all the anti-avoidance measures. What follows gives the Minister of State (R)'s comments on the items he is responsible for, and his suggestion as to how anti-avoidance might be handled in the Budget.

3. The Minister found it useful to have seen all the anti-avoidance measures together in one note, but he agrees with Mr Isaac's advice (his 9 February minute) that it would be much better not to have a Fairness in Taxation package as such, but to attach the individual measures to the packages to which they relate. It seems to him better to group together all the measures, "good" and "bad", that affect industry, for example. This is the way that companies will look at the Budget.

4. On individual measures, the Minister's recommendations are these.



(a) 149. DLT: Disposals by non-residents.

Action should be taken on this, subject to one point being clarified.

(b) 119. Group Relief: Avoidance (BL)

Action should be taken on this, subject to selective consultation. This could be bracketed with measures on the company sector.

(c) 154. Clarify meaning of "payments on account".

This measure should be dropped for this year.

(d) 153. Deny stock relief to Commodity/Bullion dealers.

This measure should be dropped.

(e) 156. Importation of overseas losses/profits.

No action will be possible this year.

(f) 157. Tax Havens.

The Minister is in favour of legislation, subject to review of the representations to the consultative document. This could prevent a tax leakage estimated at up to £100 million a year. It could be bracketed with measures on the company sector.



A P HUDSON



Anti-Avoidance measures for possible inclusion  
in 1983 Finance Bill

Budget Starter No.	Sheet No.	Proposal	Status	Yield	If included, mention in Budget
197	23	Fringe benefits: scholarships (ICI scholarship case)	FST/CST in favour. Chancellor to write to Sir Keith Joseph.	<del>Em100+</del>	Yes
134	44	Fringe benefits: new rate schedules for cars and fuel.	Ministers will be invited to decide. Paper currently being drafted. 11 February submission.	Em45 (1984-85)	Yes
110	25	Secondhand bonds.	Noted dated 8/2/83. Awaiting Ministerial decision.	Less than Em1	Unlikely
149	52	DLT: disposals by non-residents (Deduction of DLT from purchase price).	Awaiting discussions with Law Society and RICS. (Submission to-day)	Em2	No
144	49	Non-resident trusts (CGT).	Note from Mr Elliott today.	Very small	No
119	36	Group relief: Avoidance (BL)	MST(R) agrees, without capital loss buying. Minister awaiting outside comment.	Em30 to Em40	Yes
154	55	Clarify meaning of "Payments on Account" for stock relief.	Legislation unlikely to proceed - CST	Very small	No



Anti-Avoidance measures for possible inclusion  
in 1983 Finance Bill

Budget Starter No.	Sheet No.	Proposal	Status	Yield	If included, mention in Budget
153	54	Deny stock relief to Commodity/ Bullion dealers.	No action considered necessary by CST, MST(R).	£m20 to £m40	No
156	56	Importation of overseas losses/ profits.	All part of International Business Packages contained in consultative paper.	-	Probably
157	57	Tax Havens.			
116	33	Deep discount bonds	Awaiting consultative document.	Unknown	Yes - part of enterprise package.
		Other fringe benefits 'Marks & Spencer' employees houses	Submission 11 February.	£m1	Yes
		Double £25,000 loans	Submission 11 February.	£m1	Yes
		PAYE: tax borne by employers.	Submission 11 February.	£m30 to £m50	Yes





CONFIDENTIAL



FROM: CHIEF SECRETARY  
DATE: 14 February 1983

→ CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Mr Wilding  
Mr Middleton  
Mr Cassell  
Mr Kemp  
Mr Monger  
Ms Seammen  
Mr Moore  
Mr Mountfield  
PS/Inland Revenue

1983 BUDGET: CARING PACKAGE

I have considered possible candidates for a 'caring' package in the light of the letters of 4 February from Norman Fowler and 5 February from Willie Whitelaw.

2. We need to defuse as far as possible the criticism we shall incur for sticking to our decision to adjust the 1983 benefit uprating (even though the adjustment will not reflect the full overshoot in the 1982 uprating). And the more we can do for the most disadvantaged in society, the more we shall be able to counteract any criticism of the overall distributional impact of the Budget.

3. Child benefit is of course being discussed separately; and one-parent benefit is included in that discussion. These are Norman Fowler's highest priorities. On present plans, we will be able to meet his wishes. The public expenditure cost will be £90 million in 1983-84 and £250 million in 1984-85.

4. If Cabinet endorses MISC 88's conclusions we shall also restore the 5% abatement of unemployment benefit. This too will be a major element in winning support for our proposals. The cost will be £20 million in 1983-84 and £60 million in 1984-85.



5. The other elements in the caring package are all small in comparison in public expenditure terms. But I think that taken together, they will make an impact out of all proportion to their cost. And, as I explain below, it would be possible to meet the cost of the public expenditure items in my recommended package without adding to published totals in 1983-84.

I outline below my recommended package, in order of priority.

1. Extension of widows' bereavement allowance [to cover yr after husband's death - Agg G.]
- |                   |         |         |
|-------------------|---------|---------|
| Revenue cost (£m) | 1983-84 | 1984-85 |
|                   | 20-25   | 25-30   |

This is the substantial revenue item, needed to make the package credible.

2. Real increase in mobility allowance

Public expenditure cost	1983-84	1984-85
	2	6

Put forward by Mr Fowler. A 2% real increase (means effectively no 'adjustment' for this benefit). Continues long-term policy of this Government.

3. Real increase in therapeutic earnings limit

Public expenditure cost	1983-84	1984-85
	0.1	0.3

An increase in the amount the severely disabled can earn before their benefit is reduced. Put forward by Mr Fowler. Cost very small.



4. Abolition of £250,000 ceiling for CTT exemption on gifts to charities

Revenue cost	1983-84	1984-85
	under 1	under 1

Supported by Willie Whitelaw. Cost very small, and no major tax difficulties. *[Discussed, ? agreed at CTT meeting; put forward by FST]*.

5. Deeds of covenant: increase in ceiling for higher rate relief from £3,000 to £5,000

Revenue cost	1983-84	1984-85
	-	3

Supported by Willie Whitelaw. Charities likely to find increase to £5,000 acceptable as alternative to proposal to double the limit for those entitled to married man's allowance.

6. New war pensioners' mobility supplement

Public expenditure cost	1983-84	1984-85
	- 0.1	1

Proposed by Norman Fowler. To replace the existing vehicle scheme for war pensioners with a cash allowance preferentially higher than the mobility allowance for the civilian disabled. A more equitable and efficient way of helping war pensioners.

7. Supplementary benefit capital disregards

Public expenditure cost	1983-84	1984-85
(a)	1	3
(b)	2.5	7





Proposed by Norman Fowler. (a) is an increase in the disregard for single payments (from £300 to £500); (b) is an increase in the disregard for scale rates from £2,500 to £3,000. Can be said to encourage thrift; popular with many Government supporters. Favoured by MISC 88. Accepting (a) will take some steam out of the pressure for increase in death grant.

8. Tax relief for staff seconded by companies to voluntary bodies

Revenue cost	1983-84	1984-85
	under 1	under 1

Supported by Willie Whitelaw. Cost very small though some difficulties of tax principle which I do not think are insuperable.

9. Removal of invalidity trap

Public expenditure cost	1983-84	1984-85
	7.5	23

This is the major public expenditure item. About 70,000 invalidity pensioners will be entitled to the (higher) long term rate of supplementary benefit. The Government has said it will end the trap when resources permit. The move will be widely welcomed. The drawbacks are the high public expenditure cost and the requirement for some 290 additional staff (although DHSS officials have indicated that they may be able to absorb the latter within their present staff ceilings).

10. Real increase in housing benefit children's needs allowance

Public expenditure cost	1983-84	1984-85
	5	15

Proposed by Norman Fowler. Not a high priority in my view but DHSS Ministers favour it.





Comment

This in my view is a well-balanced package. There is a major item for widows, a major item for the sick, a special measure for war pensioners (particularly important, this year) and a selection of measures helpful to charities.

If you felt that the package as a whole was over-generous, then you might like to consider excluding items 9) and 10). If on the other hand you wished to add something, I would recommend the following:

11. Grants to bodies involved in voluntary service for the elderly

Public expenditure cost	1983-84	1984-85
	2	2

A scaled-down version of Norman Fowler's proposal to FPG.

12. Extension of war widows' pension to widows of war pensioners with 100% disablement

Public expenditure cost	1983-84	1984-85
(and some small revenue cost)	2.5	7

Proposed by Norman Fowler. There is already a concession for widows in the package (1) and for war pensioners (6). Would extend anomalous tax-free treatment of war widows' pensions.

I would not recommend any of the other measures which have been put forward. These are listed in the Annex.



Costs

The total costs of the package I recommend (Items 1 -10) are as follows:

	1983-84	1984-85
Revenue costs	21-26	28-33
Public expenditure costs	18	55
	<u>39-44</u>	<u>83-88</u>

There are offsetting savings available in the DHSS programme which will cover the whole public expenditure cost in the first year and make a substantial contribution in later years. These comprise savings arising from the MISC 88 package and from the introduction of the new housing benefit scheme. The overall effect on public expenditure is as follows:

	1983-84	1984-85	1985-86
MISC 88 savings/ (costs)	13	6.5	(19.5)
Housing benefit savings	5	38	40
Total savings	18	44.5	20.5
Package costs	18	55	59
Net cost	nil	10.5	38.5

Procedure

✓ | Once we have agreed a package, the next step would be for you and me to see Norman Fowler. Treasury officials have discussed a package on the above lines with DHSS officials without commitment; it is thought that it will be acceptable to Norman Fowler.



✓ We would also on past form, take the opportunity of disclosing our intentions on child benefit.

We shall also need to settle with him whether all the measures included in the package should be announced in your Budget speech. There is a good case for this, even though it will make a long section.

First, you will incur the odium of announcing the 2% adjustment; so the more offsetting goodies the better.

Second, it may not make sense to have an uprating statement immediately after the Budget at all this year. Any rates which are announced could only be provisional on passage of the overshoot Bill. Arguably the fewer opportunities for an attack on the adjustment, the better.

Alternatively, some of the minor measures (eg supplementary benefit disregards, housing benefit) might be kept back for the Second Reading of the overshoot Bill. But I think this would be less satisfactory.

Norman Fowler may also want to announce some of the concessions in any statements he makes. You can discuss this with him at the meeting.

L. B.

LEON BRITTAN



Item	PSBR cost in 1983-84 (PE cost in brackets)	1984-85	Comment
1. Central grants for the administration of voluntary activities	5(5)	5(5)	Would add to charities bureaucracy
2. Improvements in Death Grant	0.5(0.5)	1.5(1.5)	Would prejudge decision on future of grants. Mr Fowler's proposal.
3. Carry forward of tax relief on corporate covenanted donations to years when company has taxable profits			Difficult point of company tax principle. Cost "several million pounds." NCVO proposal.
4. Charity-owned trading companies to pay profits covenanted to parent company gross of tax, even if parent charity is not a body corporate			Danger of abuse. NCVO proposal
5. Relief for payroll giving	over 10	over 10	Danger of abuse. Impossible to cost but could be well over 10
6. Relief for company donations	over 10	over 10	Objectionable in itself, and could lead to more expensive item 23





Item	PSBR cost in 1983-84 (PE cost in brackets)	1984-85	Comment
7. Covenanted payments gross	over 10	over 10	Danger of abuse. Impossible to cost but could be well over 10
8. Tax relief to be paid by IR to charities at composite rate eg 45%			Rejected in 1980 as an alternative to higher rate relief. Public expenditure implications of a deemed rate above true average. NCVO and Home Office proposal.
9. Tax deductible status for all donations to approved local trusts ("community chests")			Difficulties of cost and administration. Would in any case require detailed preparatory work, not a Budget candidate. Home Office proposal
10. Protection for 1 year against tax changes adversely affecting charities income			Proposed by Home Office. Cost depends on tax changes. Increase in tax <u>allowances</u> as opposed to rates unlikely to affect charities greatly.



Item	PSBR cost in 1983-84 (PE cost in brackets)	1984-85	Comment
11. Extension of Invalid Care Allowance	4(4)	12(12)	Resisted in PES, and would open way to much more expensive general ICA (£80m).
12. Restoration of 5% abatement of Invalidity Benefit	20(20)	56(56)	Expensive in public expenditure
13. Relief for individual donations	over 100	over 100	Very expensive
14. Supplementary benefit disregard	3(3)	8(8)	In practice would mainly mean paying extra benefit to those on SC with part-time earnings. Mr Fowler's proposal.
15. Increase in limit on occupational pensions above which UB is reduced	1(1)	2.5(2.5)	No reason to make it easier for occupational pensioners to get UB. Mr Fowler's proposal.
16. Death grant improvements	0.5(0.5)	1.5(1.5)	Proposal now withdrawn by Mr Fowler.
17. Family Income Supplement	0.5(0.5)	2 (2)	Proposal by Mr Fowler. Not high priority in view of child benefit increase; possible bad effect on poverty trap.



Item	PSBR cost in 1983-84 (PE cost in brackets)	1984-85	Comment
18. Tax concessions for private health care			Recommended to be pursued in studies of alternative methods of health finance. Proposed by Mr Fowler.
19. Extra money for NHS construction	50-70 (50-70)	-	Proposed by Mr Fowler as part of any construction package. Package not being pursued.



CONFIDENTIAL

*Prp*



FROM: E KWIECINSKI  
DATE: 15 February 1983

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Sir A Rawlinson  
Mr Wilding  
Mr Middleton  
Mr Cassell  
Mr Kemp  
Mr Monger  
Ms Seammen  
Mr Moore  
Mr Mountfield  
PS/IR

1983 BUDGET: CARING PACKAGE

The Financial Secretary has seen the Chief Secretary's submission to you of 14 February.

*W*  
*9*  
He has commented that it seems like a balanced and attractive package.

*OK*

E KWIECINSKI





699  
2

FROM: MS D J SEAMMEN  
DATE: 22 February 1983

Q 242

- 1. MR MONGER ✓
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State (C)
- Minister of State (R)
- Sir Douglas Wass
- Sir Anthony Rawlinson
- Mr Mjddleton
- Mr Cassell
- Mr Kemp
- Mr Moore
- Mr Mountfield
- PS/Inland Revenue

1983 BUDGET: CARING PACKAGE

Pensioners' earnings rule

There was some question about the costing of an increase in the limit.

2. The latest estimate of the cost of abolition was given by DHSS in a PQ in July 1982. At 1982-83 benefit levels, the cost was put at £140 million in a full year, offset by additional tax and national insurance contributions of £85m, giving a net cost of £55m. But the public expenditure cost would of course be the full £140m. (which corresponds to the £190m for the full year cost of abolition in 1986-87).

3. The costing depends crucially on two assumptions.

4. The first relates to the number of pensioners who would defer drawing their pension if the limit were abolished. Over-65s may defer drawing their pension either to gain extra pension when they do retire or, in some cases, because they earn so much that the operation of the earnings rule would extinguish any pension otherwise payable. What would they do if this latter condition no longer applied? Estimates vary. The central DHSS estimate, on which the cost above is based, is that 20% would defer. Mr Mockler of Central Office has argued that the assumption should be 40%; GAD's estimate is as low as 5%. "If no-one defers, the net cost is about £80m; if 40% do, the net cost is about £25m. In the absence of better evidence, 20% is a reasonably central estimate.

5. The second assumption is that extra employment and increased working hours among pensioners do not cause increased unemployment elsewhere; the displacement effect is therefore ignored. A rough estimate of this effect would add £35 million to the net cost.



6. It might, if really necessary, be possible to offer some concession on the dependants' earning rule; as Mr Monger has noted, such a concession would be cheap, but also lacking in impact.

7. The dependant's earnings rule for retirement pensioners is statutorily linked to that for dependants of invalidity pensioners (Section 45 of Social Security Act 1975). It has been frozen since 1978 for two reasons. The first, given publicly, is that it is relatively much too high. The dependant's addition of £19.70 a week only begins to be reduced when weekly earnings exceed £45, and does not fully disappear until they reach £66.70. The second reason, which is perhaps more important, is that the savings from freezing the rule for retirement pensioners and invalidity pensioners have been put towards the costs of the equal treatment package on contributory benefits, NCIP and FIS required under EC directive, to be introduced in November 1983 and November 1984.

8. The cost of increasing the dependant's earnings rules by £1 for both invalidity and retirement pensioners is approximately £1<sup>1</sup>/<sub>2</sub>m in a full year. The cost does not increase linearly: but DHSS have one other figure as a guide: increasing the limits to £75 and £79 would cost about £9 million in a full year.



MS D J SEAMMEN



CONFIDENTIAL

*(mwp)*



FROM: E KWIECINSKI

DATE: 24 February 1983

PS/CHANCELLOR ~~\_\_\_\_\_~~

cc PS/CST  
PS/EST  
PS/MST(R)  
PS/MST(C)  
Sir D Wass  
Sir A Rawlinson  
Mr Middleton  
Mr Cassell  
Mr Kemp  
Mr Moore  
Mr Mountfield  
Ms Seammen  
Mr Monger  
PS/IR

1983 BUDGET: CARING PACKAGE: PENSIONERS' EARNINGS RULE

The Financial Secretary has seen Ms Seammen's note to the Chancellor of 22 February.

He has commented that while it would be nice to relax the earnings rule this year it would only be possible if we had some money we could do without.

*(Signature)*  
E KWIECINSKI



CONFIDENTIAL



FROM: T A M POLLOCK  
DATE: 25 FEBRUARY 1983

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Minister of State (R)  
PS/Minister of State (C)  
Sir D Wass  
Mr Middleton  
Mr Cassell  
Mr Kemp  
Mr Moore  
Mr Mountfield  
Miss Seaman  
Mr Monger  
PS/IR

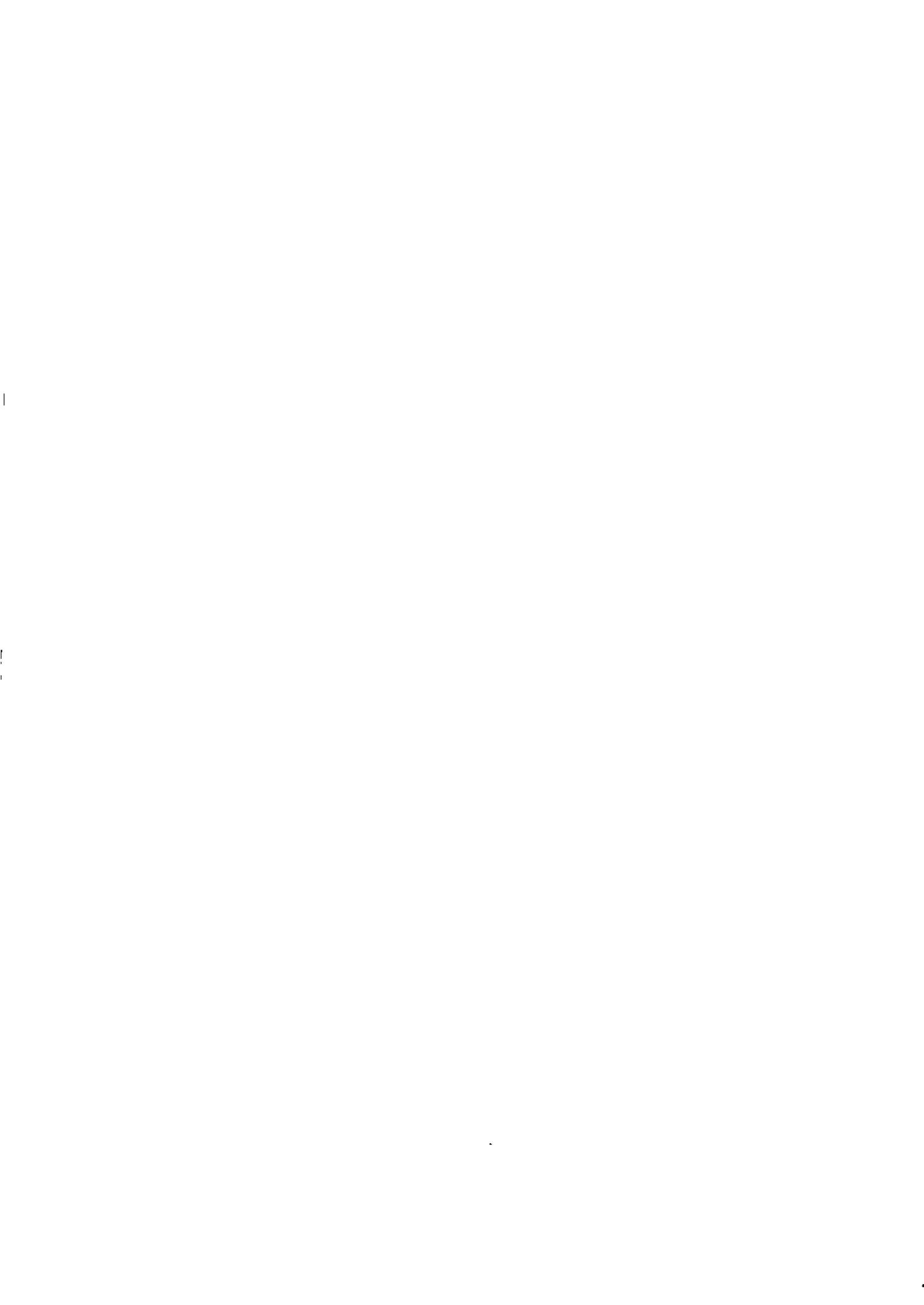
1983 BUDGET: CARING PACKAGE: PENSIONERS' EARNINGS RULE

The Economic Secretary has seen Mr Kwiecinski's note of 24 February.

The Economic Secretary has commented that he doesn't actually think there is a good case for relaxing the earnings rule at all. But it is undoubtedly a powerful runner on the backbenches.

A handwritten signature in black ink, appearing to read "T A M Pollock".

MISS T A M POLLOCK





CHIEF SECRETARY

cc Chancellor  
Sir D Weir  
Sir A Ravlinson  
Mr Wilding  
Mr Kemp  
Mr Mountfield  
Ms Seaman

CARING PACKAGE AND HOUSING BENEFIT

At the meeting with Mr Fowler on Monday it was agreed that we would explore further with DHSS officials the possibility of using savings on housing benefit to pay for other social security improvements.

2. I attach a detailed submission drawn up following these discussions. It is all very complicated, with dispute about the size of the housing benefit savings. But what I recommend is the following package:

	£m		
	1983-84	1984-85	1985-86
Raise cut-off for SB to £3,000 (without subsequent automatic indexation as proposed by Mr Fowler)	2	7	7
Raise cut-off for SB single payments to £500 (again without indexation)	1	3	3
Real improvement in therapeutic earnings limit to £22.50	0.1	0.3	0.3
Introduce new War Pensioners' Mobility Supplement	-0.1	1.1	2.8
Total	<u>3</u>	<u>11.4</u>	<u>13.1</u>

SECRET



## SECRET

This package would be financed as follows:

	£m		
	1983-84	1984-85	1985-86
Housing benefit savings, compared with White Paper	2	6	6
Increase in White Paper provision	1	5.4	7

4. This package would contain two changes, on SB, which are politically important, and also two other minor changes. With the fiscal concessions to charities there should be an attractive package for the Budget Speech at comparatively low cost. Indeed, there are reasons, explained in the detailed submission, for thinking that the figures in paragraph 3 exaggerate the cost.

Summary of Changes from White Paper

5. You might find it useful to see brought together a statement of all the extra expenditure on social security, as compared with the White Paper, which is now in prospect. We have also slightly revised our estimate of the cost of a real increase in Child Benefit, to allow for the fact that the starting point is now a standard uprating of 4½%.

6. We now see the extra costs, compared with the White Paper, as follows:

	£m	
	1983-84	1984-85
Caring package, net	1	5
Restoration of 5% abatement in UB	22	59
Child Benefit (assuming £6.50, and including corresponding rise in One Parent Benefit, with cost given in brackets)	74(2)	212(4)
	<hr/> 97	<hr/> 276



7. Two points on these calculations:

i. They do not allow for estimating changes since the White Paper, in particular the higher forecast of inflation and lower forecast of unemployment.

ii. They assume that the standard uprating will be  $4\frac{1}{4}\%$ . The reduction of  $1\frac{3}{4}\%$  compared with 6% which would have been the uprating on the old basis will yield the target savings of £180m, leaving the cost of benefit improvements as additional. If the uprating turns out to be higher, or lower than  $4\frac{1}{4}\%$ , the extra costs compared with the White Paper will also be higher, or lower.



G W MONGER



## C/RING PACKAGE AND HOUSING BENEFIT

### The Housing Benefit Savings

1. The White Paper assumed broadly that expenditure on housing benefit would be the same as if the old system of housing support had continued. The figures include unallocated savings arising for two separate reasons.

### Change in Basis of Up-rating

2. The first reason is that DHSS have changes the basis of up-rating the needs allowance with the introduction of the new benefit. There are three bases of up-rating at issue. They are, in descending order of cost:

a. In line with the movement of housing costs in England, which applied under the old DOE system.

b. In line with prices, the assumption conventionally used in the White Paper.

c. In line with the movement of housing costs in Great Britain, to which DHSS have, rightly, switched.

4. The costs involved are as follows:

	£m		
	1983-84	1984-85	1985-86
Excess of basis a over basis b	1.5	5	5
Excess of basis b over basis c	2	6	6
Total	<u>3.5</u>	<u>11</u>	<u>11</u>





5. The first question at issue between ourselves and DHSS is whether the savings should be calculated by comparison with the White Paper - £2m, £6m and £6m - or by comparison with the old uprating basis - £3.5m, £11m and £11m.

6. The argument for the comparison with the White Paper is obvious. All our efforts on expenditure generally are devoted to keeping it within the White Paper, and PES provision. This is I think the safer view.

7. But it could be argued that the totals of £3.5m, £11m and £11m should be taken to measure the savings. If the old system had continued these are the extra costs that would have been incurred, whatever is in the White Paper. They would have been treated as estimating additions.

8. DHSS accept that the total costs could be used to finance other benefit improvements.

#### Other Unallocated Savings

9. There are also larger savings available because, leaving aside the effect of the different uprating methods, benefit rates will be at such a level that the cost of the new system is lower than that of the old. The sums at issue are:

	£m		
	1983-84	1984-85	1985-86
	2	30	32

10. As Mr Fowler said, DHSS are opposed to the use of these savings. They say it would be inconsistent with pledges given by Mr Rossi that any savings arising from the introduction of the new system would be recycled back into Housing Benefit. DHSS officials are divided on this but say that their Ministers have refused to agree.

#### Possible Packages

11. The content of the packages that could be financed by housing



Benefit savings depend on how great these savings are assumed to be. The possible items were costed in the Annex to the brief for the meeting with Mr Fowler, another copy of which is attached for ease of reference.

12. There are three possible cases:

Case I Assuming only savings compared with White Paper provision

Total Savings:	1983-84	1984-85	1985-86
	2	6	6

This would finance item (iii), but the Chancellor said at the meeting that an increase in the level of Mobility Allowance should have a low priority, and indeed it has already been increased substantially in real terms by the present Government. Otherwise, it would finance SB capital limit to which Mr Fowler attaches a high priority because a concession would reduce the pressure for Death Grant, plus very small improvements at (iv) and (vi). It would not finance both the SB changes, (i) and (ii).

Case II Assuming also savings compared with the old system

Total Savings:	1983-84	1984-85	1985-86
	3.5	11	11

This would finance all the following improvements:

a. Higher capital cut-off for SB	2	7	7
b. Higher capital limit for SB	1	3	3
c. Improvement in therapeutic earnings limit	0.1	0.3	0.3
d. New war pensioners' Mobility Supplement	-0.1	1.1	2.8
	<hr/>	<hr/>	<hr/>
	3.0	11.4	13.1
	<hr/>	<hr/>	<hr/>



I suggest that the concessions at (i) and (ii) should not allow for subsequent indexation, as proposed by Mr Fowler. This would save a little money and would be better in principle. DHSS officials think that this would be acceptable but will confirm it.

Case III Assuming total housing benefit savings

Total Savings:	1983-84	1984-85	1985-86
	5.5	41	43

These much larger sums would also allow the removal of the invalidity trap and a real terms increase in Mobility Allowance as follows:

Case II package	3	11.4	13.1
Removal of invalidity trap	6(2)	20(14)	21(15)
2% increase in Mobility Allowance	2	6	6
	<hr/>	<hr/>	<hr/>
Total	11(9)	37.4(31.4)	40.1(34.5)
	<hr/>	<hr/>	<hr/>

The figures in brackets show the cost of removing the invalidity trap if the proposal in the unemployment package for paying long-term SB to all SB claimants over the age of 60 were accepted. This would remove the trap for the over 60's.

Recommendation

13. I can see great attraction in the Case II package. You could decide to go for the Case I package on a more stringent view about the size of the savings available. But this is too small to cover both the SB changes, which are politically attractive.

14. You could also press DHSS to release more of the savings, in spite of Mr Rossi's pledges, so as to finance the Case III package. But this would certainly lead to further argument with DHSS and there is much to be said for making a decision now. Moreover, DHSS may well be right in saying that use of the bigger savings would lead to acrimony which would undermine the good effect of the caring package.



1" If you decide to adopt the Case II package the extra costs compared with the White Paper would be:

	£m		
	1983-84	1984-85	1985-86
	1	5.4	7.1

The figure for 1983-84 would have to come out of the Contingency Reserve.



G W MONGER





MISC 88 PACKAGE (Assumes restoration of 5 per cent abatement)

£ million

Proposal	Manpower effect	Benefit Cost		
		83-84	84-85	85-86
(i) Higher (£3,000) capital cut-off for supplementary benefit (including future price protection)	+ 45	2	7	8
(ii) Higher (£500) capital limit for supplementary benefit (including future price protection)	+ 22	1	3	3
(iii) 2 per cent real increase in mobility allowance	Nil	2	6	6
(iv) Real improvement in therapeutic earnings limit to £22.50	Nil	0.1	0.3	0.3
(v) Remove invalidity trap	+290	6	(1)	(1)
(vi) Introduce new War Pensioners' Mobility Supplement.	+ 15	-0.1	1.1	2.8
Totals	+372	11	17.4	20.1
Cost of extra staff (37) over and above number allowed for in PES manpower bid (285) and number saved by restoration of 5 per cent abatement of unemployment benefit (50)		0.2	0.4	0.4
Total cost (Benefit plus extra manpower)		11.2	17.8	20.5
Amount available for MISC 88 improvements		13	6	- 20
Balance		1.8	-11.8	- 40.5

Note (1) the cost in 1984-85 (£20m) and in 1985 (£21m) would be met from unallocated housing benefit savings.

