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PO -CH /NL/0004



PART A

BUDGET SPEECH 1984

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PO -CH /NL/0004

PART A

PART A

CLOSED

B



PO/CH/NL/R

Budget Speech  
1984

PTA

To be registered



PCC(84)6

HER MAJESTY'S TREASURY  
POLICY CO-ORDINATING COMMITTEE

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OUTLINE OF BUDGET SPEECH

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Note by the Secretaries

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The attached note by CU is circulated for discussion at PCC on Tuesday, 24 January.

D R NORRGROVE  
J F WILLIAMS

20 January 1984



**BUDGET SPEECH: OUTLINE****Introduction**

1. 1st Budget of this Parliament; but sixth in a series. Aim is sustainable non-inflationary growth. Set out a framework for responsible monetary and fiscal policies which have been pursued consistently. Result is steady growth without rising inflation. And hopefully a turning point for unemployment.
2. Success of policy not in question. No reason to change broad thrust of policies. Do not intend to do so. But this Budget will take the strategy a stage further. Two essential elements. Foundation remains the MTFs. Predecessor published first MTFs in 1980.
3. Second strand is improved supply performance. Will make tax announcements traditional to a Budget. But intend also to devote some time to [take [further] major steps towards reform of] the structure of taxation, [particularly company tax]. Need first to set the scene in the world and at home.

**World economy**

4. Background now more favourable to UK than in early stages of our recovery. Wide agreement on need to defeat inflation. And on policies for doing so. IMF, Delhi.



5. US continuing to recover strongly, with rapidly falling unemployment. European recovery underway. Risks: US budget deficit and effect on real interest rates and investment worldwide; debt; possible reference to OPEC meeting and oil prices. Nevertheless a more encouraging background than for some years.

### Domestic economy

6. Implications for the UK recovery. Went into recession earlier than other countries; emerged earlier, with falling inflation, lower interest rates, higher consumer spending and strong recovery in domestic demand. Performance in 1983. Recovery set to continue. No reason to believe pessimists. Needs to be more widely based. Looking for increasing contribution from exports and investment. Autumn IAF. Evidence from recent statistics. Prospects for 1984 and first half of 1985, output and (qualitatively) unemployment.

7. Importance in this of low inflation. Achievement so far. Need to keep inflation coming down. Ultimate aim: price stability. Timing uncertain. But kind of policies required are not. Bridge to MTFS.

### The MTFS

8. Role of the MTFS. Need to role forward period covered. Objectives.

9. Monetary policy. Broad and narrow money; velocity. Recapitulate Mansion House. Announce monetary ranges together with any necessary qualifications.



10. The fiscal framework. Restate objectives. Role in financial framework. Consistency between monetary and financial policies. Steadily declining PSBR. Speed of adjustment. Medium term path and considerations. 1983-84 and 1984-85. Uncertainties. Fiscal adjustment in 1984-85. [Comparison with prospect as seen in the autumn.] Budget judgement.

85/6

Asset  
Sales

### Public expenditure

11. Mention any public expenditure measures.

PEWP Notes

C. Semre Nos.

12. Reminder that social security upratings now come later. Child Benefit. [Unless decide to settle at Budget time.]

13. LTPE

### The tax system

14. Nearly 40 per cent of GDP flows through the Inland Revenue and Customs and Excise. Burden of taxation has of course increased; partly a result of the need to reduce borrowing. Reductions in taxation in predecessor's last two budgets. Objective remains to cut the excessive burden of taxation to help incentives and enterprise. Reaffirm tax objective for this Parliament. [Longer term tax objectives corresponding to LTPE discussion.]

15. But the structure of the tax system also has an immense effect on the economy. Important changes made in the last Parliament. Switch from direct to indirect taxes. Top rates of income tax. Improved tax environment for business eg NIS. Small firms. More acceptable capital taxes. But much still to be done. Tax base too narrow because of proliferation of allowances and reliefs. Leads to distortion and inefficiencies. Need for greater neutrality. Wider base and bring down tax rates. Let market decide.



16. Taxation cannot be avoided. Aim is to minimise the damage it does.

17. Difficulties of reform. Gainers and losers; impossibility of change if complete compensation. Programme for several years: more than one Parliament. But importance of making another start.

### Company taxation

18. Background. History. Past concern for level of investment led to more and more generous capital allowances. But corollary is high CT rate. Strategy for reform of company tax.

19. And other disadvantages of present arrangements. Highly discriminatory. Distortion of capital vs labour; effect on employment, though not measurable. Evidence of wasteful investment in UK (capital : output ratios). Services v. manufacturing. Other distortions. Equity vs loan finance. [Overhang of unused allowances.]

20. [Capital allowances]

21. [Stock relief. Introduced at time of high inflation and severe pressures on business. Increasingly unnecessary with low and falling inflation.]

22. [Rate of CT.] Reasons for wanting to reduce it, and small companies rate.

23. [NIS]

24. [Intentions for later years.]



25. [Banks and building societies.]
26. [Credit licence]
27. [North Sea.]
28. [VAT/imports]
29. [Other proposals. Include minor Finance Bill matters]

Personal taxation:

30. Also important to work to improve the structure of personal taxation.
31. Indirect taxes. First need to announce rate of specific duties and VED.  
"Sensible presumption" with variations. Beer:wine problem. Decisions.
32. [VAT. [Mention 1979 decisions.] VAT boundary. Decisions. Registration limits.]
33. [Stamp duty also kind of indirect tax.]
  - equities.
  - land and buildings.]
34. [Share options.]
35. Capital taxes. [CTT, CGT, DLT.]
36. Income tax: plethora of allowances. Contributing to problem.  
[Superannuation and life assurance. LAPR.]



BUDGET SECRET

37. Personal allowances, thresholds and bands. [IIS.] [UEL/higher rates etc]

[Minor personal allowances]

Peroration. Major achievements in creating economic framework for recovery. Recovery underway. Sceptics disproved: low inflation can be combined with recovery. Indeed is essential to recovery. Strategy confirmed. This Budget takes the renewal of the economy into another stage.





FROM: J O KERR

DATE: 24 January 1984

MR BATTISHILL

cc Sir P Middleton  
Mr Cassell  
Mr Kemp  
Mr Monck  
Mr Anson.

## OUTLINE BUDGET SPEECH

Since PCC did not today discuss the Central Unit outline draft Budget speech, I send you my personal thoughts on it, for what they may be worth. (The Chancellor has not of course seen the outline.)

2. I have four comments.

3. First, I think that the Chancellor will wish to present this Budget as very much one covering a 2-year timescale. This will become all the more necessary if we are on an approximately revenue-neutral Budget for year 1, and are showing - and to some extent spending - a large fiscal adjustment for year 2. And if we in the end do the PAS abolition, it will surely become crucial. Some pointers in this direction ought perhaps to find their way into the outline.

4. Secondly, I think that the structure of the argument over the PSBR/Public Expenditure/Tax needs - subject of course to Cabinet on 9 February - to be adjusted to relate the tax objectives to the MTFS borrowing path and the spending objectives for this Parliament. The LTPE document is, I believe, likely to contain tax and spending figures for the probable last year of the Parliament; and we may of course be putting them into the MTFS. There would probably be no problem with the present structure if -





as the Chancellor certainly intends - we manage to avoid including any new public expenditure measures in the Budget: if so paras 11 to 13 of the present outline could probably be collapsed into one, which would centre on the PEWP totals, and the LTPE figures and arguments. But if there have to be any 1984/85 public expenditure announcements - eg child benefit - they would fit very oddly into a section dealing with medium term objectives.

4. Thirdly, the outline suggests that this speech, unlike last year's, would contain no section on unemployment. I am not sure that is right. There are a number of obvious places where a section could be inserted: last year it came early on, at a point which would correspond to para 7 of the present outline. An alternative might be to take it, and NIS, right to the end, after the thresholds, in the hope that people totting up their score cards, and scoring an increase above indexation on the income thresholds, would be taken by surprise at the abolition of NIS. But my main point is that I think it might be politically a mistake to break with the tradition of having an unemployment passage.

5. Finally, a small point. By far the biggest cheer in the first 45 minutes of last year's speech was for the news that Civil Service numbers would by this year be lower than at any time since the war! The Chancellor will take some persuasion, I guess; but I think that he probably ought to include this year a very short paragraph on the further ~~dis~~<sup>asim</sup>mination of parasites like us.

JOK

J O KERR



SECRET

FROM: E P KEMP  
26 January 1984

*(Handwritten initials)*

MR BATTISHILL

cc Sir Peter Middleton  
Mr Anson  
Mr Cassell  
Mr Monck  
Mr Kerr

OUTLINE BUDGET SPEECH

In the light of the minuting following Mr Kerr's personal comments of 24 January, I wonder if I could just make a very obvious and I am sure totally unnecessary suggestion that if there is to be talk about employment and unemployment (and I am inclined to agree with Mr Anson that it would be much better to put the emphasis positively on the former rather than on the latter) pay should be mentioned. Indeed following last week's Liverpool speech the Chancellor could hardly discuss employment without talking about pay. I can see the problem about trying to put this message into new language (especially since a couple of years ago we actually had a section in the Budget Speech specifically entitled "Jobs and Pay") but I am sure that Mr Kerr is right in his fourth paragraph to suggest that it would be a mistake to break with the tradition of an employment/unemployment/pay/cost of jobs passage.

2. On Civil Service numbers etc I am all for talking about further decimation of us parasites, but I would ask that it be borne in mind that the parasites themselves (or at least their unions representing them) also read Budget speeches and at about that time we shall be coming up to the 1984 pay negotiations and simultaneously trying to get a long-term pay agreement. I hope the pot need not be stirred unnecessarily. (Although of course after yesterday's announcement there is no telling whether we shall even be speaking to the unions by then!)

*(Handwritten signature)*

E P KEMP

SECRET



SECRET

FROM: J ANSON  
DATE: 25 JANUARY 1984

Mr Kemp  
cc Sir Peter Middleton  
Mr Bailey  
Mr Cassell  
Mr Kemp  
Mr Monck

MR BATTISHILL

*(Handwritten initials in a circle)*

OUTLINE BUDGET SPEECH

Two comments on Mr Kerr's suggestions.

2. On unemployment, I imagine that a new Chancellor will not want to leave the impression that he has taken the main ingredients of his predecessor's speeches and just stirred them around.

This might point to having a section this time on employment (rather than unemployment), which would draw on the main themes of the NEDC jobs paper.

3. Similarly, on civil service numbers, it would obviously be possible to recite the latest agreed numbers, but it would not have the same impact as the "landmark" mentioned by Sir Geoffrey Howe last year. I wonder whether the point could not be broadened out into the need for greater efficiency throughout the economy as a whole: taking in lower numbers in the civil service and privatisation in its various forms; and in the private sector, primarily a matter for management and workforce, but government ready to take action where government action is appropriate, eg MSC <sup>by then</sup> financing of NAFE courses (which should just have been announced/and so will be topical). But I am trespassing on my former patch!

Mr Battishill

cc Mr Anson  
Mr Kemp  
Mr Monck

*(Handwritten signature)*  
(J ANSON)

I of course agree with  
both these points.

*(Handwritten mark)*  
25/1

*(Handwritten signature)*  
25/1



do not mention  
in these terms



John

P.S. Thank Tony B. for a  
most helpful outline.

I have made a few  
scribbles. Broadly speaking

The structure is not at all  
bad, but I am less sure

abt. the flavour, wh needs  
to be fresher. As to length,

I favour a short speech. This  
has to be achieved by

a) cutting out guff (a reference  
to the guffy sections of the Red  
Bk on suffrage)

b) cutting out all minor  
measures which cut no  
parliamentary time & wh. do not  
have a clear intention.

OSB



I would be grateful  
for advice on (a) & (b) -  
esp (b) for the pt of view  
of what has ~~been~~  
mentioned in the Budget  
Statement.

Before I commission any  
contributions, I think it would  
be sensible to have views  
(prints) on this outline etc  
from Messrs Middleton, Burns,  
Ridley & Keen.

Then (perhaps) a brief  
speech intg (budgetary?  
Pavillo) before the next  
stage.

Yr.



FROM: A M W BATTISHILL  
DATE: 3 February 1984

COPY NO: 1

cc Sir Peter Middleton  
Sir Terence Burns  
Mr Ridley

BATTISHILL  
3/2

B/84/B

CHANCELLOR OF THE EXCHEQUER

*Paraphrase July \**

*1982 Budget (Sund. v. 2/84)*

*\* (A note on a new cumulative paper)  
Company with 10 major 1972  
Corp Tax includes a*

*1984 & 4.4. (1984) 16 July*

*Oil - Short & long term*

*Symposium @ Strat. @ Government*

*Plenty of time (when relevant)*

*Discussion: (as in 1982 concept) (also: the future with public sector - etc?)  
When can (I think) have policy introduced - @ what rate?*

BUDGET SPEECH OUTLINE

You asked to see a possible outline for the Budget Speech this ... weekend. One is attached.

2. This year's Speech might be built around two themes.

- Consistency of purpose in financial and economic policy as the only way to low inflation, sustainable growth and significantly lower taxes in the longer term;
- Tackling the problem of tax reform so as to reinforce the Government's other policies, improve economic performance and produce a simpler system.

With firm control of public spending these come together in offering the prospect of a virtuous circle of growth without inflation, opening the way to lower taxes which in turn reinforce and encourage that very growth process. A popular theme might be: paving the way for lower taxes.

3. In the present outline we have concentrated mainly on coverage and order. In the section dealing with tax changes I have tried, as you asked, to group as many items as possible under the general umbrella of tax reform - shifting the balance



# BUDGET-SECRET

of tax further in the direction of spending; getting a better structure for company taxation; and removing distortions in savings and investment. Not all the measures currently in play fit easily into this structure, but it provides a convenient starting point. In places the outline can be little more at this stage than a series of headings with some suggestions about linkage. However, if it seems to cover the ground reasonably well you might like us to commission contributions next week to see what the first draft of a speech on these lines might look like in continuous form. It would be helpful first, however, to have your own reactions as to structure and order - and, if it is not too soon, the kind of length we might aim for.

*Shorter than usual*

*AMB*

A M W BATTISHILL



13 FEBRUARY, 1984

**BUDGET SPEECH: OUTLINE**

CW

A

**Introduction**

First Budget of this Parliament; but sixth since 1979.

2. Hallmark of this Government is consistency of purpose to defeat inflation and lay the only sound foundations for future prosperity, jobs and lower taxation. Result of our medium term financial strategy can be seen in three years of steady growth, inflation at a level not seen for 16 years, rising living standards, and, hopefully, now a turning point for unemployment.

3. Success of policies not in question. Tribute to Sir Geoffrey Howe. No reason to change them.

4. This Budget has two themes:

- (i) first, achieving continuing growth through lower inflation;
- (ii) second, a tax reform Budget leading to a simpler tax system for all.

5. Synopsis of rest of speech. Finish on: no tax increases 1984-85, and prospect of significant tax reductions in 1985-86 with some announced now. So this a Budget for two years.

EF

B

**World background**

[Quite a short passage with emphasis on risks to recovery.]



BUDGET SECRET

6. Background now more favourable to UK than in early stages of our recovery. Wide agreement on need to defeat inflation. And on policies for doing so. IMF, Delhi. US continuing to grow strongly, with rapidly falling unemployment. European recovery under way more slowly.

7. Risks to world recovery. Uncertainties of US situation. Size of US budget deficit continues to exert upward pressure on world interest rates, and exacerbate international debt problem. Oil prices: although risk of sharp fall receded a little, has not disappeared altogether. Although lower oil prices helpful in long term to world activity can pose short term problems at home. Nevertheless, a more encouraging world background than for some time.

EB c Domestic economy

8. And considerable economic success at home. UK went into recession earlier than other countries; emerged earlier, with falling inflation, lower interest rates, higher consumer spending and strong recovery in domestic demand. Performance in 1983. In good position now to weather any international storms.

9. Recovery set to continue. Faster than partners in Europe: quote EC Commission and OECD. No reason to believe pessimists. Recovery becoming more widely based. Looking for increasing contribution from exports and investment. Autumn IAF. Evidence from recent statistics. Prospects for 1984 and first half of 1985.



MP  
with  
HF

D

The MTFS

10. Crucial role of MTFS in this because of importance of expectations of further progress towards price stability. Extension of MTFS to 1988-89. Stress importance of keeping the PSBR coming down in the early years of the MTFS period, because of North Sea oil revenues, asset sales, and so on. Include reference to sensible management of assets portfolio. Government not an investment trust: free to dispose from time to time of minority holdings. Provide a bridge to later passages on longer term public expenditure and tax objectives.

11. Immediate prospects for further growth and lower inflation

- reinforce employment on supply side. Budget will be an important step
- pay and jobs.

HF  
with MP

E

Monetary Policy

12. Monetary framework: looking back to developments over the last year and forward to the targets for next. Some recapitulation of the Mansion House speech. Funding policy. Broad and narrow money. £M3 (no mention of PSL2). MO (no mention of M2): barometer for lower inflation. So need for continuing decline in broad and narrow money. Conditions for stable prices clearly in place by end of period, steady but not excessive downward pressure on money supply growth meanwhile. Announce next year's targets.



GEP with MP and EC F

**Public Expenditure and Taxation**

13. Public expenditure background. Public spending takes over two fifths of national income. As result taxation is far too high and needs to be brought down. In the early years of the last Parliament no alternative but for taxes to rise: partly in order to bring down excessive borrowing and partly because of the recession. But this process began to be reversed in Sir Geoffrey Howe's last two Budgets. Much lower taxation crucial to improving the performance of the economy in the longer term. So much more needs to be done if we are to get taxation back to the levels of the 1960s and early 1970s.

14. Importance of flat public expenditure - in short, medium and longer term. First, important steps already taken. Refer to public expenditure White Paper. Public spending flat in next 2 years. New arrangements for Contingency Reserve; and much larger. And projected flat over rest of MTFS period. Include reference to Government's record and plans on public sector investment. Mention Civil Service numbers. Unlike some previous Budgets, no further expenditure measures to announce this year. Include reminder that social security upratings now come later, including Child Benefit. [And deal here with European Budget refunds.] Government has made its plans and will stick to them

15. Longer term. Refer to LTPE Green Paper. Carefully describe its status. Shows how, with firm control of public spending; prospect opens up of significantly lower taxation later on. Key to achieving both tax cuts and a simpler tax system in the longer term. How Government sees debate evolving.

MP with EA and NF G

**Public Sector Borrowing and interest rates**

16. Pick up from passage on borrowing in section on the MTFS. Review course



of the PSBR in 1983-84: last year's Budget estimate; the July measures; forecast outturn in the autumn; present forecast outturn still the same. Go on to discuss the factors bearing on 1984-85. Need to make good start in bringing borrowing down further. Comparison not with 1983-84 but the MTFs path. Need to get back on track despite this year's vicissitudes. Deal with arguments of fiscal reflationists (Sir Ian Gilmour and others). Allowance made for asset sales etc in ensuring that PSBR consistent with monetary objectives at declining interest rates.

17. Informed House in November that might have to increase taxes in the Budget by £½ billion to achieve a PSBR of £8 billion for 1984-85. Having regard to important factors just mentioned now believe £8 billion too high. Right to aim for PSBR of £7½ billion. On basis of Autumn Statement would mean increasing taxes next year by £1 billion. But since Autumn number of factors which have helped fiscal prospect, including North Sea oil. As a result, improves prospect for 1984-85 and, even more so, for 1985-86. Have, therefore, decided that, consistently with planning for £7½ billion PSBR next year, right to present a Budget whose measures will be broadly neutral in 1984-85 but which will cut taxes in 1985-86 by around £1½ billion. Trust that this move to lower taxation welcomed throughout House, and country.

FP H Tax Reform

18. Would have liked to lower tax burden this coming year. But if tax cuts have to wait another year there are other changes which are too important to defer any longer. Refer to tax reform. Of course level of taxes very important. But not the only consideration. Structure of the tax system also important to performance of the economy. Of course, two are connected. Special reliefs and



exemptions often the product of too high tax rates: easing where shoe pinches most. Lower public spending makes room for lower taxes: less need for specific reliefs and scope for simpler system. Significant changes made in the last Parliament. Switch from direct to indirect taxes. Income tax rates reduced, especially absurd top rates. Improved tax environment for business eg cuts in NIS, small firms measures and so on. More acceptable level and structure for capital taxes.

19. But much remains to be done. Essence of a more rational tax structure lies in maintaining and widening tax base. Tax base still too narrow because of proliferation of special allowances and reliefs. Many inappropriate to today's circumstances. Means that tax rates higher than they need be; that investment takes place in the wrong assets; that savings decisions are too much influenced by tax; that tax shelters assume disproportionate importance. Some reforms long overdue. Will always be obstacles to change. Cannot avoid gainers and losers. But there cannot be change if no-one is ever to be worse off. So, importance of gradual change, allowing people to adapt. May take a period of years. But crucial to get the process underway again.

20. And lower inflation makes it possible to remove some of the distortions built into the tax system to cope with past inflation.

21. Today shall propose changes in three important areas: first, the balance of taxation on income and spending; second, company taxation; and third, savings and investment.



FP

I

Indirect Taxes

22. First, the balance between taxes on income and taxes on spending. Predecessor made an important start in switching some of the burden away from income taxation; but consider it right to move further in that direction. Helps with incentives. People free to spend more of their own money. Have therefore reviewed scope for further action this year.

23. Specific duties. Widely accepted now that these need to be increased each year in line with prices if not to be eroded by inflation. No virtue in periods of "benign neglect": as past shows, only leads to periodically large increases to restore previous levels. So broad indexation from year to year a sensible starting point. This year do not see excise duties as an area for major change. Some small adjustments.

24. But because of lower inflation duties only need to go up on average by [ ] per cent. Look forward to day when the increase can be zero.

25. Long fight with EEC over beer and wine. Must obey law - though only because satisfied this an area where rest do. Determined not to disadvantage UK by excessive observance of spirit of law where others not. Deal with Italians and Vermouth.

26. Next VAT. Different considerations apply here. Refer to 1979. No case this year to change the VAT rate. [Perhaps mention in passing revalorisation of the registration threshold.] But can increase coverage. Difficult, but some moves possible. First newspapers etc; then buildings, lastly hot take-away. Caution builders that some better news to come.



27. Then vexed question of financial sector, especially banks. Explain credit licence duty as an extension of the indirect tax base. All very sensible. Long been an objective of many Governments.

28. Altogether will bring in an extra £[ ] billion revenue from indirect taxes in 1984-85; and £[ ] billion in a full year. Impact on RPI; industrial costs etc.

FP J Company Taxation

29. Next, company taxation. Because inflation now low right time to bring two particular distortions to the end of their useful life. System littered with special reliefs and allowances reflecting past pressures. In particular, past obsession for tax incentives led to more and more generous capital allowances. But inevitable corollary is much higher corporation tax rate than really needs to be. Mention other disadvantages of present arrangements. Highly discriminatory. Distortion of capital and labour. Evidence of wasteful investment; comparative capital:output ratios. Services versus manufacturing. Equity versus loan finance. Sterile argument, and litigation, over boundaries leading to absurd results.

30. No longer justified in ignoring all this with inflation down to 5 per cent and set to go even lower. So capital allowances to be reduced in stages. Give details. Emphasize not an attack on manufacturing or profitable investment. But aims to produce a company tax structure better suited to improving economic performance.

31. Stock relief. Similar considerations apply. Introduced at time of high inflation and severe pressures on business. Part of rough and ready attempt to deal with that. Patched up over time. Increasingly unnecessary with low and falling inflation. Now to go altogether.



32. So far measures will save Government money. But can use this for other half of structural change. What industry long wanted and what Government recognises is now justified (likely expectations of an end to NIS). Reduction of absurdly high CT rate. Plan to match yield from CAs and stock relief with progressive cuts in CT rate. See changes as a package. Earnest of intentions announce CT rates for 1984-85 and 1985-86. Consistent with aim of a Budget for two years.

33. Deal with small companies. 30 per cent rate [and profit limits]. Also deal with CTT as special help to unquoted companies. [Recognise problem of unincorporated businesses.] Deal with DLT.

34. Reference to loan guarantee scheme extension.

35. Business expansion scheme. Announce withdrawal of agriculture as qualifying trade. And give warning about any future abuse. Will not hesitate to take action at once; not wait again for Budget.

36. Special reference to oil and North Sea. Farm ins. Effect of company tax package on oil companies.

37. VAT on imports. Refer back to earlier discussion of EEC "rules". Have tried to persuade other partners to accept PAS. But without success. Raised in NEDC. Cannot remain indifferent to needs of fair competition. Announce change.

38. Need also to pay attention to financial sector. And this brings me to third area of tax reform: savings and investment. Refer back to importance of company tax changes in easing distortions on side of investment. Turn now to



savings. Do not wish to continue to leave building societies with unfair advantage in competing for savings with banks etc. CT rate [and treatment of gilts.] Also aim to allow banks to compete on equal terms for retail deposits. Allow banks to apply composite rate. Widely welcomed by bank customers and a desirable measure of simplification. Necessary anyway as more and more pay interest on <sup>current</sup> ~~different~~ accounts.

39. But financial sector long suffered under a totally unjust financial burden - level of stamp duty on share transfers. Refer to history: Healey doubling of SD. Now propose to halve. And to help burdens on house buyers etc, <sup>(12%)</sup> ~~halve~~ on land and buildings as well, *and raise thresholds.*

40. And that is not all. Many Chancellors have referred to need for better pattern of tax and savings. Have looked particularly at reliefs for institutional savings. One change justified today. Life assurance long since ceased to be concerned solely with provision against death. Simply another form of savings with no claims to special consideration nowadays. So have decided to withdraw relief on new policies.

41. At same time remove IIS which unjustified on any basis. A clearer, more honest system. Look forward again to the emergence of the personal saver and investor.

fp k Income tax

42. Now that brings me to the end. Income tax thresholds unacceptably low. Poverty trap, black economy, incentives etc: so must do something about it. Pick up earlier reference to switch from taxing income to taxing spending.



43. But first deal with foreign earnings, car benefits share options and anything more of this kind.

44. Then announce increases in personal allowances, higher rate thresholds and bands.

PAS ?

45. Finally, one thing forgot to mention. Abolition of NIS too (from August). Unjustified tax etc. Recount history of Labour increases. Helps company sector if not fully this year then next, including builders and banks. Burden of company taxes down as proportion of GDP and will come down further as CT cumulates.

cu L Peroration

Broad strategy confirmed. This Budget takes economic renewal another stage forward. And takes a large step forward to lower taxes and a simpler tax system.



**BUDGET SPEECH: OUTLINE**

**Introduction**

First Budget of this Parliament; but sixth since 1979.

2. Hallmark of this Government is consistency of purpose to defeat inflation and lay the only sound foundations for future prosperity, jobs and lower taxation. Result of our medium term financial strategy can be seen in three years of steady growth, inflation at a level not seen for 16 years, rising living standards, and, hopefully, now a turning point for unemployment. Success of policies not in question. No reason to change them.

3. This Budget will do two things. First, it will take a winning strategy one stage further. Second, it will renew our commitment to a simpler tax system, as well as to fewer taxes and a lower tax burden for companies and individuals alike. Though only limited room for manoeuvre this year, have a number of measures to announce later.

**World economy**

4. Background now more favourable to UK than in early stages of our recovery. Wide agreement on need to defeat inflation. And on policies for doing so. IMF, Delhi.



5. US continuing to recover strongly, with rapidly falling unemployment. European recovery underway more slowly. Risks: US budget deficit and effect on real interest rates and investment worldwide; debt; possible reference to OPEC meeting and oil prices. Nevertheless a more encouraging background than for some years.

Domestic economy

6. Implications for the UK recovery. Went into recession earlier than other countries; emerged earlier, with falling inflation, lower interest rates, higher consumer spending and strong recovery in domestic demand. Performance in 1983. Recovery set to continue. Faster than partners in Europe: quote EC Commission and OECD. No reason to believe pessimists. Recovery becoming more widely based. Looking for increasing contribution from exports and investment. Autumn IAF. Evidence from recent statistics. Prospects for 1984 and first half of 1985, output and (qualitatively) unemployment.

7. Importance in this of low inflation. Achievement so far. Need to keep inflation coming down. Ultimate aim: price stability. Timing uncertain. But kind of policies required are not.

Employment and Unemployment

8. Low inflation also key to better employment prospects. [Passage on employment picking up themes of NEDC jobs paper/Merseyside speech. Success on inflation necessary but not sufficient to provide more jobs. Also needs: greater flexibility of labour markets; more responsive wage rates; removal of obstacles to mobility; and so on. Mention structural changes; importance of services; challenge of new technology; importance of productivity and



competitiveness.] Unemployment too high. But labour market showing welcome signs of improvement: more employment; less short-time; more vacancies etc. No easy options.

9. This could lead on to a passage dealing with the supply side more generally, including privatisation, competition policy, skill training, and so on.

### The MTFS

9. There will need to be a substantial passage recalling the philosophy and role of the MTFS in providing a consistent framework for policies. It will also need to cover the roll-forward to 1988-89. And explain/justify the public spending assumption. This will also be the place to discuss the path for the PSBR, both the 1988-89 figure and the path towards it. The main thrust must be the importance of keeping the PSBR coming down in the early years of the MTFS period, because of North Sea oil revenues and asset sales, and so on. There needs also to be a bridge to later passages on longer term public expenditure and tax objectives.

### Monetary Policy

10. This section needs to emphasise the importance of monetary policy, looking back to developments over the last year and forward to the targets for next. Some recapitulation of the Mansion House speech. Discuss broad and narrow money. Separate targets for 1984-85. Reaffirm £M3 (with PSL2). Discuss choice for narrow money; announce M0 (with M2).



Public Sector Borrowing

11. This section needs to pick up from the passage on borrowing in the section on the MTFs. It should review course of the PSBR in 1983-84: last year's Budget estimate; the July measures; forecast outturn in the autumn; and the present forecast outturn. Go on to discuss the factors bearing on 1984-85, and announce planned PSBR for next year. Look also briefly at prospects for 1985-86 which suggest a sizeable fiscal adjustment. Against this background your judgement is that the Budget needs to be broadly neutral in its effects in 1984-85. But given the better prospects the following year you will announce some measures with costs falling partly or mainly in 1985-86.

Public Expenditure and Taxation

12. Strategy. Public spending takes 42 per cent of GDP. As result taxation is far too high and needs to be brought down. In the early years of the last Parliament no alternative but for taxes to rise: partly in order to bring down excessive borrowing and partly because of the recession. But this process began to be reversed in Sir Geoffrey Howe's last two Budgets. Much lower taxation crucial to improving the performance of the economy in the longer term. So much more needs to be done if we are to get taxation back to the levels of the 1960s and early 1970s.

13. White Paper period. First, important steps already taken. Refer to public expenditure White Paper and [if it has taken place] pre-Budget debate on public spending. Public spending flat in next 2 years. And projected flat over rest of MTFs period. Unlike some previous Budgets, no further expenditure measures to announce this year. Include reminder that social security upratings now come later, including Child Benefit. Government has made its plans and will stick to them



14. Longer term. Bridge to LTPE discussion paper. This shows how, with firm control of public spending; prospect opens up of significantly lower taxation later on.

[Develop passage on LTPE]

15. Right therefore to take a longer perspective than just one year. In framing Budget have looked at the effects of measures not just in 1984-85 and 1985-86 but with view to longer term considerations as well.

Tax Reform (a simplification)

16. Level of taxes crucial. But not the only consideration. Structure of the tax system also important to performance of the economy. Significant changes made in the last Parliament. Switch from direct to indirect taxes. Income tax rates reduced, especially absurd top rates. Improved tax environment for business eg NIS: small firms measures and so on. More acceptable level and structure for capital taxes.

17. But much still to be done. Tax base too narrow because of proliferation of special allowances and reliefs. Some inappropriate to today's circumstances. Simply means tax rates higher than they need be. Leads to distortions and inefficiencies. Need for: fewer special rules and greater neutrality; wider base and lower rates; less interference with market choices. Some reforms long overdue. Will always be obstacles to change. Never the "right" time. Cannot avoid gainers and losers. But there cannot be change if no-one is ever to be worse off. So, importance of gradual change, allowing people to adapt. May take a period of years. But crucial to get the process underway again.

18. Today shall propose changes in three important areas.



Indirect Taxes

19. First, the balance between taxes on income and taxes on spending. Predecessor made an important start in switching some of the burden away from income taxation; but consider it right to move further in that direction. Helps with incentives. People free to spend more of their own money. Have therefore reviewed scope for further action this year.

20. Deal first with the indirect taxes.

21. Specific duties. Widely accepted now that these need to be increased each year in line with prices if not to be eroded by inflation. No virtue in periods of "benign neglect": as past shows, only leads to periodically large increases to restore previous levels. So broad indexation from year to year a sensible starting point. Does not preclude sensible small adjustments to duty rates for industrial, social or other reasons. This year do not see excise duties as an area for major change. Some small adjustments. Mention beer:wine problem. Go on to announce the new duty rates.

22. Next VAT. Different considerations apply here. Refer to 1979. No reason this year to alter the 15 per cent standard rate. [Perhaps mention in passing revalorisation of the registration threshold.] Next deal with coverage of VAT, particularly the boundary between standard rated items and those which are zero-rated. Conclude that some changes are justified. Describe and justify new standard rate package.

[23. Consider whether at this stage to go on to deal also with PAS on imports: alternative is to deal with this as part of the company tax changes.]

*Ch. 10  
Work - but  
Consumer notice  
Income duties  
Company*



*Yps: low*

[24. Consider whether to deal here with credit licence duty as an extension of the indirect tax base. Alternative is to deal with this along with other measures affecting banks and building societies.]

25. Altogether will bring in an extra £[ ] billion revenue from indirect taxes in 1984-85; and £[ ] billion in a full year; [much more in 1984-85 if PAS. and/or credit licence duty included here.]

Company Taxation

*cf to  
Minister on  
1972??*

26. Next, company taxation. Begin with background and history. Refer to Corporation Tax Green Paper. System littered with special reliefs and allowances reflecting past pressures. In particular, past obsession for tax incentives led to more and more generous capital allowances. But inevitable corollary is much higher corporation tax rate than really needs to be. Mention other disadvantages of present arrangements. Highly discriminatory. Distortion of capital and labour. Evidence of wasteful investment; comparative capital:output ratios. Services versus manufacturing. Equity versus loan finance. Sterile argument, and litigation, over boundaries leading to absurd results.

27. Set out strategy for reform of company taxation. Aim to get a tax structure better suited to improving economic performance, not to raise more money from companies. Bound to be losers and gainers. But [immediate effect will be to lighten the burden on companies as a whole.]

28. Stock relief. Introduced at time of high inflation and severe pressures on business. *Expenditure on a study: estimated deficit*  
~~Increasingly unnecessary with low and falling inflation.~~



29. Capital allowances. Explain and justify detailed proposals. Describe longer term objectives.

30. Corporation tax rate. Reason for wanting lower rates. Changes in company taxation to be seen as a package. Announce CT rates for 1984-85 and 1985-86. Deal with small companies. [Recognise problem of unincorporated businesses.]

31. Any other minor corporation tax measures eg ACT carry back.

32. Banks and building societies. Passge on differences in tax treatment of banks and building societies. Aim to bring closer together. Reflects their close competitive position over wide area. Deal in turn with

- building societies' CT rate; (x 100%)
- [building societies' gilts treatment];
- composite rate for banks;
- [mortgage interest ceiling];
- any NSB consequentials.

[33. Credit licence duty, if not already mentioned in section on indirect taxes.]

[34. VAT on imports, if not already mentioned in section on indirect taxes.]

(alternative): make 42 with 115 43)

35. North Sea. Farm ins. Effects on company tax package.

### Savings and Investment

36. Another area where special tax rules and allowances have led to unacceptable distortions. Wide variations in pre and post-tax returns of lenders



and borrowers depending on tax status. Number of undesirable consequences. Bias in favour of institutional rather than direct savings. Discouragement to investment in equities. Emergence of complicated savings schemes far removed from original purpose of tax reliefs.

37. Changes have to be made gradually if not to disrupt financial system. But important to make a start in removing distortions.

38. Refer back to importance of company tax changes in easing distortions on side of investment. Go on to deal with changes in area of savings.

- Life assurance. Discuss and announce changes in premium relief.
- Stamp duty on equities. Probably also convenient at this point to deal with stamp duty on land and buildings as well. [recognise help for construction offsetting VAT/alterations.]
- Capital taxes. <sup>Review.</sup> CTT revalorisation of thresholds; top rate; and lifetime rates. CGT revalorisation. [DLT.]
- Finish this section on IIS.

[For consideration whether there should be mention in this section of tax treatment of superannuation pension funds as something to be looked at after Mr Fowler's enquiry.]

*Discuss:  
I think not*

### Income Tax

39. Perhaps begin with a general passage reiterating the Government's main objectives for income tax - improving incentives, raising thresholds to help with the poverty and unemployment traps, and reducing the burden generally. Pick up the reference to the balance between taxing income and taxing spending.



40. Deal next with any miscellaneous items.

- Foreign earnings and foreign emoluments. Reasons for change.
- Car benefit scales.
- Any others.

41. Finish ~~on~~ personal allowances <sup>on</sup> and higher rate threshold and bands. ~~and~~

Peroration

Major achievements in creating economic framework for recovery. Recovery well established. Sceptics disproved. Low inflation can be combined with steady growth. Indeed it opened the way to recovery. Broad strategy confirmed. This Budget takes economic renewal another stage forward.



From: SIR PETER MIDDLETON

Date: 3 February 1984

\*  
PSS  
SPH  
M

CHANCELLOR

BUDGET PRESENTATION

I think that we should start thinking about the Budget presentation very soon now. I would suggest that we might go about it something like this:

- (a) divide the Budget measures in batches according to the main tax reform themes of the Budget;
- (b) allocate each of these to a junior Minister;
- (c) consider how to deal with MTFs and LTPE issues ie those dealing with the broad means strategy yourself bringing in the Chief Secretary. ?

2. You might ask each Minister to consider and report back to you and the Chief Secretary on a broad strategy to deal with their particular area covering:

- (i) any pre-Budget preparation which might be desirable;
- (ii) a list of key themes on which supporting material would be needed at Budget time, leading to a list of bull and defensive points;
- (iii) any particularly important groups to be approached, how this might be done and when;
- (iv) any particular journalists or parts of the press to be briefed.



BUDGET SECRET

3. You will have very little time yourself immediately after the Budget, and you will need a lot of hard work from your colleagues on particular groups of measures to sell what is clearly going to be a difficult package.

4. It is not possible to produce a grouping of measures which encapsulates all the Budget checks and balances, and we shall need to come back and consider other cross-linkages. But Ministers might be detailed off to deal ... with things at this stage on the lines of the attached list. The FST's batch is of course much the most difficult, which is why the rather special housing and construction area has been allocated to the EST.

5. I do not think it is too soon to start doing this - the packages are sufficiently well developed. Thinking about the presentation in detail is a good discipline, it will help with the Budget speech as it advances, and of course it is of the first importance in its own right.



P E MIDDLETON



Presentation of Budget Measures

Provisional

Allocation of Budget measures

Financial Secretary: <sup>company tax reform, and</sup> ~~effects on companies, to include relevant press notices and (in due course) oversight of aide memoire for the CBI on effects on companies (except housing and construction).~~ <sup>Relevant</sup> Measures to be discussed would be:

- PAS for imports
- CT, capital allowances, stock relief
- NIS
- North Sea (inc. ACT repayment to oil companies)
- VAT registration threshold, small companies CT profits limits

*Stamp duty  
Some table*

Also ?

The Financial Secretary might also have general oversight of <sup>Presentation of how</sup> ~~work to present the ways in which this Budget will improve the structure of taxation, on companies and persons, and the benefits this is likely to have. He will need therefore to be involved to an extent on the work of the Minister of State and Economic Secretary.~~

Minister of State: effects on persons, including distributional effects (and oversight of the relevant press notices), and effects on RPI. Measures to be discussed would be:

- Excise duties
- VAT base
- Income tax thresholds
- ✓ Abolition of IIS
- LAPR (effect on persons)
- Share options
- Foreign earnings deduction
- Foreign emoluments deduction
- ✓ CTT
- Car benefit scales
- MIR for self-employed

*[Stamp duty: no change to business] [low and high...]*

And stamp duty, DLT and building societies CT (though possible effect on mortgage rate) so far as they would influence discussion of distributional effects of the Budget.



BUDGET SECRET

Economic Secretary: effects on financial sector and housing and construction, to include relevant press notices. Measures to be discussed in relation to the financial sector would be:

- credit licence duty
- LAPR (effect on financial sector)
- composite rate on banks
- SD on share transfers
- Building societies CT
- Effects on financial sector of company tax changes and NIS

And for housing and construction effects: (Could be FST)

- VAT on alterations
- SD on land and buildings
- ~~DET~~
- Building societies CT (effect on mortgage rate)
- effects on housing and construction of company tax changes (inc. PAS on imports) and NIS.

*2 Cap Allowance 60*

CST?



B/84/43

COPIES NO: 1

CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton  
Sir Terence Burns  
Mr Ridley

*Sitting on Rev.  
A good news chunk  
early on.  
2 years  
L.G. Scheme  
Emp/Unemp. 1000000  
2 Yr Budget  
- pan II wing*

BUDGET SPEECH OUTLINE

You asked to see a possible outline for the Budget Speech this ... weekend. One is attached.

2. This year's Speech might be built around two themes.

- Consistency of purpose in financial and economic policy as the only way to low inflation, sustainable growth and significantly lower taxes in the longer term;
- Tackling the problem of tax reform so as to reinforce the Government's other policies, improve economic performance and produce a simpler system.

With firm control of public spending these come together in offering the prospect of a virtuous circle of growth without inflation, opening the way to lower taxes which in turn reinforce and encourage that very growth process. A popular theme might be: paving the way for lower taxes.

3. In the present outline we have concentrated mainly on coverage and order. In the section dealing with tax changes I have tried, as you asked, to group as many items as possible under the general umbrella of tax reform - shifting the balance



# BUDGET-SECRET

of tax further in the direction of spending; getting a better structure for company taxation; and removing distortions in savings and investment. Not all the measures currently in play fit easily into this structure, but it provides a convenient starting point. In places the outline can be little more at this stage than a series of headings with some suggestions about linkage. However, if it seems to cover the ground reasonably well you might like us to commission contributions next week to see what the first draft of a speech on these lines might look like in continuous form. It would be helpful first, however, to have your own reactions as to structure and order - and, if it is not too soon, the kind of length we might aim for.

AMB

A M W BATTISHILL



**BUDGET SPEECH: OUTLINE**

**Introduction**

First Budget of this Parliament; but sixth since 1979.

2. Hallmark of this Government is consistency of purpose to defeat inflation and lay the only sound foundations for future prosperity, jobs and lower taxation. Result of our medium term financial strategy can be seen in three years of steady growth, inflation at a level not seen for 16 years, rising living standards, and, hopefully, now a turning point for unemployment. Success of policies not in question. No reason to change them.

3. This Budget will do two things. First, it will take a winning strategy one stage further. Second, it will renew our commitment to a simpler tax system, as well as to fewer taxes and a lower tax burden for companies and individuals alike. Though only limited room for manoeuvre this year, have a number of measures to announce later.

**World economy**

4. Background now more favourable to UK than in early stages of our recovery. Wide agreement on need to defeat inflation. And on policies for doing so. IMF, Delhi.



5. US continuing to recover strongly, with rapidly falling unemployment. European recovery underway more slowly. Risks: US budget deficit and effect on real interest rates and investment worldwide; debt; possible reference to OPEC meeting and oil prices. Nevertheless a more encouraging background than for some years.

**Domestic economy**

6. Implications for the UK recovery. Went into recession earlier than other countries; emerged earlier, with falling inflation, lower interest rates, higher consumer spending and strong recovery in domestic demand. Performance in 1983. Recovery set to continue. Faster than partners in Europe: quote EC Commission and OECD. No reason to believe pessimists. Recovery becoming more widely based. Looking for increasing contribution from exports and investment. Autumn IAF. Evidence from recent statistics. Prospects for 1984 and first half of 1985, output and (qualitatively) unemployment.

7. Importance in this of low inflation. Achievement so far. Need to keep inflation coming down. Ultimate aim: price stability. Timing uncertain. But kind of policies required are not.

**Employment and Unemployment**

8. Low inflation also key to better employment prospects. [Passage on employment picking up themes of NEDC jobs paper/Merseyside speech. Success on inflation necessary but not sufficient to provide more jobs. Also needs: greater flexibility of labour markets; more responsive wage rates; removal of obstacles to mobility; and so on. Mention structural changes; importance of services; challenge of new technology; importance of productivity and



competitiveness.] Unemployment too high. But labour market showing welcome signs of improvement: more employment; less short-time; more vacancies etc. No easy options.

9. This could lead on to a passage dealing with the supply side more generally, including privatisation, competition policy, skill training, and so on.

### The MTFS

9. There will need to be a substantial passage recalling the philosophy and role of the MTFS in providing a consistent framework for policies. It will also need to cover the roll-forward to 1988-89. And explain/justify the public spending assumption. This will also be the place to discuss the path for the PSBR, both the 1988-89 figure and the path towards it. The main thrust must be the importance of keeping the PSBR coming down in the early years of the MTFS period, because of North Sea oil revenues and asset sales, and so on. There needs also to be a bridge to later passages on longer term public expenditure and tax objectives.

### Monetary Policy

10. This section needs to emphasis the importance of monetary policy, looking back to developments over the last year and forward to the targets for next. Some recapitulation of the Mansion House speech. Discuss broad and narrow money. Separate targets for 1984-85. Reaffirm £M3 (with PSL2). Discuss choice for narrow money; announce M0 (with M2).



Public Sector Borrowing

11. This section needs to pick up from the passage on borrowing in the section on the MTFs. It should review course of the PSBR in 1983-84: last year's Budget estimate; the July measures; forecast outturn in the autumn; and the present forecast outturn. Go on to discuss the factors bearing on 1984-85, and announce planned PSBR for next year. Look also briefly at prospects for 1985-86 which suggest a sizeable fiscal adjustment. Against this background your judgement is that the Budget needs to be broadly neutral in its effects in 1984-85. But given the better prospects the following year you will announce some measures with costs falling partly or mainly in 1985-86.

Public Expenditure and Taxation

12. Strategy. Public spending takes 42 per cent of GDP. As result taxation is far too high and needs to be brought down. In the early years of the last Parliament no alternative but for taxes to rise: partly in order to bring down excessive borrowing and partly because of the recession. But this process began to be reversed in Sir Geoffrey Howe's last two Budgets. Much lower taxation crucial to improving the performance of the economy in the longer term. So much more needs to be done if we are to get taxation back to the levels of the 1960s and early 1970s.

13. White Paper period. First, important steps already taken. Refer to public expenditure White Paper and [if it has taken place] pre-Budget debate on public spending. Public spending flat in next 2 years. And projected flat over rest of MTFs period. Unlike some previous Budgets, no further expenditure measures to announce this year. Include reminder that social security upratings now come later, including Child Benefit. Government has made its plans and will stick to them



14. Longer term. Bridge to LTPE discussion paper. This shows how, with firm control of public spending; prospect opens up of significantly lower taxation later on.

[Develop passage on LTPE]

15. Right therefore to take a longer perspective than just one year. In framing Budget have looked at the effects of measures not just in 1984-85 and 1985-86 but with view to longer term considerations as well.

### Tax Reform

16. Level of taxes crucial. But not the only consideration. Structure of the tax system also important to performance of the economy. Significant changes made in the last Parliament. Switch from direct to indirect taxes. Income tax rates reduced, especially absurd top rates. Improved tax environment for business eg NIS: small firms measures and so on. More acceptable level and structure for capital taxes.

17. But much still to be done. Tax base too narrow because of proliferation of special allowances and reliefs. Some inappropriate to today's circumstances. Simply means tax rates higher than they need be. Leads to distortions and inefficiencies. Need for: fewer special rules and greater neutrality; wider base and lower rates; less interference with market choices. Some reforms long overdue. Will always be obstacles to change. Never the "right" time. Cannot avoid gainers and losers. But there cannot be change if no-one is ever to be worse off. So, importance of gradual change, allowing people to adapt. May take a period of years. But crucial to get the process underway again.

18. Today shall propose changes in three important areas.



## Indirect Taxes

19. First, the balance between taxes on income and taxes on spending. Predecessor made an important start in switching some of the burden away from income taxation; but consider it right to move further in that direction. Helps with incentives. People free to spend more of their own money. Have therefore reviewed scope for further action this year.

20. Deal first with the indirect taxes.

21. Specific duties. Widely accepted now that these need to be increased each year in line with prices if not to be eroded by inflation. No virtue in periods of "benign neglect": as past shows, only leads to periodically large increases to restore previous levels. So broad indexation from year to year a sensible starting point. Does not preclude sensible small adjustments to duty rates for industrial, social or other reasons. This year do not see excise duties as an area for major change. Some small adjustments. Mention beer:wine problem. Go on to announce the new duty rates.

22. Next VAT. Different considerations apply here. Refer to 1979. No reason this year to alter the 15 per cent standard rate. [Perhaps mention in passing revalorisation of the registration threshold.] Next deal with coverage of VAT, particularly the boundary between standard rated items and those which are zero-rated. Conclude that some changes are justified. Describe and justify new standard rate package.

[23. Consider whether at this stage to go on to deal also with PAS on imports: alternative is to deal with this as part of the company tax changes.]



[24. Consider whether to deal here with credit licence duty as an extension of the indirect tax base. Alternative is to deal with this along with other measures affecting banks and building societies.]

25. Altogether will bring in an extra £ [ ] billion revenue from indirect taxes in 1984-85; and £ [ ] billion in a full year; [much more in 1984-85 if PAS. and/or credit licence duty included here.]

Company Taxation

26. Next, company taxation. Begin with background and history. Refer to Corporation Tax Green Paper. System littered with special reliefs and allowances reflecting past pressures. In particular, past obsession for tax incentives led to more and more generous capital allowances. But inevitable corollary is much higher corporation tax rate than really needs to be. Mention other disadvantages of present arrangements. Highly discriminatory. Distortion of capital and labour. Evidence of wasteful investment; comparative capital:output ratios. Services versus manufacturing. Equity versus loan finance. Sterile argument, and litigation, over boundaries leading to absurd results.

27. Set out strategy for reform of company taxation. Aim to get a tax structure better suited to improving economic performance, not to raise more money from companies. Bound to be losers and gainers. But [immediate effect will be to lighten the burden on companies as a whole.]

28. Stock relief. Introduced at time of high inflation and severe pressures on business. Increasingly unnecessary with low and falling inflation.



29. Capital allowances. Explain and justify detailed proposals. Describe longer term objectives.

30. Corporation tax rate. Reason for wanting lower rates. Changes in company taxation to be seen as a package. Announce CT rates for 1984-85 and 1985-86. Deal with small companies. Recognise problem of unincorporated businesses.

31. Any other minor corporation tax measures eg ACT carry back.

32. Banks and building societies. Passge on differences in tax treatment of banks and building societies. Aim to bring closer together. Reflects their close competitive position over wide area. Deal in turn with

- building societies' CT rate;
- [building societies' gilts treatment];
- composite rate for banks;
- [mortgage interest ceiling];
- any NSB consequentials.

[33. Credit licence duty, if not already mentioned in section on indirect taxes.]

[34. VAT on imports, if not already mentioned in section on indirect taxes.]

35. North Sea. Farm ins. Effects on company tax package.

**Savings and Investment**

36. Another area where special tax rules and allowances have led to unacceptable distortions. Wide variations in pre and post-tax returns of lenders



and borrowers depending on tax status. Number of undesirable consequences. Bias in favour of institutional rather than direct savings. Discouragement to investment in equities. Emergence of complicated savings schemes far removed from original purpose of tax reliefs.

37. Changes have to be made gradually if not to disrupt financial system. But important to make a start in removing distortions.

38. Refer back to importance of company tax changes in easing distortions on side of investment. Go on to deal with changes in area of savings.

- Life assurance. Discuss and announce changes in premium relief.
- Stamp duty on equities. Probably also convenient at this point to deal with stamp duty on land and buildings as well. [recognise help for construction offsetting VAT/alterations.]
- Capital taxes. CTT revalorisation of thresholds; top rate; and lifetime rates. CGT revalorisation. [DLT.]
- Finish this section on IIS.

[For consideration whether there should be mention in this section of tax treatment of superannuation pension funds as something to be looked at after Mr Fowler's enquiry.]

### Income Tax

39. Perhaps begin with a general passage reiterating the Government's main objectives for income tax - improving incentives, raising thresholds to help with the poverty and unemployment traps, and reducing the burden generally. Pick up the reference to the balance between taxing income and taxing spending.



40. Deal next with any miscellaneous items.
- Foreign earnings and foreign emoluments. Reasons for change.
  - Car benefit scales.
  - Any others.
41. Finish on personal allowances and higher rate threshold and bands.

Peroration

Major achievements in creating economic framework for recovery. Recovery well established. Sceptics disproved. Low inflation can be combined with steady growth. Indeed it opened the way to recovery. Broad strategy confirmed. This Budget takes economic renewal another stage forward.



RP



FROM: J O KERR  
DATE: 6 February 1984

PS/Sir P Middleton

cc Sir T Burns  
Mr Battishill  
Mr Ridley

The Chancellor was grateful for the outline of the Budget speech which Mr Battishill submitted on 3 February. He would be grateful for comments from Sir P Middleton, Sir T Burns, and Mr Ridley; and then envisages a short meeting.

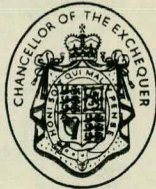
J O KERR

A meeting tomorrow  
morning, please,  
with Middleton  
Burns  
Ridley  
Battishill  
Poffino

9/ii



a/r



Ch/Ex Reference No B8474.

PRESENTATION OF BUDGET MEASURES

PROVISIONAL ALLOCATION

(A) Chief Secretary - Capital tax changes, tax expenditures, effects of the Budget on housing and construction, and tax on the better-off. Relevant measures would be:-

- i. CTT and DLT;
- ii. LAMP, MIR for the self-employed;
- iii. Stamp duty (land and buildings) <sup>VAT</sup> on alterations (MST?) <sup>building societies</sup> <sup>CT (or EST?)</sup>
- iv. IIS, <sup>share options</sup> foreign earnings deduction, foreign emoluments deduction, ~~car benefit scales~~ <sup>(or MST)</sup>

Financial Secretary - Company tax reform, and effects of the Budget on companies (except housing and construction). Relevant measures would be:-

<sup>NA</sup>  
PAS, CT, capital allowances, stock relief, NIS, North Sea (including ACT repayments to oil companies), <sup>share options</sup> VAT registration threshold, and small companies CT profit limits.

Also <sup>very</sup> general oversight of presentation of how Budget improves structure of taxation on companies and persons.

Minister of State - Effects on persons, including distributional effects, and RPI effects. Relevant measures would be:-

Excise duties, VAT base <sup>including alterations</sup>, income tax thresholds, <sup>and foreign earnings</sup> <sup>car benefit scales</sup>





<sup>Thresholds,</sup>  
deduction, foreign emoluments deduction and car benefit scales.

Economic Secretary - Effects on the financial sector. Relevant measures would be:-

Credit licence duty, composite rate on banks, LAPR  
~~(with Chief Secretary)~~, stamp duty on share transfers,  
~~Building societies CT~~

and the effect on the financial sector of the company tax/NIS/  
PAS changes.

/(B)  
NATURE OF THE TASK

The responsible Minister would commission and supervise work in each area on the preparation of:-

- i. a list of key themes on which supporting material would be needed at Budget time, leading to lists of positive and defensive points;
- ii. a note on the past history of the measure being amended/abolished/introduced;
- iii. advice on particular presentational pitfalls to be avoided in each area;
- iv. advice on key groups to be approached, and how this might best be done, and when;
- v. briefing for (a) Ministerial colleagues, (b) the backbenches, and (c) particular journalists or parts of the press.

A provisional presentation strategy in each area, covering the points listed above, might be submitted by, say, 23 February, with a view to discussion at the 28 February "overview" meeting.



BUDGET SECRET

B(84) 767

COPY NO 1 OF 7 COPIES

MIDDLETON  
9/2

From: SIR PETER MIDDLETON

Date: 9 February 1984

CHANCELLOR

cc Sir T Burns  
Mr Battishill  
Mr Ridley

BUDGET SPEECH

I think that Mr Battishill's note is a good basis for discussion. But you might find it helpful to consider an alternative approach on the following lines. I have arrived at this by working backwards - to see if there is a presentation which enables you to conclude on two upbeat notes - the personal allowances and NIS and to do this by maintaining a bit of suspense throughout the presentation about whether the NIS is going to be retained or not. Almost any effective presentation depends on a combination of a 5 year MTFS approach and a 2 year 1984-85, 1985-86 current approach. The latter is particularly important to make the arithmetic come broadly right.

2. Start as Battishill:

Themes (i) growth through lower inflation;

(ii) simpler tax system with a wider base.

3. Then world economy - uncertainties of current U/S situation etc.



4. But success of economy so far. In good position to weather international storms.

5. Crucial role of MTFS in this because importance of expectations of further progress to price stability. Extension of MTFS.

6. Immediate prospects for further growth and lower inflation:

- reinforce employment on supply side, Budget will be an important step;
- pay and jobs.

7. Monetary framework: M3, <sup>MO</sup> ~~M2~~ etc - barometer for lower inflation need for which explained in paragraph 5. So continuing decline in broad and narrow. [Conditions for stable prices clearly in place by end period, steady but not excessive downward pressure meanwhile]. Next year's target.

8. PSBR and interest rates. Make good start this year. comparison not last year but MTFS path. Need to get back on track despite last year's vicissitude. Deal with Gilmour. Allowance made for asset sales etc in ensuring that ranges consistent with monetary objectives at declining interest rates.

9. Public expenditure background. Importance of flat public expenditure, in short, medium and longer term. Refer to LTPE paper. (Care to describe status in unmistakable terms.) Tax reducing, tax reforming objectives.

10. Essence of any more rational tax structure is maintaining and widening tax base. Lower inflation means can also remove some of cruder distortions built into tax system to cope with inflation.

11. Because lower inflation specific duties up by only x - look forward to day when can be zero.

*Budget Just for*



BUDGET SECRET

12. Long fight with EEC over beer and wine. Must obey law - though only because satisfied this an area where rest do. Determined not to disadvantage UK by excessive observance of spirit of law when others do not. One glaring omission. Drawn to attention in NEDC. PAS. Remove this disadvantage re French. Alas, provides with £1 bn or so of revenue in 1984-85. But fear not, can be well used. Some to reduce PSBR. And no extra cost in subsequent years.

13. No case for change in VAT rate. But can increase base here. Difficult, but some moves possible. First newspapers (exit press gallery), buildings, hot food. Do hope builders won't commit suicide till they hear the rest of the package. Then vexed question of financial sector, especially banks. Explain credit licence. All very wise. Objective of many governments.

14. Because inflation low, two particular distortions have come to end useful life. Policy on company tax as Battishill. Paralysis of Green Paper all right while inflation high and uncertain and accountants' incomes in need of supplementation. But not justified now inflation low and going down further. So, allowances to be reduced in stages. Careful explanation about great love of manufacturing and profitable investment etc.

15. Stock relief same sort of tax. Part of crude attempt to deal with inflation. Patched up with time. Now to go, to the relief of all.

16. So far measures saved Government money - can use for other half of structural change. What industry long wanted and what Government recognised is no longer justified (pause to allow expectations abolition of NIS to firm). Reduction of absurdly high CT rate. Long run CT plan to match the allowances and stock relief.

17. Small companies and CTT for unquoted.

18. Special reference to oil and North Sea.

19. Need to pay attention to financial sector. Don't want to leave building societies with unfair advantage.



Their CT rate and gilts. Also allow banks to compete on equal terms for retail deposits. Give composite rate. Widely welcomed by bank customers and a desirable measure of simplification. Necessary anyway as more and more pay interest on different accounts (refer back to M1).

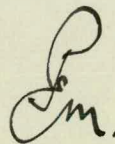
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21. And that's not all. Many Chancellors deal with better pattern of tax and savings. Must tackle reliefs to institutions. Pensions being looked at in Fowler, quite right so no proposals there. But life assurance long since ceased to have anything to do with death. So kill off the relief on new policies. At same time remove IIS which unjustified on any basis. A clearer, more honest system). The emergence of the personal saver and investor.

22. Now that brings me to end. Income tax low threshold very bad. Stare at R Howell. Poverty trap, black economy etc so must do something about it. Keep waiting while deal with Foreign earnings, car benefits and anything more for the elderly or the infirm. Then allowances, higher rate thresholds and banks .

23. Accept cheers. Sit down. *(metaphorically)*

24. Stand up. By the way, like Battishill, there is one thing I forgot to mention. Abolition of NIS too. As well as CT reduction. Unjustified tax etc. Puts the company sector in the money if not this year then next, especially builders and banks. Burden of company taxes down as proportion of GDP and will come down further as CT cumulates. More cheers.



P E MIDDLETON



+

B 3

B(84) 768

FROM: ADAM RIDLEY  
9 February 1984

CHANCELLOR

cc Sir P Middleton  
Sir T Burns  
Mr Battishill

BUDGET SPEECH OUTLINE

Here are some very quick and preliminary comments in advance of your meeting at 10 a.m. tomorrow.

2. One's first concern is that this, your first Budget Speech, should be not too long; and as human as possible. I don't see any easy way of keeping its length down, given the vast number of specific proposals coming forward, subject to one important possibility which I shall come to later. Equally it is very difficult to see how such a large range of necessarily rather technical proposals can be made human and simple. Nonetheless it remains vital to do so as far as possible.

3. In economic terms, the general messages which are picked up in various places in the outline seem sensible enough. In putting flesh on those bones, I would hope that one could particularly aim at the following objectives:

- strengthening confidence in the recovery;
- adding more credibility to the goal of zero long-run inflation, in a way which will carry greater conviction with the financial markets. They are rather uneasy about this issue at present;
- as part of that process, recreate confidence in the MTFs. This involves, I think, not so much strident adjectives as making sure that you face up to the markets' underlying anxieties about what really lies behind the figures, and do nothing which smacks of concealment or evasiveness;
- present the LTPE message with conviction. The problem here seems to me that there is a very tricky dilemma which we cannot easily resolve. If you are trying to launch a debate, then that surely means that all is not well; yet what we are presenting is figures which suggest that all could be well;
- convey the vital importance of removing the distortions to the tax system which are leading you to a programme of major reform. My own thought on looking at the outline

RIDLEY  
9/2



was that it would only be possible to do this properly if you grossly overloaded what is already a very weighty text. I could not help asking myself whether there might not be advantage in having some kind of background paper which would be released at the same time as other Budget documents, which would analyse and illustrate as graphically and tellingly as possible the degree of distortions which we are hoping to tackle, drawing for example on the published work of the IFS and the subsequent updating undertaken by Mr Byatt and others. If we did that, it would enable you to keep the presentation of the tax changes moving swiftly, and require far less distracting technical illustration in your speech proper.

4. I also have a number of specific points on the outline, which are as follows, paragraph references as in the attachment to Mr Battishill's minute of February 3.

Introduction

Paras. 1-3 Obviously a tribute to Sir Geoffrey Howe and Lord Richardson might be appropriate here.

Para. 7 I hope you will not be too uncertain about the timing of the achievement of price stability.

Short para 9 I would be for saying next to nothing on the Supply Side generally in this speech, given the pressure from other material, unless you absolutely have to.

Long para 9 - The presentation of the MTFS needs to convey something about the level of inflation at the end of the five year period, not least in order to reassure markets;

- it is vital to present the path of the PSBR in an honest way, "coming clean" about the impact of asset sales, and perhaps discussing the parallel path of the PSFD or GGFD;

- will you have to say something here about the fiscal adjustments in the later years of the MTFS?

Para. 10 There could be a case, while discussing monetary policy, for allaying anxieties about borrowing



trends over the next eighteen months. Would this be a point at which you say anything significant about your philosophy towards funding policy, and targets for DNS, which do not have a home anywhere else at present?

Paras 12  
and 13

Perhaps this should include a short, crisp defence of the Government's record and plans on investment, having regard to the new presentation in the PEWP, stale though that may be for the minute number of people who <sup>will</sup> have already read it!

Paras 14  
and 15

I have a suspicion that the section on LTPE would have to end with some indications as to how the Government wished to see the debate evolve.

Para. 16

The section on tax reform could do, perhaps, with some linking with the previous section on spending. One might wish to open up with the thoughts that:

- high taxes breed exemptions and exceptions, for those areas where the shoe is pinching most;
- high spending also breeds a high PSBR, the crowding out of private financing, in particular risk taking and enterprise;
- as one advances towards lower taxes, it follows, therefore, that one is able to begin to remove some of the exemptions and exceptions; and at the same time to reverse the crowding out of enterprise and its financing.

Para. 17

Does this crucial paragraph need to be a little more general? Not many people are thrilled by concepts like "distortions" and "neutrality". But they do understand debate conducted in terms of favouring the wrong kind of assets, favouring the institutionalisation of investment and saving, when it should be in the hands of individual lenders, borrowers and risk takers, and some agreement with the growing conventional wisdom that we have invested too much in houses and risk-free assets, and not enough in industry.



It may also help to launch the thought that many tax expenditures are not what you have as a right, but as a privilege.

Para 25 The section on indirect taxes must clearly deal with the impact with the measures proposed on inflation, and on industrial costs.

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Para 38 My own instinct at this point would be to make no reference to the Fowler enquiry and pension funds.

Para 39 In praying in aid higher thresholds to help poverty and unemployment traps, one needs to watch for the familiar IFS criticisms; and to parade your argument that we need to go through Didcot, in order to get to Oxford.

5. One final comment, prompted by para. 2 of Mr Battishill's minute of February 3. I see it as less important to convey consistency with purpose, which has now been taken for granted, than to underline the credibility of your fundamental commitment to getting inflation down, continuing with the MTFs, and mastering expenditure growth. I think that outsiders will be looking carefully both at the speech and at the reaction to it to test how strong your position will be. Most of the answer to that lies, of course, more with the solidarity with colleagues etc. rather than the precise words used. But they are an important part of the story nonetheless.

*M*

A N RIDLEY



B(84) 765

COPY NO 1 OF 7 COPIES

From: SIR PETER MIDDLETON

Date: 9 February 1984

CHANCELLOR

cc Sir T Burns  
Mr Battishill  
Mr Ridley

BUDGET SPEECH

I think that Mr Battishill's note is a good basis for discussion. But you might find it helpful to consider an alternative approach on the following lines. I have arrived at this by working backwards - to see if there is a presentation which enables you to conclude on two upbeat notes - the personal allowances and NIS and to do this by maintaining a bit of suspense throughout the presentation about whether the NIS is going to be retained or not. Almost any effective presentation depends on a combination of a 5 year MTFS approach and a 2 year 1984-85, 1985-86 current approach. The latter is particularly important to make the arithmetic come broadly right.

2. Start as Battishill:

Themes (i) growth through lower inflation;

(ii) simpler tax system with a wider base.

3. Then world economy - uncertainties of current U/S situation etc.



BUDGET SECRET

4. But success of economy so far. In good position to weather international storms.

5. Crucial role of MTFS in this because importance of expectations of further progress to price stability. Extension of MTFS.

6. Immediate prospects for further growth and lower inflation:

- reinforce employment on supply side, Budget will be an important step;
- pay and jobs.

7. Monetary framework: M3, M2 etc - barometer for lower inflation need for which explained in paragraph 5. So continuing decline in broad and narrow. [Conditions for stable prices clearly in place by end period, steady but not excessive downward pressure meanwhile]. Next year's target.

8. PSBR and interest rates. Make good start this year. comparison not last year but MTFS path. Need to get back on track despite last year's vicissitude. Deal with Gilmour. Allowance made for asset sales etc in ensuring that ranges consistent with monetary objectives at declining interest rates.

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10. Essence of any more rational tax structure is maintaining and widening tax base. Lower inflation means can also remove some of cruder distortions built into tax system to cope with inflation.

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## BUDGET SECRET

12. Long fight with EEC over beer and wine. Must obey law - though only because satisfied this an area where rest do. Determined not to disadvantage UK by excessive observance of spirit of law when others do not. One glaring omission. Drawn to attention in NEDC. PAS. Remove this disadvantage re French. Alas, provides with £1 bn or so of revenue in 1984-85. But fear not, can be well used. Some to reduce PSBR. And no extra cost in subsequent years.

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P E MIDDLETON



B 3

FROM: ADAM RIDLEY  
9 February 1984

CHANCELLOR

cc Sir P Middleton  
Sir T Burns  
Mr Battishill

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- strengthening confidence in the recovery;
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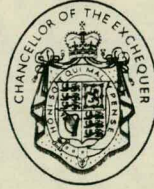
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*MR*

A N RIDLEY





FROM: M D X PORTILLO

DATE: 10 February 1984

CHANCELLOR'S MORNING MEETING
50TH MEETING
NOTE FOR THE RECORD

Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Hon Mark Lennox-Boyd MP (items 1-5 only)  
 Mr Ridley  
 Mr Lord  
 Mr Portillo

C  
 MP inserted para  
 B at my request:  
 we shall need next  
 week to know the  
 allocations during and  
 get them started  
 Jcl

 1. House of Commons matters

Mr Lennox-Boyd reported a widely-shared feeling within the Conservative Party that the Government should act on share options in the Budget. He also reported on Sir Denis Rooke's appearance at the Energy Committee.

 2. Presentation of Government policy

Ministers and advisers should continue to be watchful for any matters looming on the horizon which might present presentational difficulties. Mr Portillo is ensuring that these matters are communicated as they should be.

 3. Trustee Savings Banks

The Economic Secretary reported that the "wrinkles were now ironed out" and hoped to be able to move on to consideration of building societies.

 4. The Press

The Chancellor noted the leaks from yesterday's Cabinet with displeasure. He also noted the inaccuracies in today's Times story. IDT should refer journalists to the Autumn Statement as being the last authoritative word on the outturn of public spending for this year, and indicate that





journalists would be most unwise to speculate. The Chancellor also noted the tendency of newspapers to make much of nothing in the pre-Budget period. This indicated that Ministers would have to take particular care, and indeed say nothing at all.

#### 5. Public Expenditure

The Chancellor noted that the Prime Minister has extracted some very interesting figures on spending on the infrastructure (sewers etc) which is classified as current and not capital spending. Mr Portillo will ask the Policy Unit for these figures which the Chief Secretary may wish to deploy when dealing with the PEWP. The Chief Secretary will also wish to consult Mr Tom King who had long experience of these matters at the Department of the Environment.

#### 6. The Budget

Mr Lord will quickly examine whether changes can be made affecting share schemes for general employees.

#### 7. Allocation of Budget responsibilities

The Chancellor issued a provisional allocation of which items in the Budget were to be covered by which Minister. He emphasised that Ministers were welcome to exchange subjects, so long as every subject was covered. The Chief Secretary will wish to add Agriculture to his list. Ministers were asked to consider carefully whether any omissions had been made from the list. It was noted that the Whips had asked the Chancellor that full briefs on everything should be available immediately following the Budget Statement.

8. Ministers should complete their deliberations on the allocation in time for prayers on Wednesday 15 February.

#### Circulation:

Chancellor —  
CST  
FST  
MST  
EST

Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Ridley

Mr Lord  
Sir L Airey: IR  
Mr Fraser : C&E

M D X PORTILLO





FROM: JOHN GIEVE  
DATE: 10 February 1984

FINANCIAL SECRETARY  
ECONOMIC SECRETARY  
MINISTER OF STATE

cc PPS  
Mr Ridley  
Mr Lord  
Mr Portillo

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

Since the Chief Secretary will be away until after prayers on Wednesday, he has asked me to relay his comments on the provisional allocation circulated today;

- i. he is happy to accept CTT, DLT, MIR for the self-employed, stamp duty (land and buildings) IIS, foreign earnings deduction, and foreign emoluments deduction. I note that agriculture has also been added to his list.
- ii. he wonders whether the Financial Secretary might not prefer to take on share options in view of the work he has put in there.
- iii. he would be grateful if the MST would take ~~the~~ VAT on alterations and car benefit scales.
- iv. He suggests that the EST might take the lead on LAPR and building societies CT in view of their impact on the financial sector.

JG

JOHN GIEVE



BUDGET-SECRET

FROM: A M W BATTISHILL  
DATE: 13 February 1984

b(84) 766

COPY NO: |

MR J WILLIAMS

cc Sir T Burns  
Mr Kerr ✓  
Mr Ridley  
Mr Portillo

BUDGET SPEECH

(PMT)

... Sir P Middleton may like to have a copy of the revised outline of the Budget Speech following the meeting with the Chancellor on Friday. We have now circulated this for contributions to CU by Thursday.

C. Hunter

A M W BATTISHILL

C. I think this reflects all the main decisions at your Friday meeting. A complete draft will be ready for this Friday.

J.P.

BUDGET-SECRET





*John*  
B(84) 95

*pp's with you?*

*David*

FROM: A P HUDSON

DATE: 13 February 1984

PRINCIPAL PRIVATE SECRETARY ~~\_\_\_\_\_~~

cc Chief Secretary  
Economic Secretary  
Minister of State  
Mr Ridley  
Mr Lord  
Mr Portillo

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

1. The Financial Secretary has considered the provisional allocation circulated on Friday (10), and has seen the Chief Secretary's comments (Mr Gieve's 10 February minute).
2. The Financial Secretary is happy with his own allocation, though he wonders whether the Minister of State should in fact take on PAS.
3. He is happy to take on share options from the Chief Secretary.

*APH*

A P HUDSON





Permanent Secretary  
H M TREASURY

hm Kerr

Sir P Middleton was  
grateful for sight of this.

He would be happy for you  
to issue a note formalising  
the distribution of responsibilities  
once it has been finalised.

J Williams  
13/2





Ch/Ex Reference No 38474.

PRESENTATION OF BUDGET MEASURES

PROVISIONAL ALLOCATION

Chief Secretary - Capital tax changes, tax expenditures, effects of the Budget on housing and construction, and tax on the better-off. Relevant measures would be:-

- i. CTT and DLT;
- ii. LAPR, MIR for the self-employed;
- iii. Stamp duty (land and buildings)  $\sqrt{\text{VAT}}$  on alterations (MST ?)  $\sqrt{\text{building societies CT (or EST ?)}}$ ;
- iv. IIS, share options,  $\sqrt{\text{foreign earnings deduction, foreign emoluments deduction, car benefit scales (on MST)}}$

Financial Secretary - Company tax reform, and effects of the Budget on companies (except housing and construction). Relevant measures would be:-

PAS, CT, capital allowances, stock relief, NIS, North Sea (including ACT repayments to oil companies), VAT registration threshold, and small companies CT profit limits.

Also ~~quality~~ <sup>?</sup> general oversight of presentation of how Budget improves structure of taxation on companies and persons.

Minister of State - Effects on persons, including distributional effects, and RPI effects. Relevant measures would be:-

Excise duties, VAT base  $\sqrt{\text{including alterations}}$ , income tax thresholds,  $\sqrt{\text{and foreign earnings}}$





deduction, foreign emoluments deduction, and car benefit scales<sup>7</sup>.

Economic Secretary - Effects on the financial sector. Relevant measures would be:-

Credit licence duty, composite rate on banks, LAPR  
 [with Chief Secretary], stamp duty on share transfers,  
 [building societies CT]

and the effect on the financial sector of the company tax/NIS/PAS changes.

#### NATURE OF THE TASK

The responsible Minister would commission and supervise work in each area on the preparation of:-

- i. a list of key themes on which supporting material would be needed at Budget time, leading to lists of positive and defensive points;
- ii. a note on the past history of the measure being amended/abolished/introduced;
- iii. advice on particular presentational pitfalls to be avoided in each area;
- iv. advice on key groups to be approached, and how this might best be done, and when;
- v. briefing for (a) Ministerial colleagues, (b) the backbenches, and (c) particular journalists or parts of the press.

A provisional presentation strategy in each area, covering the points listed above, might be submitted by, say, 23 February, with a view to discussion at the 28 February "overview" meeting.



CH/EX REF. NO. B(84)117

FROM: J O KERR

DATE: 14 February 1984

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Portillo

CHANCELLOR

**PRESENTATION OF BUDGET MEASURES**

Following the discussion at "prayers" on 10 February, some revisions have been made to the provisional allocation of fiscal measures to be covered by the presentation exercise. The allocation set out in the attached minute - which has not yet gone out to officials - reflects my understanding of what has been agreed by all parties. I suggest that this should be checked at "prayers" tomorrow: if the agreements reflected in it are ratified then, my minute could issue immediately.



J O KERR



BUDGET SECRET



FROM: M E Corcoran  
DATE: 14 February 1984

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Ridley  
Mr Lord  
Mr Portillo

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

The Minister of State has seen the minutes on this, including Mr Gieve's of 10 February and Mr Hudson's of 13 February. On the basis that what is involved is presentation of the themes in your note (B 8474) rather than taking on responsibility for detailed or general handling of the measures through the Budget and Finance Bill, the Minister is happy to take on VAT on alterations and car benefit scales from the Chief Secretary (who has accepted foreign earnings deduction and foreign emoluments deduction).

However, he thinks PAS should remain with the Financial Secretary since this falls within the measures with effects on companies. I have mentioned this to Andrew Hudson.

*M E C.*

M E CORCORAN  
Private Secretary

BUDGET SECRET



B (84) 112

BUDGET SECRET



FROM: M E Corcoran

DATE: 14 February 1984

PS/CHIEF SECRETARY  
PS/FINANCIAL SECRETARY  
PS/ECONOMIC SECRETARY

cc PPS  
Mr Ridley  
Mr Lord  
Mr Portillo

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

The Minister of State has seen the provisional allocation and the Chief Secretary's comments. He would be happy to add VAT on alterations to excise duties, the VAT base and income tax thresholds and notes the Chief Secretary will deal with foreign earnings deduction and foreign emoluments deduction.

However, he thinks it might be more appropriate for the Financial Secretary or the Economic Secretary to do car benefit scales.

*M E C*

M E CORCORAN  
Private Secretary

BUDGET SECRET





FROM: J O KERR  
DATE: 14 FEBRUARY 1984

Ch/Ex Ref. No. B(84) 106.

PS/Minister of State

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

Please let me know, by tonight, whether the Minister of State is content with the provisional allocation, circulated at "prayers" on 10 February, including - at the Chief Secretary's suggestion - VAT on alterations, and car benefit scales, but not foreign earnings and foreign emoluments deductions. Please also let me know whether he would accept the Financial Secretary's generous offer of PAS as well: the argument for keeping all the VAT stuff together point to accepting the ~~pa~~ <sup>PS</sup>, but those ~~for~~ keeping together all the main measures affecting companies point to leaving the Financial Secretary to run with the ball: the Chancellor will, I imagine be strongly guided by the Minister of State's views.

*Joe.*





FROM: A M ELLIS  
DATE: 14 February 1984

PRINCIPAL PRIVATE SECRETARY —

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

The Economic Secretary has considered the provisional allocation circulated on Friday (10 February) and has seen the Chief Secretary's and the Financial Secretary's comments.

✓ He is content with his own allocation and would be content to take the lead on LAPR and building society CT as suggested in Mr Gieve's minute.

A handwritten signature in dark ink, consisting of the letters "A" and "E" joined together in a stylized, cursive manner.

A M ELLIS

cc Chief Secretary  
Financial Secretary  
Minister of State  
Mr Ridley  
Mr Lord  
Mr Portillo



BUDGET SECRET



FROM: J O KERR  
DATE: 14 FEBRUARY 1984

Ch/Ex Ref. No. B(84).105

PS/Economic Secretary

PRESENTATION OF BUDGET MEASURES: PROVISIONAL ALLOCATION

Please let me know, by tonight, whether the Economic Secretary is content with the allocation of measures in my note circulated at "prayers" on 10 February, including - at the Chief Secretary's suggestion - LAPR and building societies CT.

*Joe.*

J O KERR

BUDGET SECRET



JOK  
142



FROM: J O KERR

DATE: 14 February 1984

*An*  
*focus on Revenue -*  
*Rates*  
*Tax*  
*Business -*  
*proprietors -*  
*but members from*  
*(not 100%)*  
*Mr. [unclear]*  
*govt [unclear]*  
*don't [unclear]*  
*details*

- cc Chief Secretary
- Financial Secretary
- Minister of State
- Economic Secretary
- Sir Lawrence Airey - IR
- Mr Fraser - C&E
- Sir T Burns
- Mr Cassell
- Mr Monck
- Mr Battishill
- Mr Odling-Smee
- Mr Monger
- Mr Ridley
- Mr Allen
- Mr Folger
- Mr Hall
- Mr Norgrove
- Mr Portillo
- Mr Lord

*[The answer is more than]*  
*[unclear]*

SIR P MIDDLETON

**PRESENTATION OF BUDGET MEASURES**

The Chancellor has discussed with Treasury Ministers how best to ensure in advance that the Budget measures now crystallizing make the best possible presentational impact on 13 March and in the immediately following period.

2. Presentation of the Budget overall, and the MTFs and LTPE, will of course primarily be for the Chancellor, assisted by the Chief Secretary. But, on particular groups of fiscal measures, it has been agreed that an individual Minister should commission and supervise work on the preparation of:-

- i. a list of key themes on which supporting material would be needed at Budget time, leading to lists of positive and defensive points;
- ii. a note on the past history of the measure being amended/abolished/introduced;
- iii. advice on particular presentational pitfalls to be avoided in each area;
- iv. advice on key groups to be approached, and how this might best be done, and when;

*ii (a) comparable facts for other countries, esp BPC*

*Ab*  
*think*  
*individuals*  
*who will get a favorable response*





v. briefing for (a) Ministerial colleagues, (b) the backbenchers, and (c) particular journalists or parts of the press.

3. The following are the agreed groupings:-

Chief Secretary - Capital tax changes, tax expenditures, effects of the Budget on agriculture, housing and construction, and tax on the better-off. Relevant measures would be:-

CTT, DLT, stamp duty (land and buildings), MIR for the self-employed, IIS, foreign earnings deduction, foreign emoluments deduction.

Financial Secretary - Company tax reform, and effects of the Budget on companies (except housing and construction). Relevant measures would be:-

PAS, CT, capital allowances, stock relief, NIS, North Sea (including ACT repayments to oil companies), share options, VAT registration threshold, and small companies CT profit limits.

Also general oversight of presentation of how Budget improves structure of taxation on companies and persons.

Minister of State - Effects on persons, including distributional effects, and RPI effects. Relevant measures would be:-

Excise duties, VAT base, income tax thresholds, car benefits scales.

Economic Secretary - Effects on the financial sector. Relevant measures would be:-

Credit licence duty, composite rate on banks, LAPR, stamp duty on share transfers, building societies CT

and the effect on the financial sector of the company tax/NIS/PAS changes.





4. The Private Offices of the Minister's concerned will be in touch immediately with the officials concerned with the measures in question. The first stage of the operation will be for each Minister to submit, by 24 February, a provisional presentation strategy covering his group of measures. The four papers will be for discussion at the 28 February "overview" meeting.

A handwritten signature in cursive script, appearing to read "J O Kerr".

J O KERR



FROM: D R NORGROVE  
DATE: 15 FEBRUARY 1984

1. cc Dr Dub-McG.  
2. (pwp)

MR BATTISHILL

- cc Principal Private Secretary ✓
- PS/Chief Secretary
- PS/Financial Secretary
- PS/Minister of State
- PS/Economic Secretary
- Sir Peter Middleton
- Mr Bailey
- Mr Littler
- Sir Terence Burns
- Mr Cassell
- Mr Monck
- Mr Monger
- Mr Odling-Smee
- Mr Monger
- Mr Allen
- Mr Folger
- Mr Rex
- Mr Ridley
- PS/Inland Revenue
- PS/Customs & Excise

*Handwritten notes:*  
 CBI solution  
 support for HS  
 is m...  
 5 m...  
 Post. 2/10.  
 M.

*Handwritten notes:*  
 Quite useful.  
 J.M.

**PRESENTATION OF BUDGET MEASURES**

You and others may like to see the attached charts, kindly prepared by Mr Rex, FP, which are relevant to Mr Kerr's minute of yesterday to Sir Peter Middleton.

2. The first chart lists the main Budget measures and sets against them the requests mentioned in their representations by the CBI, IOD, ABCC, AIB (Association of Independent Businessess) and NFSE (National Federation of the Self Employed). Where there is a blank no view was expressed. An "other" column tots up the views of other representative organisations.

3. The second chart sets out the main Budget representations which the Budget measures will not meet.

*Signature of D R Norgrove*  
 D R NORGROVE



	CBI	IOD	ABCC	AIB	NFSE	OTHERS
Excise Duties	Lower derv duty.		Ensure excise duties do not make prices uncompetitive			
VAT Base			Zero rate all building, maintenance and repair work		Zero rate all building, maintenance and repair work	
PAS	Position not yet decided					2 (abolish)
Credit Licence Duty						
Income Tax	Indexation only	Indexation plus and reduce rates	Indexation plus 2½%	Indexation plus and reduce rates	Allow unused personal allowances to be carried over	17 (index or more)
Investment Income Surcharge	Abolish	Abolish	Abolish	Abolish	Abolish	9 (abolish reduce)
LAPR				Phase out reliefs		
Share Options	Improve	Reintroduce 1972 scheme	Improve			
Foreign Earnings and Emoluments						
Composite Rate						
Stamp Duty (Shares)	Abolish			Abolish 50p duty on share transfer forms		6 (abolish reduce)
Stamp Duty (Land etc)						11 (abolish reduce)
CTT	Improve business relief and life rates to be half of death rates	Reduce top rate to 50%	Abolish CTT; or reduce rates	Improve CTT business reliefs	Introduce CTT retirement relief like that for CGT.	9 (abolish reduce)
DLT	Abolish	Abolish	Abolish			
Corporation Tax		Reduce rate to 50%				1 (reduce rate)**
Small Companies CT	For first tranche of all companies profits	For first tranche of all companies profits	For first tranche of all companies profits			
Capital Allowances	CAs for commercial buildings	CAs for commercial buildings	CAs for commercial buildings	IBAs for commercial buildings	IBAs for commercial buildings	
Stock Relief					Extend scope of stock relief	
Building Societies CT rate						
NIS	Abolish NIS and reduce employers' NIC	Defer abolition - reduce income tax rates		Abolish NIS and reduce employers' NIC. Abolish UEL.	Abolish NIS and reduce NICs for self-employed	20 abolish

\* Manufacturers' Association of Radiators and Convectors, and Knitting EDC. <sup>(sic)</sup>

\*\* The Unquoted Companies Group



## SIGNIFICANT OR FREQUENT PROPOSALS ON WHICH NO ACTION IS PLANNED

PROPOSAL	CBI	IOD	ABCC	ATB	NFSE	OTHERS
Apply small companies CT rate to first tranche of all companies profits.	✓	✓	✓			3
Zero rate all building, repair and mainenance work.			✓		✓	5
Various relaxations and extensions of BES.	✓	✓	✓	✓	✓	9
Capital allowances for commercial buildings.	✓	✓	✓	✓	✓	15
{ CGT : index inflationary gains from 1965. CGT : exempt assets held for more than 7 years Abolish CGT (these 3 CGT proposals are all tantamount to abolition)	✓	✓	✓	✓		} } 11 }
Introduce a "Loi Monory" type tax relief.		✓	✓			1
Reduce Employers' NICs	✓		✓	✓		4
Give CT relief for abortive development expenditure.	✓	✓	✓			2
Increase CTT business reliefs.	✓			✓		
Tax relief for private health insurance premiums.		✓				3
Foreign currency losses and gains to be relieved/taxable.		✓				2
Raise threshold for taxing benefits in kind.						5
Abolish Upper Earnings Limit for NICs.						1
CGT relief for entrepreneurs who sell because of ill-health.	✓	✓				4
Better CAs for TVs, teletext etc.						8
Raise tobacco duties more than inflation (do not do so - 3)						5





FROM: A P HUDSON

DATE: 16 February 1984

MR MONCK

cc Chancellor ✓  
 Chief Secretary  
 Minister of State  
 Economic Secretary  
 Sir P Middleton  
 Mr Cassell  
 Mr Battishill  
 Mr Monger  
 Mr Hall  
 Mr Portillo  
 Sir L Airey - IR  
 Mr Beighton - IR  
 Mr Crawley - IR  
 Mr Fraser - C&E

PRESENTATION OF BUDGET MEASURES

1. We discussed on the telephone the handling of the Financial Secretary's remit in Mr Kerr's 14 February minute.
2. Since many of the issues here have already been considered by your group, I will be grateful if you could take the lead, with a view to preparing a paper for the Financial Secretary to submit to the Chancellor on 24 February as required. It would be helpful to have a draft by 22 February if possible. Where your group has not been dealing with an issue (such as the North Sea, I would be grateful if you could take in contributions direct from those responsible.
3. The Financial Secretary has made some comments on Mr Beighton's 13 February minute on the Effect of the corporate tax package on small businesses, which are relevant. The thrust of the minute makes him less concerned than before about the position of unincorporated businesses. He wonders if it will be possible to provide more quantification of the proportion of stock relief and capital allowances going to the unincorporated sector. He would also like to know how much of the loss to farming will be offsetable by the concession which will be made on herd relief. He would be grateful for a breakdown of the cashflow impact of the changes, which may be useful presentationally. And he does not think we need be defensive about the fact that a rate reduction of 8 points is the maximum benefit to small companies: this is a bird in hand for them, and should be presented as such.

AH

A P HUDSON





THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE

16 February 1984

*(Handwritten initials)*

CHIEF SECRETARY

PRESENTATIONAL ASPECTS OF THE BUDGET: THE BETTER-OFF

1. This note seeks to act as devil's advocate in bringing together, for your meeting this afternoon, some "positive" and "negative" material on the effects of the Budget proposals on the better off.
2. Where possible, I illustrate the effects by reference to specific examples which we know of. (For the major reliefs and allowances, we are doing a fuller distributional analysis and this is being sent forward separately. With our present resources, however, we cannot provide a full statistical breakdown of the distribution of other relief and allowances.)

Direct effects

3. I begin with those measures which may most directly affect the better off.
  - Gains
  - Higher rate income tax: for example, Option 3XB (higher rate bands of equal amounts) would be worth some £1,000 a year to a taxpayer paying the top rate of tax at 60 per cent.

---

c Chancellor of the Exchequer  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Lord

Air Lawrence Airey  
Mr Green  
Mr Isaac  
Mr Painter  
Mr Blythe  
Mr O'Leary  
Mr Houghton  
Mr Calder  
PS/IR



BUDGET SECRET

- Investment income surcharge: very large benefit in individual cases; for example, averaging approximately £3,400 a year for incomes in excess of £40,000 a year and upwards; nearly half the total benefit going to incomes of £40,000 a year and more.
- Share options: again very large gains for individuals, running in the extreme cases to 5 or 6 figures in successive years.
- Capital transfer tax: again very large gains for individuals: at the extreme, something of the size of the Clore estate would benefit by over £m10.
- DLT: an increase in the threshold to £75,000 is worth £15,000 to a developer.
- Capital gains tax: big increase in the threshold and perhaps the exemption for fixed interest stocks could be seen in this light.

4. Losses

- Foreign earnings deduction: large losses in individual cases. Recent sample showed that people with substantial employment incomes (£100,000 a year and upwards) quite often enjoy a foreign earnings deduction in 5 figures.
- Foreign emoluments deduction: again, large losses in individual cases: a typical non-domiciled banker at £150,000 a year - by no means the top of the range - would lose £45,000 a year.
- Car benefit: small losses, up to a maximum of £300 a year.



Indirect effects

5. Other elements of the Budget may be preceived as having an impact on the better off.

- Gains

- Stamp duty on shares: impossible to quantify in relation to particular individuals.
- Rate of corporation tax: benefit for financial and investment companies, gaining from the reduction in rate, but not suffering from withdrawal of stock relief and capital allowances.

Losses

- Life assurance relief: particularly relevant for some CTT avoidance devices.

*Cler.*

A J G ISAAC



SECRET



FROM: A M ELLIS  
DATE: 17 February 1984

*Handwritten initials*

PS/SIR L AIREY - IR

cc PPS  
Mr Cassell  
Mr Lankester

PRESENTATION OF BUDGET MEASURES ,

As you will be aware from the Principal Private Secretary's minute to Sir P Middleton of 14 February, the Chancellor has agreed with Treasury Ministers that each should be responsible for the presentation of a specific grouping of Budget measures and that their private offices should be responsible for the co-ordination of that briefing. HF division in the Treasury has undertaken to collate briefing on the bulk of the grouping but, additionally, the Economic Secretary would be grateful for notes on the past history of LAPR and building society corporation tax. In view of the tight deadlines set out in the Principal Private Secretary's minute, it would be helpful to have these by close of play on Wednesday 22 February.

*We spoke about this & you kindly agreed.*

*Handwritten signature of A M Ellis*

A M ELLIS





FROM: JOHN GIEVE

DATE: 17 February 1984

MR PAINTER/IR

cc

PPS  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Isaac  
Mr Green - IR  
Mr Fraser - C&E  
Mr Monger  
Mr Battishill  
Mr R I G Allen  
Mr Griffiths  
Mr Portillo  
ps/ir

## PRESENTATION OF BUDGET MEASURES

The Chief Secretary discussed with you and other officials yesterday how best to respond to the Chancellor's remit on presentation. As the basis for considering tactics, you agreed to provide two sets of tables on the lines of that on the construction industry attached to the last scorecard:

- a. the first set would show various measures affecting particular groups - ie. farmer, landowners, home-owners, the building industry, and the better-off;
- b. the second would take particular groups of measures - CTT, CGT, DLT, Stamp Duty, IIS, foreign earnings deduction, foreign emolument deduction, MIR for the self-employed, and would show which groups they would advantage and disadvantage.

2. The Chief Secretary emphasised that where a measure would produce big gainers and big losers within a given group (eg. builders) that should be brought out too.



BUDGET SECRET

3. These tables would provide the basis for a fuller consideration of the best way to present the various measures. You and Mr Isaac agreed to provide initial proposals in consultation with the FP. Running through the list, the Chief Secretary's *first* thoughts were as follows:

a. Tax expenditures

It would be important to have briefing on the "dogs that didn't bark" notably mortgage interest relief and pensions.

b. Agriculture;

The main difficulty would be the abolition of stock relief and the reduction in capital allowances since many farmers were unincorporated; while we could note the overall extent of support for agriculture, it would be best to concentrate on the many fiscal measures taken by the Government to help agriculture over the last few years; the heavy losses inflicted on unincorporated businesses certainly provided an argument for doing something on the first higher rate income ~~tax~~ band;

c. House owners - they would benefit from stamp duty but would lose from VAT on alterations, possibly consumer credit, and the abolition of LAPR would make ~~endowment~~ mortgages unattractive;

d. House builders - the main changes affecting them would be VAT, NIS, and corporation tax; there would be gainers and some losers too; it would be important to ensure that the representative bodies gave a balanced reaction;

e. The better off - it would be necessary to prepare counters to the contrasts that would be drawn by Rooker et al on the benefits to the very rich and the ~~loss~~es to the poor;



- f. CTT, Stamp Duty, IIS - it would be important to get a positive response from the CBI and some leading industrialists on these measures; this would be more valuable than too warm a welcome from eg. the Stock Exchange or the CLA;
- g. IIS - it would be essential to emphasise that most of the beneficiaries were pensioners; that the S discriminated against self-employed people who needed to save for their own pensions, but the total cost was small, and that this was a tax on enterprise; *it would be worth looking back at the reasons for introducing earned income relief;*
- h. DLT - it would be necessary to have an answer to those who argued that the tax should be abolished altogether;
- i. Foreign Earnings Deduction and Foreign Emoluments Deduction - research should be done on the arguments that had been put forward in favour of these measures; they would be quoted back; the basic case must be that these deductions had been appropriate when tax rates had been penal and were no longer appropriate now that the rates had been reduced. It would be necessary to consult the Bank, the Secretaries of State for Industry and Energy on the effect of foreign emoluments deduction.

4. You agreed to provide the table and a draft presentation strategy by 22 February.

JG

JOHN GIEVE



B(74) 769

FROM: A M W BATTISHILL  
DATE: 17 February 1984

COPY NO: 23

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
PCC Members  
Mr Evans  
Mr Lankester  
Mr Monger  
Mr Odling-Smee  
Mr Ridley  
Mr Lord  
Mr Portillo

Sir L Airey - IR  
Mr Painter - IR

Mr Fraser - C&E  
Mr Wilmott - C&E

BUDGET SPEECH: FIRST DRAFT

... I attach a first complete draft of the Budget Speech.

2. This is based on contributions from the relevant Treasury Divisions and the two Revenue Departments. It follows pretty faithfully the outline discussed with you, though drafting has suggested one or two minor improvements in order. The draft is a little unpolished in places but I hope it provides a satisfactory basis to work on.

3. The draft runs to a little under 12,000 words. Your predecessor's last Budget Speech was about 13,500 words, which he delivered in an hour and twenty minutes.

4. You will want to consider the general shape and style of the Speech so that further work can be done on it next week. On particular points:

- (a) the sections on the economic background have been kept fairly short, especially that dealing with the world; but they could be shortened still further if you wished;



- (b) treatment of the PSBR (both in the short and medium term) is split between section D on the MFS and section G on public sector borrowing and interest rates; this is difficult to avoid this year with the need to discuss the MFS at a fairly early stage in the Speech; but the allocation of material between the two sections can be looked at;
- (c) the section on monetary policy is rather a long one, but there is a good deal to say;
- (d) the LTPE Green Paper is dealt with fairly briefly in section F, but could be lengthened;
- (e) the short section H is an important one which sets the scene for the structural tax changes;
- (f) sections I to L describe the tax changes, for the most part in the order of my earlier outline. Share options have been moved (at the Revenue's suggestion) to the section on savings and investment. The capital taxes fit a little awkwardly in the middle of section J, and the treatment of foreign emoluments, foreign earnings etc comes as a bit of an interruption to the passage on income tax. PAS for imports is something of a wild card: there are several places for it, none of them ideal.

AB

A M W BATTISHILL



**BUDGET-SECRET****BUDGET SPEECH: FIRST DRAFT**

## Block

A	Introduction
B	World Background
C	Domestic Economy
D	MTFS
E	Monetary Policy
F	Public Expenditure
G	Public Borrowing and Interest Rates
H	Tax Reform
I	Indirect Taxes
J	Taxation of Profits and Capital
K	Savings and Investment
L	Income Tax
M	Conclusion

**BUDGET-SECRET**



# BUDGET-SECRET

## BLOCK A: INTRODUCTION

This Budget will set the Government's economic course for this Parliament. It is founded on the policies which we have consistently followed since 1979.

2. The hallmark of this Government is consistency of purpose. To defeat inflation. To improve economic performance. To lay the only sound foundations for future prosperity, more jobs and lower taxation.

3. The results of the medium term financial strategy introduced in 1980 by my Rt Hon and Learned Friend the Foreign Secretary, can be seen in three years of recovery, rising living standards and inflation at the lowest level for 16 years. Employment is rising and hopefully we have reached the turning point for unemployment.

4. The success of our policies is not in question. The facts speak for themselves. They are a tribute to the wise stewardship and foresight of the five Budgets presented by my predecessor from this Despatch Box.

5. My Budget today has two themes: first, to continue our policies which will achieve growth through lower inflation; secondly, to reform taxation. The aim is to achieve a simpler tax system for all.

# BUDGET-SECRET



# BUDGET-SECRET

6. As is traditional I shall begin by reviewing the economic background to the Budget. I shall then deal with the medium term financial strategy; with monetary policy and the monetary targets for next year; and with public spending. This will bring me to the vital issue of public borrowing and to the appropriate PSBR for the coming year. Finally I shall deal with taxation, and the changes I propose this year. As I have indicated I shall devote some time to matters of tax reform.

7. I can tell the House now that there will be no overall tax increases this year. But I shall announce significant tax reductions for next year. This is a Budget for two years, not one.

BUDGET-SECRET



**BLOCK B: WORLD BACKGROUND**

The outlook for the world recovery is more favourable now than for sometime. Inflation in the major industrial countries has fallen to its lowest level for more than a decade with consumer prices rising by about [4½] per cent in the past year. Output in the same countries has risen by about [3½] per cent in the past year after three years of virtually no growth. Our overseas markets are growing at an annual rate of about [5] per cent. And the world background is altogether more promising than it was three years ago when the UK economy first began to lead the industrialised world out of the depths of recession.

2. It is no accident that recovery has followed the emergence of widespread international consensus on the critical need to defeat inflation. This consensus is now firmly established among the members of the international community, as is the understanding of the policies required to achieve that. I was particularly encouraged at the way Finance Ministers from both developed and developing countries readily agreed on the crucial importance of control over monetary and fiscal policies when the world economy was discussed at last year's annual meeting of the IMF.

3. So, what are the prospects? It seems likely that output in the United States should continue to grow strongly this year. And the recovery in the rest of the world is becoming more broadly based with activity rising in Japan, and signs that the



# BUDGET - SECRET

long awaited upturn appears at last to be getting underway in Europe.

4. Of course, there are real risks and uncertainties in the present situation. The continuing high level of international interest rates poses a potential threat to much needed investment. It also makes the solution of debt problems more difficult. And there is wide acknowledgement of the concern generated by the continuing, and growing, high level of US budget deficits. Large imbalances in current accounts may increase the risk of more volatile exchange rates. They also bring risks of greater protectionism.

5. Uncertainties remain, too, in the oil markets, though perhaps on a lesser scale than at sometimes in the past. The possibility of a sharp fall in oil has been reduced by the prospect of steady recovery in the world economy. But it has not disappeared. And a lower oil price though almost certainly helpful to world activity in the long term would be bound to pose short-term problems, while countries adjusted to it.

6. In managing our own affairs it is only prudent to recognise the risks to world recovery and to give them due weight in framing domestic policies. But the risks should not be exaggerated. The world economy now seems better placed to achieve continued growth with lower inflation than for some years past and to that extent our own prospects are strengthened.

# BUDGET - SECRET



**BUDGET-SECRET****BLOCK C: DOMESTIC ECONOMY**

The world recovery has been more than matched by the progress of our own economy.

2. At the end of the seventies, we were poorly equipped to withstand economic pressures - weakened by many years of high inflation, excessive pay increases, and poor productivity performance. We had to tackle inflation and grossly excessive public borrowing during the deepening world recession. Since 1980, inflation has been falling steadily from a peak of more than 20 per cent, interest rates have fallen, while consumer spending and domestic demand have recovered strongly.

3. 1983 saw a combination of low inflation and soundly-based growth. The increase in prices at 4.6 per cent was the lowest since 1967.

4. We have seen a welcome further improvement in productivity by the [third] quarter of 1983, for the whole economy, it was [about 10 per cent: - GDP(A)/ELF] above the level three years earlier. In manufacturing alone, output per man hour was up [16 per cent]. Of course, productivity improvements do in part reflect cyclical factors. But in manufacturing the underlying rate of growth of productivity now appears better than the 1 per cent a year recorded between 1973 and 1979.

**BUDGET-SECRET**



5. Productivity gains, combined with a moderate level of pay settlements, produced the smallest annual increase in unit wage costs in manufacturing since 1970 - around 4 per cent. But we cannot rest on our laurels. After all, unit wage costs fell last year in the US and Germany.

6. The slow growth of costs, combined with lower inflation, has allowed a significant and welcome recovery in real levels of profitability. The CBI has put the net pre-tax real rate of return for non-North Sea companies at [6.5 per cent] last year with a further estimated improvement to [7.4 per cent] in 1984. Profitability at these levels, though the best since 1977 and 1978, are still too low. There needs to be still more improvement, as the basis for long run growth and employment.

7. So the background is one of lower inflation, lower costs and lower interest rates.

8. This has produced a better environment for industry and rising business and consumer confidence. Not surprisingly, demand, output, profits and employment all rose during 1983. Lower inflation reduced consumers' needs to save and personal consumption rose by some [3½ per cent] compared with 1982. The rate of investment increased again in the service industries and, although manufacturing investment fell back a little, fixed investment as a whole rose by [4½] per cent last year, rather faster than consumption. Total domestic demand grew by an estimated [4½] per cent.



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9. These trends were reflected in our balance of payments. Last year UK exports rose by [1] per cent, in line with the slow growth of world trade. The most encouraging growth in export volumes occurred in the fourth quarter of 1983 and into 1984. Imports are estimated to have risen by about 5 per cent. This picture is consistent with our emerging from recession generally more quickly than our trading partners, with demand growing faster in the UK than in overseas markets. For 1983 the balance of payments on current account is expected to have been in a surplus by about £[2] billion, a much better performance than was expected at the time of the November Industry Act Forecast.

10. Nominal GDP in 1983 grew by a bit over [9] per cent of which [3] per cent represented a real growth of output. This is a much healthier division between inflation and real growth than we saw in the 1970s. And it brought the average measure of GDP above its level in the cyclical peak year of 1979. Nevertheless there is still room for further improvement as inflation continues to drop.

11. I am pleased to say that growth in output has started to feed through into the labour market. The number of people in employment increased by 87,000 between May and September last year. The loss of jobs in manufacturing has slowed down sharply, while jobs in services increased by nearly 200,000 in the first nine months of 1983. This is encouraging news for the unemployed and those who will be leaving school later this year.

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12. We are no longer regarded as the poor relation. Last year our growth was the fastest of the members of the European Community. And both the OECD and the European Commission have forecast continued UK growth ahead of our partners in Europe this year.

13. Even the pessimists can no longer doubt the strength of our recovery. I expect inflation to remain low, edging down to  $4\frac{1}{2}$  per cent by the end of the year. Although personal consumption, fuelled by rising incomes and low inflation will continue to grow, the recovery is becoming more widely based. Investment encouraged by higher profitability is forecast to rise by [ ] in 1984. And as world trade grows, so there will be increasing opportunities for exports, which could rise by about [5] per cent in real terms. Output is expected to rise again at a rate of 3 per cent in 1984 and only a little less rapidly into the first half of 1985.

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## BLOCK D THE MTFS

Our ultimate objectives are price stability, high employment and sustainable growth. Inflation has fallen, and is set to fall further. Output has been recovering steadily for two years, and there are sound reasons for expecting this growth to continue. It can no longer be doubted that steady growth can be combined with falling inflation if the right policies are followed.

2. The MTFS remains the centrepiece of this Government's monetary and fiscal policy. In this first Budget of a new Parliament, therefore, it is appropriate to carry the MTFS forward to the end of the Parliament. That is what I have done in the MTFS published to-day in the FSBR - the Red Book. The policies described there cover the five years from 1984-85 to 1988-89. They indicate a continuing downward path for the monetary ranges over the next five years together with a consistent path for public borrowing. These take full account, as they must do, of important considerations like the pattern of our North Sea oil revenues, and the programme of asset sales. But these more technical aspects must not be allowed to obscure the key role played by the strategy itself in setting a policy framework for strengthening recovery, falling inflation and improving prospects for employment.

5. There can be no disputing the importance of securing continuing growth in output, with falling unemployment. The

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MTFS is designed to create the conditions in which lasting improvements can be achieved. The precise figures set out in the MTFS are not to be regarded as a rigid framework, lacking any flexibility. To regard it as such is to misunderstand its purpose, and to ignore the way it has been applied in practice. As in the past, so in the future there may well need to be adjustments to take account of changing economic circumstances. But this is the strength of a medium term strategy that such changes can be made without jeopardising the consistent pursuit of the Government's objectives, in particular lower inflation.

6. Of course, the Government alone cannot determine precisely what happens to inflation, or to the growth of output. But it can influence the growth of total national income, or money GDP. How far growth in national income is then dissipated in rising prices and how far it comes in the form of rising output depends on the behaviour of employers and employees, on productivity, efficiency and attitudes to pay.

7. Within the financial framework the MTFS provides, the more that inflation comes down the more room there will be for output and employment to grow. Interest rates play a role here: nominal rates fall with inflation and help cash flow, encouraging spending by both companies and households. Public spending programmes drawn up in cash terms go further with lower inflation. And, most important of all, with low inflation, slower growth in pay makes room more jobs.

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8. The winning combination of falling inflation and rising output which we have seen in the last two years is no accident. It has come about as the result of responsible financial policies, consistently applied, and increasingly better understood throughout the country. At the heart of the MTFSS is a recognition of the crucial importance of sound money, and proper monetary control. It is to monetary policy that I turn next.

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## BLOCK E: MONETARY POLICY

It will be clear to the House from what I have said about our medium term plans that monetary policy will continue to play a crucial role. I propose now to describe how I expect monetary policy to operate in the coming year.

2. A central theme of my predecessor - and of his predecessor too in his better years - was the need for monetary and financial discipline. My Rt Hon and Learned Friend saw this as the indispensable condition for bringing down inflation and establishing the basis for economic recovery.

3. It remains no less important now that inflation has been substantially reduced and recovery is firmly under way. The Government's success to date would all too easily be thrown away if monetary conditions were to be relaxed. On the contrary, continuing downward pressure on the monetary aggregates will be required to achieve further reductions in inflation which in turn will help sustain the recovery.

4. To judge the appropriate degree of monetary pressure is not easy, any more than to achieve it. Monetary targets provide an important framework. But the assessment of monetary conditions remains an art rather than a science. It involves judgements on a variety of evidence, sometimes conflicting -including the monetary aggregates, the exchange rate and interest rates. And our ability to influence monetary

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conditions, particularly in the short run and with due regard for external factors, is not untrammelled.

5. Yet it is important to strike the right balance between excessive stringency which might halt the recovery, and undue laxity which would lead the economy to grow at an unsustainable pace and rekindle inflation.

6. Looking back over the period since the last Budget, I believe we have achieved such a balance. Monetary conditions in general have been consistent with our objectives. Inflation has turned out lower than even we - and certainly members opposite - anticipated, notwithstanding several unfavourable factors including the rebound of commodity prices. And we can look forward to making further progress. This has demonstrably not been achieved at the expense of the recovery; which has been faster than forecast at the time of last year's Budget.

7. The House will find the facts set out in greater detail in the Red Book. Monetary growth over the full year to mid-February, as reflected in the three target aggregates has been at or a little above the top of the target range. There was particularly rapid growth in the early months; but since the summer the growth of all three aggregates has come back within the target range. The growth of MO, about which I will have more to say in a moment, has been fairly steady.

8. So too has been the effective exchange rate. Interest rates have fallen; but in real terms, taking into account

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expected inflation, they remain high by historical standards. Other evidence that monetary conditions have not been too lax includes some slowing down in recent months of the rate of increase in house prices.

9. I acknowledge that a higher than expected PSBR this year has placed a heavier burden on funding. Nonetheless, net sales of debt to the public have broadly covered the PSBR. Consequently, the money supply has not been inflated by the demands of the public sector. Nor have the very substantial sales of gilts prevented long rates from moving down further. National Savings have again made a major contribution, and are likely to achieve this year's target of £3 billion.

10. Lending to the private sector rose rapidly in 1983. This has given rise in some quarters to what I believe are exaggerated fears - either that the recovery is too dependent on borrowing or that it is causing an unwarranted loosening of monetary conditions.

11. There is nothing unusual about company borrowing rising at this stage in the cycle; and there seems little reason to think that lending to individuals - which has helped consumer spending - cannot be sustained. Higher lending for house buying, reflecting the heavy inflows of funds to the building societies, has taken place without this causing an acceleration in house prices. And more generally, as I have said, the overall evidence is that monetary conditions have remained well under control.

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12. Nonetheless, it would be imprudent not to watch the course of private sector borrowing carefully in the months ahead. If there were to be an excessive build-up of liquidity and spending, that would obviously be cause for concern. But the risks at present do not appear unduly great.

13. One encouraging factor has been the strength of new issues by UK companies. These reached a record £2.8 billion in 1983, more than 50 per cent higher than the previous record. If this continues - and the size of the Bank of England's new issue queue suggests that it may - it should help mitigate the growth of lending to companies, and help companies by strengthening their balance sheets.

14. I propose to introduce four measures in this year's Finance Bill to assist the issue of corporate bonds. The attractive tax arrangements for deep discount stock and the reliefs for companies issuing Eurobonds in this country have already been announced. In addition I propose to exempt all new corporate fixed interest securities from Capital Gains Tax and to extend the stamp duty exemption for such stock to certain convertible instruments. I shall come later to another important change affecting equity finance.

15. Of course the most important contribution the Government can make to the revival of the capital market is to maintain sound financial conditions. I have decided to make two important changes in the way that monetary policy is framed. First, for the coming year, there will be separate



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targets for broad and narrow money. The range for broad money will apply principally to £M3. Secondly, the range for narrow money will apply principally to MO. There will no longer be a target for M1.

16. The reason why I have discarded M1 is that it is no longer a satisfactory measure of narrow money, that is, money held for transactions purposes. Because of the rapid growth of its interest-bearing component, M1 has taken on some of the characteristics of broad money. Falling somewhere between the two, it is becoming a less reliable guide to monetary conditions.

17. I am not, however, willing to go back to the earlier period when we only targeted broad money. Broad money, and in particular £M3, provides an important measure of liquidity in the economy. But it needs to be supplemented by a measure of money more closely geared to spending.

18. MO consists mainly of the notes and coins in the hands of the public. For the time being at least, that is the best measure of narrow money we have; and recent experience suggests that it is moderately responsive to interest rate changes. It will therefore be the main target aggregate alongside £M3.

19. Separate ranges are needed for broad and narrow money because narrow money, and in particular MO, has over the years tended to grow considerably more slowly. This reflects the

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impact of institutional changes, such as the growth of bank accounts, on the public's demand for cash.

20. For later years, the Red Book includes illustrative ranges showing a downward path for both money measures. While precise targets will be decided for those years nearer the time, it should be clear that the Government are determined to achieve a substantial reduction in monetary growth.

21. For the coming year, the target for broad money will be set at 6-10 per cent - the same as in last year's MTFS. The target for narrow money is 4-8 per cent. Both ranges should be consistent with our objective of a continuing reduction in inflation.

22. In assessing monetary conditions, we will also take into account the growth of the other aggregates besides MO and £M3. However, experience has shown that it is not enough simply to look at the money numbers. We will continue to have regard to other evidence as well, including the exchange rate, and changes in behaviour which might affect the demand for money. And whereas in the past, broad money - and in particular £M3 - has perhaps been the prime focus of attention, in future I would expect both broad and narrow money to have equal status. Broad money may be particularly relevant for decisions on fiscal policy and funding, while narrow money may be more relevant for interest rates.



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23. I have considered whether the move to a target for MO should be accompanied by any changes in the methods of monetary control. While in principle it would be possible for the authorities to control MO directly, this would involve some unattractive features -including greater interest rate volatility -and some major institutional changes. I have accordingly decided that the time is not ripe for such a move. Control of the money supply will continue to rely on a combination of an appropriate fiscal policy, interest rates and funding.

24. In setting the PSBR for 1984-85, which I shall come to in a moment, I have of course taken into account the funding implications. The broad aim will be to continue fully to fund the PSBR, though over or under funding from time to time cannot be ruled out. With the PSBR I am planning, there should be a considerably lower requirement for net debt sales, leaving room for planned privatisation issues and for a further pick-up in new capital issues as well as some further reduction in interest rates.

25. I am sure it is right to rely on a continued substantial contribution to funding from personal savings. Within what is likely to be a reduced overall funding requirement, I have decided that the National Savings target for 1984-85 should be [£3½ billion - slightly higher than this year].

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**BLOCK F: PUBLIC EXPENDITURE**

1. Attention to public borrowing is the natural counterpart to objectives for money. But there is a natural reluctance for Chancellors to discuss borrowing before dealing first with public expenditure. I share that reluctance, and trust the House will allow me to return to the PSBR a little later.

2. In 1984-85 public spending will take over two-fifths of national income. That is why taxation is still far too high. It needs to be brought down. In the early years of the last Parliament we had to give first priority to bringing down inflation by lowering excessive borrowing. At the same time, we had to meet the additional pressures on expenditure imposed by the recession. There was no alternative but for taxes to rise.

3. This process began to be reversed in my predecessor's last two Budgets. But much more needs to be done if we are to get taxation back to the levels of the 1960s and early 1970s. Much lower taxation is crucial to improving the performance of the economy in the longer term.

4. If, as the economy continues to grow, we succeed in holding public expenditure broadly constant in real terms, public spending will represent a decreasing share of the national product. This will provide the necessary room for reducing the burden of taxation, both for individuals and for business. We



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have already taken important steps to achieve this, and I shall be announcing others today.

5. First, the levels of expenditure we have planned, and set out in detail in the Public Expenditure White Paper published last month, mean that total public spending should remain broadly level in real terms for the next three years.

6. Within public spending, negotiations on our contribution to the European Community are approaching a climax at next week's European Council. We are continuing to press strongly both for a comprehensive system for reducing budgetary imbalances and for much tighter discipline over agriculture and other expenditure. I can assure the House that there will be no question of asking its authority to increase the Community's revenues until there is satisfaction on these points.

7. Secondly, we have assumed in the updated Medium Term Financial Strategy published in the Red Book today, that public expenditure in 1987-88 and 1988-89, the last two years of the MFTS lustrum, will remain at its 1986-87 level in real terms. Such public expenditure totals, four and five years hence, will naturally be subject to later review and the results of such reviews will be published in successive Public Expenditure White Papers. But the extended period of stability in public expenditure foreshadowed in the MTFS should, as the economy grows, lead to further falls in the share of the national product taken by public spending.

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8. I am also publishing today a Green Paper on the prospects for public expenditure and taxation in the years up to 1993-94. This is a discussion document, intended as the government's contribution to the public debate on these important issues. It does not record decisions by the Government on expenditure programmes or on taxes. Nor does it attempt to forecast the progress of the economy over the next decade or, within that, the likely course of taxation or expenditure policies.

9. What it does show is that it will be possible to make worthwhile reductions in the tax burden over the next ten years only if firm control over public expenditure continues to be maintained. The illustrations in the Green Paper are of public expenditure remaining level in real terms in the years up to 1993-94; or growing at no more than an average 1% in real terms a year after 1988-89.

10. The Green Paper also argues that if there is to be room - as there must be - for some expenditure programmes to increase more quickly than public expenditure as a whole, this will have to be created by containing the growth of other programmes, or, where possible, by meeting needs in other ways.

11. I hope that the public debate on these issues will address itself not only to the overall balance between tax and expenditure, but also to the balance to be struck between individual expenditure programmes. I look forward to hearing a wide range of opinions on these issues over the next few months.

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12. The Government has announced its plans for expenditure and intends to stick to them. Consistently with that I have no public expenditure measures as such to announce in this Budget. Decisions on the uprating of social security benefits, including child benefit, will be announced in June by my rt hon Friend, the Secretary of State for Social Services.

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## BLOCK G: PUBLIC SECTOR BORROWING AND INTEREST RATES

I come now, as I said I would, to public sector borrowing.

2. The level of the PSBR must continue to fall if we are to bring down inflation without the need for unacceptably high interest rates. We have reduced the size of the PSBR since coming into office in 1979 from an average of over 5 per cent of GDP in the first two years to under  $3\frac{1}{2}$  per cent in the last three. And we have achieved this at a time of recession with heavy pressure on the public finances.

3. In this respect Britain now compares well with most other countries. Others have been less successful in tackling public borrowing. And not because they did not want to. For there is now widespread agreement among industrial countries of the need to bring public deficits under control. As it is the UK now enjoys one of the lowest levels of public borrowing among industrial countries.

4. The downward trend in borrowing has not been smooth in past years, and the problems of forecasting in this area are considerable. In July I was obliged to take action because public spending was running ahead of plans. Despite that, the forecast for borrowing in 1983-84 I gave in the autumn was £10 billion. This remains our best estimate of the likely outturn, though I must remind the House of the large margin of error on PSBR estimates even at this late stage in the year.

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5. But I must now consider the appropriate level for 1984-85. And here there are a number of considerations bearing on the acceptable level of borrowing next year and beyond. I will mention three in particular.

6. First, interest rates. Interest rates remain high, both in nominal and in real terms, though they are now lower than they have been for [ ] years. Dollar interest rates of course have a major impact on our own. But the influence they exert make it more, not less, important that pressures arising from domestic sources are kept to a minimum. This alone would justify keeping the PSBR on a declining trend.

7. Secondly, asset sales. Figures for these were published in the Public Expenditure White Paper. The Government will continue to return assets to the private sector where this is likely to lead to increased efficiency. Public sector assets will be managed sensibly. The Government are not an investment trust, and we shall dispose of minority holdings from time to time as appropriate. [Will need to be expanded and perhaps moved elsewhere in the light of Chancellor's correspondence with Mr Walker.]

8. Asset sales reduce the PSBR, but they do not help interest rates as much as other cuts in public spending. Their main impact is on the structure rather than the level of interest rates. Next year the Government are planning for a higher level of asset sales than in 1983-84, and the PSBR for next year must naturally take that into account. That fact will come as a

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surprise only to those who seem to believe this Government sees asset sales as a means of concealed reflation.

9. Thirdly, North Sea oil revenues. Next year may well be the peak year for revenues from North Sea oil and thereafter they may decline. The more these revenues can be applied to reducing the PSBR now, the lower will be the future burden of debt interest payments when oil revenues are in decline. We shall ease the future difficulties of adjusting again to lower revenues from the North Sea if we make prudent use of the revenue during the years of peak oil production.

10. Accordingly, the MTFS published today projects a gradual decline in public borrowing over a five year period, to  $1\frac{1}{4}$  per cent of GDP in 1988-89. The expenditure and revenue projections which support that also show that there can be room for cutting taxation over the life of this Parliament. But only if firm control is kept on public spending.

11. In the light of these factors, I believe it is right for 1984-85 to aim somewhat below the PSBR of  $2\frac{1}{4}$  per cent of GDP or £8 billion indicated by my predecessor at the time of the 1983 Budget, and included in last year's MTFS. I have accordingly decided to provide for a PSBR next year of  $2\frac{1}{4}$  per cent of GDP, or £7½ billion.

12. In November I told the House that I might have to increase taxes in the Budget by £½ billion to achieve a PSBR of £8 billion in 1984-85. On that basis I should have had to



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increase taxes by £1 billion to secure a PSBR of £7½ billion. Since the Autumn Statement, however, a number of developments have helped the fiscal prospect, both for 1984-85 and for the following year, 1985-86. These are mainly on the revenue side and include higher North Sea oil revenues following the strengthening of the dollar.

13. This has eased my task today. Consistently with planning for a PSBR of £7½ billion next year, the measures I shall shortly announce will be broadly neutral in their effect on revenue in 1984-85. But the Budget will reduce taxes in 1985-86 by around £1½ billion, with even larger reductions in succeeding years.

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## BLOCK H: TAX REFORM

This Government is pledged to reduce the burden of taxation to more acceptable levels. I would like to have reduced taxes this year. But if tax cuts must wait another year there are other changes which are too important to defer any longer. I refer to the important subject of tax reform and simplification, on which I have important proposals to announce later.

2. Of course since 1979 we have made considerable progress in re-shaping the tax system, by bringing down the absurdly high top rates of income tax, by providing a more acceptable level and structure for capital taxes, and in other ways. I believe it is now time to make a systematic attempt at a more rational tax structure. I see four major reasons for doing so.

3. First, the tax system has over the years accumulated an array of special reliefs and allowances which only serve to distort the actions of taxpayers, companies and individuals. They influence choices between types of investment, different channels of saving, and, for businesses, between the use of capital and labour. Many have been the subject of endless argument in Finance Bill debates in the House or upstairs in Committee. I propose to reduce and, where possible, abolish these differences of treatment where they have outlived their usefulness, and leave the taxpayer more free to make his own decisions. Over a period, a more neutral tax system must make for a better allocation of resources and help to improve economic performance.

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4. Second, tax reform is the way to better incentives to work and invest. There is no point in tax reliefs which simply conceal the true burden of taxation and lead to wide variations between taxpayers, for no very good economic purpose. Far better to reduce or abolish them, and bring down the rates of tax for everyone.

5. Third, partly because of these reliefs, it is widely acknowledged that the tax system suffers from excessive complication. Greater simplicity is a most desirable objective in itself. A simpler tax system eases the task of the Revenue Departments and the compliance costs of taxpayers. It reduces the importance of tax shelters, and the endless pursuit of tax avoidance, which adds nothing to our economic wealth.

6. Fourth, I believe it is right to shift more of the burden from direct to indirect taxation, from what we earn to what we spend. Far better to let people choose for themselves how best to spend their own money. We made a start in this direction in the last Parliament: it is now time to carry it further.

7. Everyone recognises these anomalies and distortions in our present tax system. Everyone agrees that too many people are putting too much effort into finding investments, not because they are profitable, but because they save tax. But Chancellors have hesitated to change a pattern of taxation, of high reliefs and high rates, that has become increasingly embedded in the whole commercial and financial system. I have come to the conclusion that we must now act. When

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Governments misdirect investment, they waste people's hard won savings and impoverish the whole community. And this is just as true, when the misdirection comes through the tax system as when it comes through a "prestige project" financed by the Government's own spending.

8. For all these reasons a major theme of this Budget will be reform and simplification of the tax system. I am anxious not to move too quickly. Whenever changes are made some people do better than others, and some may find themselves worse off than before. That is why the process of change has to be a gradual one, allowing businesses and individuals to adapt to shifts in the fiscal environment. However, I believe it is essential to make a start this year; and I also propose to indicate, as far as I can, the way ahead.

9. Today I shall propose changes in three important areas: first, the balance of taxation on income and spending; secondly, business taxation; and thirdly, savings and investment.

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**BLOCK I: INDIRECT TAXES**

My right hon Friend began the process of switching more of the tax burden away from taxes on earnings and onto what people spend. This was generally welcomed, and it is important to maintain the momentum. Freedom to spend or save more of one's own money is what matters. So I have reviewed the field of consumer spending to see where it would be right to look for extra revenue to finance lower income tax.

2. I do not see the excise duties as an area for major change. It is now widely accepted that they should be adjusted in line with the movement in prices from one year to the next, and this is broadly the basis of my approach this year. Otherwise the revenue is simply eroded by inflation and eventually has to be corrected by large duty increases.

3. On tobacco I propose to increase the duty by a little more than the rate of inflation. Including VAT, this will put 4p on the price of a packet of 20 cigarettes, with corresponding increases on hand-rolling tobacco and cigars. However, I do not propose to raise the duty on pipe tobacco. These changes will take effect from midnight on Thursday.

4. Next, the oil duties. I am conscious of the concern felt by many of my hon and rt hon Friends about the effects of increases in petrol and derv duties on businesses and on rural motorists. Equally, however, it would be wrong to allow the



real value of these duties to fall significantly. I propose therefore to increase the duty on petrol in line with prices by about 4½p a gallon, including VAT. For derv I propose a smaller increase of about 3½p a gallon, including VAT. As almost all derv is used by businesses this will help to hold down business costs. To help those - particularly pensioners - who use paraffin to heat their homes, I am abolishing the duty on kerosene. These changes will take effect for oil delivered from refineries and warehouses from 6pm tonight.

5. In the last three years the duty on heavy fuel oil has not been increased, and I propose no change again this year. The real burden of this duty will have been reduced by [ ] per cent since 1980. This will be of considerable continuing assistance to industry, by helping to hold down energy costs.

6. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5 from £85 to £90. On goods vehicles I propose to increase the rates of duty for most vehicles broadly to maintain their real value. However, there will be duty reductions for the lightest lorries offset by higher increases for some heavier lorries, to recognise their differing effects on road costs. [And the current concessionary rate of VED for small horsepower pre-1947 cars will be extended to all pre-1947 cars.] These changes will take effect from tomorrow. [Finally, on vehicle excise duty, I propose to extend exemption to all recipients of War Pensioners' Mobility Supplement, including disabled ex-servicemen injured in service in peacetime prior to 1939, with effect from 21 November 1983.]



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7. In reviewing the duties on alcoholic drinks I have taken into account the judgement of the European Court on the relative taxation of wine and beer. The House will be aware of the history of this particular vexed issue. But it is in the longer term interests of this country and of our export industries that the laws in this area should be observed, and I intend therefore to comply in full with the Court's judgement. But I do not intend that our important domestic brewing and spirits industries should suffer as a consequence.

8. I propose to reduce the duty on a bottle of table wine by the equivalent of about 18p, including VAT, and to increase the duty on a typical pint of beer by about 2p (including VAT).

9. I propose to increase the duty on whisky, fortified wine and sparkling wine by about 10p a bottle, including VAT. Cider, which increasingly competes with beer but pays a lower duty, will go up by 3p a pint. The duties on made wine will be aligned with those on other wine.

10. I am determined that our spirits industry should not continue to suffer discrimination in Italy against imports of Scotch whisky. I therefore propose to introduce a temporary duty surcharge of £50 per hectolitre on vermouth, the operation of which will depend on the treatment afforded to our exports of spirits. This will further increase the price of a bottle by some 43p, including VAT.

11. All the changes in the duties on alcoholic drinks will take effect from midnight tonight.



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12. Next, value added tax. When we were returned to power in 1979, my predecessor saw VAT as the key to a long overdue shift in the balance of taxation. I intend to continue this approach. But - as I have said before - it is essential to broaden the tax base rather than raise already high tax rates. So the rate of VAT will remain unchanged. Instead, I propose to extend the VAT coverage.

13. There is much to be said for reducing the number of reliefs and for moving towards the sort of broad coverage for which the tax is suited. At present, only about half of all consumer spending is subject to VAT. The remainder is either zero-rated or exempt. In extending the standard rate of VAT to items which have previously been zero-rated, I have been concerned to identify those which currently enjoy an anomalous position and which do not impinge heavily on family budgets.

14. So I am proposing to tax, at the standard rate of 15 per cent, news advertisements and news services, newspapers and magazines (but not books), hot take-away food, and alterations to buildings.

15. Taxation of news advertisements, news services and all printed matter except books will take effect from 1 April. I realise that this will bring into the tax expenditure on such things as newspapers which has traditionally been spared from taxation. But long gone are the days when the printed word was uniquely the way of spreading news and I no longer feel able to justify special treatment for any printed matter other than



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books. The tax treatment of these items will thus come into line with that of the other information media, radio and television.

16. Taxing hot take-away food will align the VAT treatment of prepared food sold in this way with that of catering services generally, which have always been subject to VAT at the standard rate. This change will take effect from 1 May.

17. Taxing building alterations will remove the present complicated and nonsensical borderline between zero-rated alterations and taxable repair and maintenance. In order to allow time for existing commitments to be completed or adjusted, without also unacceptably eroding the revenue, I propose to apply the change from 1 June.

18. Extending the coverage of VAT in this way should yield just over £600m in 1984-85 and nearly £1 billion in a full year.

19. Any review of the tax base focuses attention on the financial sector. My predecessor referred to this more than once, and it has been an objective of successive Governments to raise more revenue in this field. I propose to do so. I intend to introduce a duty of excise on the granting of consumer credit - HP agreements and personal loans. The duty will not apply to mortgages or other loans for house purchase or improvement which are eligible for income tax relief. Under these proposals duty will be payable by lenders at the rate of [1] per cent per annum on the amount of outstanding credit. To allow time for

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preparation and introduction the duty will take effect from 1 July 1985. The tax should eventually yield about [£200] million a year.

20. The net effect of all the changes in indirect taxation will be to raise additional revenue over and above indexation of some [ ] million in 1984-85 and [ ] million in 1985-86. The total increase in revenue will be [ ] in 1984-85 and [ ] in 1985-86. The immediate effect will be to add about [ ] per cent to the overall level of prices, which has already been taken into account in the forecast of inflation which I gave the House earlier.

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**BLOCK J: TAXATION OF PROFITS AND CAPITAL**

Next, company taxation. Our system of company tax is littered with special reliefs and allowances. Some of them reflect concessions introduced to meet short-term pressures. Or high inflation. Others reflect economic priorities or circumstances which, if they were once relevant, are so no longer. As a result, tax rates are too high, investment decisions, and the choice of finance, may be distorted and the relative cost of employing people or installing machinery is influenced too much by considerations of tax.

2. We need both to lower the burden of taxation on businesses generally and reduce these distortions so far as possible. With inflation down to 5 per cent and set to go lower, this is the time to act.

3. First, stock relief. This was introduced by the right hon Gentleman for Leeds East in a desperate attempt to repair the damage he had wrought in his first Budget and to help businesses cope with high inflation. It has since been patched, but is increasingly unnecessary as business profits recover and inflation falls. I propose that it should now go altogether for accounting periods beginning on or after Budget day.

4. Second, capital allowances. They now do much more than allow for depreciation and I intend to eliminate the excess so far as practicable. It would be unreasonable to make a change



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of this magnitude overnight, so I propose to do so in three stages. In the case of plant and machinery, and the assets where the allowances are linked with them, the first year allowance will be reduced from 100 per cent to 75 per cent for expenditure incurred after today and to 50 per cent for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances at all and all the expenditure will qualify for annual allowances on a 25 per cent reducing balance basis.

5. Similarly, I propose that the initial allowance for industrial buildings will fall from 75 per cent to 50 per cent from tonight, and be reduced to 25 per cent from 31 March 1985. After 31 March 1986 the initial allowance will be abolished, and expenditure will be written off on an annual 4 per cent straight line basis.

6. Over the same period the other capital allowances will be brought into line with these changes. The Inland Revenue will be issuing a press notice tonight giving further details of the proposals on capital allowances and stock relief.

7. By reducing the scale of present distortions, these changes will produce a company tax structure better suited to improving our economic performance. They also enable me to reduce the rates of corporation tax. Indeed I intend to cut the rates by rather more than the additional revenue which the stock relief and capital allowance changes might permit. As an earnest of these intentions I intend to fix the rates of

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corporation tax not only for profits earned in the year just past as is usual, but also for rather further ahead as well.

8. The 52 per cent rate has stood unchanged since the present system was introduced over 10 years ago. I propose that it should now be cut to 50 per cent for 1984-85; by a further 5 points to 45 per cent for 1985-86; and [at least] by a further points to per cent for 1986-87. And for 1987-88 I propose that it should be cut by a further points to per cent.

9. But even that is not as much as I should like. The aim must be a corporation tax rate no higher than the basic rate of income tax. Alas I cannot afford to promise that today for our larger companies. But for the great majority of companies who pay tax at the small companies rate there need be no delay. I intend to reduce their rate to 30 per cent forthwith. [Marginal provisions.]

10. I shall have other things to say of interest to smaller companies. But first I must deal with two areas of company tax which my RHF the Foreign Secretary announced in his Budget speech last year as in need of review. I refer to the treatment of groups and consortia and the allowances for mining and mineral exploitation. Both will need to be reconsidered in the light of the changes just announced. So I am not proposing any major alterations in them this year. However, I have decided to change the definition for consortium relief so as to increase the permitted number of members, and allow consortia which

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include some foreign members. This is a useful change which recognises the increasing need for companies to tackle large projects as a team rather than individually.

11. I come now to the Business Expansion Scheme introduced last year by my Rt Hon and Learned Friend. This imaginative innovation put us well ahead of the world in the incentives for investment in new and expanding companies. On the evidence so far it is proving a great success and I do not propose to make changes in it, despite the many suggestions I have been received. But I must stress that the very generous incentives are there to encourage investment in projects which are of their very nature more than usually risky. Accordingly I am withdrawing farming as a qualifying trade under the Scheme from today.

12. [Next, the Loan Guarantee Scheme. This has proved its worth in supporting small firms to start up and expand and it will be extended until [ ]. The Secretary of State for Trade will make a statement on the operation of the scheme [ ]]

13. Unnecessarily high rates of tax discourage enterprise and risk taking. This is true of the capital taxes, just as it is of the corporation and income taxes. It is a matter of particular concern to those involved in running unquoted companies. The highest rates of capital transfer tax are way out of line with comparable rates abroad, and with the top rates of other taxes in this country. I propose therefore to reduce the top rate of capital transfer tax from 75 per cent to 60 per cent. For lifetime gifts I further propose to make the rate one-half of that on death over the whole scale. Together these changes will encourage those business interests to look more confidently

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ahead and to hand on the reins when it makes commercial sense to do so.

14. For capital gains, I will as promised bring forward in the Finance Bill proposals to double the limit for retirement relief for capital gains tax to a figure of £100,000 backdated to April 1983. I think it is right also to raise the threshold for the tax, so that it bears only on gains sufficiently large to justify what can often be a very complex calculation. The new threshold will be £ . The increase will cost £m in a full year, and will remove taxpayers from the charge.

15. We have done much to improve the development land tax. [ ] years ago we increase the threshold by [ ] to £50,000. The most effective further step in simplifying it is to confine the tax to the larger cases. Increasing the threshold to £75,000 will reduce the numbers affected by more than one-third. That is what I propose. I hope that this increase will encourage the bringing forward of land for development - to the benefit of the construction industry.

16. I turn now to the North Sea. Tax changes made last year, in particular the improved incentives for future fields, were very well received. We have seen encouraging progress since then both in the number of projects firmly approved for development, and in the number being actively reviewed by the industry. I see no need to make any further major change in the regime at this stage.

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17. The impact on the North Sea of the wider corporate tax changes to which I have just referred should be generally favourable. They should leave the profitability of future fields broadly unchanged, while at the same time improving to some extent the cash flow for existing fields.

18. My right hon Friend undertook last year to consider whether the special fiscal concessions for development outside the Southern Basin should be extended to Southern Basin fields. After a full study of Southern Basin gas projects, to which the industry itself made an important contribution, my conclusion is that developments in the Southern Basin are already sufficiently profitable and that additional incentives are not required.

19. One feature of the last year has been an increased level of farmouts - by existing North Sea operators. Farmouts often have good commercial motives and can promote North Sea development. But there is a limit to the extent to which they should be carried through at the expense of the Exchequer. Last September I announced my intention to legislate this year to prevent various PRT reliefs for past expenditure being set off against later acquisitions of interests in mature fields. Since then I have further reviewed the implications of farmouts for corporation tax. I am proposing as a result certain measures to limit the potential corporation tax costs to the Exchequer of future farmouts. Details of these, and of certain other technical changes proposed in the fiscal regime, are given in a Revenue Press Release issued today.



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20. I am also making changes in the system by which VAT is charged on the importation of goods into the United Kingdom. At present most importers do not effectively pay VAT on imports. I had hoped to persuade our European partners to adopt our system, which is simple and cost-effective, and facilitates trade between EEC states. But we have so far failed to do so. As there is an incentive under the present arrangements to import goods rather than purchase them on the home market, we cannot continue to plough a lonely furrow in the interests of European harmonisation. [However, I might be persuaded to reconsider my decision if other EEC countries reconsidered theirs.]

21. Under the new arrangements importers will be required to pay VAT due at importation in the same way as customs duties, as they do elsewhere in Europe. This change in procedure will be introduced from 1 October and will give a once-for-all increase in the revenue yield in 1984-85 from VAT of the order of £1.2 billion.

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## BLOCK K: SAVINGS AND INVESTMENT

1. Next, the financial sector, which brings me to the third area of the tax system where some reform is long overdue.

2. Some moments ago I described how the growth of special allowances and reliefs has distorted the corporation tax, and the pattern of investment decisions by companies; and I announced proposals to remove those distortions. Many Chancellors before me have referred to similar distortions in the pattern of tax and savings, particularly in the way they encourage savings through the institutions, and I have proposals to make here too. Together they should help to improve both the direction and the quality of savings and investment.

3. First I propose to draw more closely together the tax treatment of banks and building societies and of investors in them.

4. [As hon Members may know, the Inland Revenue are now taking the view that profits made by building societies on the realisation of gilt-edged securities should, as is the case with banks, be charged to tax at the full corporation tax rates and not to capital gains tax. Moreover] I intend to remove the special 40 per cent rate of corporation tax from building societies. This change will take effect from 1985-86 when, as I have already proposed, the main rate will come down to 45 per cent.



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5. This change will also apply to other bodies such as industrial and provident societies, now covered by the special rate; but the very large majority of them will not be directly affected since they pay tax at the small companies rate and will benefit from the reduction in that to 30 per cent.

6. I have also been concerned to achieve greater parity between banks and building societies in the tax treatment of interest paid on personal deposits. I believe they should be able to compete on equal terms.

7. The arrangements whereby the building societies account for income tax at a composite rate on the interest they pay their depositors have been criticised in the past as giving an unfair advantage to the societies. I propose to introduce, therefore, with effect from 1985-86 a composite rate scheme to apply to interest received by UK resident individuals from banks or other licensed deposit takers. The composite rate will not apply to non-residents or to the corporate sector. They will continue to receive interest gross as at present.

8. The new arrangement should provide a welcome simplification of the tax treatment of interest for individual bank customers generally. It will also enable tax due to be collected much more economically by the Inland Revenue, providing significant staff savings and avoiding the prospect of substantial extra staff needs as interest starts to become payable on a wider variety of accounts, including some current accounts.

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9. I come now to a tax which, it is well known, was originally introduced as a temporary measure to finance a war with the French. I now propose to halve the rate of this tax. The House will remember that stamp duty was doubled from its long standing 1 per cent by the post-war Labour Government in 1947, reduced in 1963 and again doubled by the first Budget of the right hon Gentleman the Member for Leeds East in 1974. At its present level it is a clog on mobility and change.
  
10. I propose to bring the rate back to 1 per cent. The reduction in the rate of duty on share transfers will remove an important disincentive to direct savings in equities and maintain the competitiveness of the UK stock market.
  
11. To help ease the burden of stamp duty on house buyers, the new 1 per cent rate will apply to land and buildings also. I am sure this will be welcomed by the construction industry. [I propose also to raise to £30,000 the threshold below which no duty is paid on house sales; and to abolish the half per cent reduced rate; and at the same time to put an end to certain devices for avoiding stamp duty on sales of land and houses.]
  
12. The reductions in stamp duty take effect on [26 March] and will cost £[435] million in 1984-85.
  
13. Next life assurance. In its present form relief for the payment of life assurance premiums dates from the 19th century. When that relief was introduced, life assurance was the only way in which many people could hope to provide

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for their dependants after their death, or for their own needs in retirement. But that is no longer true. Most life assurance premiums nowadays represent just a particular form of savings through a particular institutional channel, which happens for historical reasons to attract tax relief.

14. I recognise, of course, that the vast bulk of life assurance savings may well be prudently saved and prudently invested. But the decision to save and the choice of savings is one for the investor to make, and not for the tax system. And the cost of the tax relief -£700 million a year and growing - means that income tax rates have to be higher or tax thresholds lower than they need to be, or should be.

15. So I propose to withdraw the relief on new policies with effect from today. I stress that this change will apply to new policies only. Relief will continue to be available on existing policies for their existing life span. [I have no proposals to make this year on the special tax position of friendly societies; but I shall be keeping this matter under review in the light of the withdrawal of life assurance premium relief.] The change will yield £90 million in the first year.

## Share Options

16. Whatever my doubts about life assurance relief I have none about the importance of encouraging people to share in the ownership and fortunes of the companies for which they work. The measures introduced in the last Parliament to

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improve employee involvement through profit sharing and savings related share option schemes have been a notable success. The numbers of these all employee schemes have increased from about [30] in 1979 to over [650] now, benefiting more than [ ] employees.

17. To maintain and build on this progress I propose to increase the monthly limit on contributions to savings related share option schemes from £50 to £75. [+ Possible relaxation in ESC on long service awards to include the giving of shares.]

18. But beyond this, I now see the need to do more to attract top calibre company management and to increase the incentives and motivation of existing executives and key personnel by linking their rewards to performance. A relaxation in the tax treatment of share options can be a central factor in improving the performance, competitiveness and profitability of British industry. [I propose, therefore, to introduce a scheme under which share option schemes generally will, subject to certain conditions, be taken out of income tax, leaving any gain to be charged to capital gains tax on, and not until, disposal of the relevant shares (this can be developed in the light of eventual decision on the shape of the new scheme).]

19. Lastly in this group of measures, I come to the investment income surcharge. A higher charge in one form or another on investment income has been a feature of our tax system for a very long time. But, whatever its historical justification, the surcharge has come increasingly to be regarded as an unfair and

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anomalous tax on savings and on the rewards of successful enterprise. It hits particularly harshly at elderly people. More than half those who pay the surcharge are 65 or over, and of these more than half would otherwise be liable at only the basic rate of tax.

20. It no longer has a place in our tax system, and I propose to abolish the surcharge forthwith. The cost will be some £20 million in 1984-85 rising to a full year cost of about £[320] million; there will be staff savings rising eventually to over 200.

21. Taken together, these proposals will go some way towards providing a simpler and straightforward tax system for savings and investment, making the system at once clearer and more honest, and removing biases which have discouraged the individual saver from investing directly in industry.



**BLOCK L: INCOME TAX**

Finally I come to income tax.

2. Despite what has been achieved since 1979, the rates of tax remain too high and the threshold at which people start to pay tax too low. An excessive burden of tax inhibits effort and enterprise throughout the income range. Low thresholds in particular play a part in creating the poverty and unemployment traps. We should not be taxing people at the same low levels of income that entitle them to social security benefits. Not only is this wrong in principle, but it drives people into the black economy and creates a wasteful bureaucracy. There is no cheap or overnight solution. But it is clearly right to build on the progress we have already made, and give priority to raising the basic tax thresholds, before looking to reduce the rates of tax further.

3. And so it is to raising income tax thresholds that I propose to apply the revenue from the changes I have announced on indirect taxes.

4. Before announcing details, however, there are two reliefs which I must tell the House I propose to abolish. Both were introduced at a time when this country suffered from excessively high rates of income tax. Now that these have been brought more into line with other countries, I have concluded that the reliefs are no longer justified.



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5. The first is the 50 per cent deduction (falling after nine years to 25 per cent) given from the emoluments of foreign employees coming here to work for foreign employers. At present income tax rates the UK has come to be described as almost a tax haven for people of foreign domicile. For example, someone in that position earning £60,000 a year may now pay tax at an average rate of no more than 17 per cent. The need for this relief has clearly gone. It has also benefited many for whom it was never designed. So I propose to withdraw the relief for all new cases from 6 April next. Existing beneficiaries will retain their entitlement to relief for the five years to 5 April 1989. This transition should give sufficient time for individuals and their employers to adjust to this change in their expectations.

6. I propose also to abolish from 6 April next and for very much the same reasons the so-called foreign earnings relief for United Kingdom residents who perform their duties both here and overseas and who spend at least 30 days abroad in a tax year. I further propose to abolish the matching relief for the self-employed who spend 30 days abroad, and similarly for resident employees and self-employed who have separate employments or separate trades carried on wholly abroad. At the same time, I have authorised the Inland Revenue to consult interested parties about a possible relaxation in the rules governing the taxation of expenses incurred by employees in travelling to perform their duties overseas. For the present I propose to make no change to the 100 per cent deduction given for absences abroad of 365 days or more.

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# BUDGET - SECRET

7. The abolition of these reliefs will eventually yield revenue savings of some [ ] and will be another useful step in removing complexity and distortions.

8. I need also to refer to the car benefit scales for those provided with the use of a car by their employer. Despite the increases over recent years, the levels still fall short of any realistic measure of the true benefit. I am proposing further increases in both the car and car fuel scales with effect from April 1985. But to reflect both the extent of past increases and lower inflation, these will be held to about 10 per cent.

9. I can now turn to the main income tax changes. I propose to increase the higher rate thresholds and bands in line with statutory indexation of 5.3 per cent. The first higher rate of 40 per cent will apply when taxable income reaches £15,400 and the top rate of 60 per cent to taxable income of £38,100 or more. [Within these limits I also propose to rationalise the higher rate structure. I propose a similar increase in the age allowance.]

[Depends on decisions]

10. But as I have said, this year I believe it is right to give first priority to raising the levels at which people first pay tax. For the main income tax thresholds simple indexation would mean putting the single and married allowance up by £100 and £150 respectively. I propose to double these amounts: the threshold for the single person will be increased by £200 from £1785 to £1985 and for the married man by £300 from £2795 to

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# BUDGET - SECRET

£3095. The additional personal allowance for single parents and the widow's bereavement allowance will be increased in consequence from £1010 to £1110.

11. Effect will be given to these changes under PAYE as from the first pay day after [ ]. The revenue cost above indexation, will be [£ million] next year. Including indexation the total revenue foregone will amount to some [ ] in 1984-85 and [ ] in a full year. Some [ ] fewer people will pay tax in 1984-85 than if thresholds had remained at their present levels.

12. There is one other tax I must mention before I sit down, the National Insurance Surcharge. This was imposed by the last Labour Government and when we took office the rate was 3½ per cent. In the last couple of years we have cut that to 1 per cent. If the surcharge were still at the level we inherited, the private sector would be paying about £3 billion a year more than they now do. But the time has surely come to be rid of it altogether. I intend to abolish this pernicious tax on jobs. The National Insurance Surcharge will go from 6 August next.

13. As a result, along with my other Budget proposals the burden of taxes on businesses will have fallen from [ ] per cent of GDP when we came to office to [ ] per cent in [ ].



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**BLOCK M: CONCLUSION**

This Budget has confirmed the broad strategy on which we embarked in 1979. It takes economic renewal another stage forward. And it marks a major step towards lower taxes and a simpler tax system. I commend it to the House.

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BUDGET SECRET

B(84) 770



FROM : M D X PORTILLO  
DATE : 21 FEBRUARY 1984

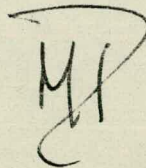
MR BATTISHILL

cc PS/FST  
Mr Kerr

BUDGET SPEECH

The Chancellor has asked the advisers to offer comments on the Budget draft circulated under your minute of 17 February.

2. I shall send you a series of suggestions that I hope may be helpful. The first, attached, concerns Block H: rationale for tax reform.



M D X PORTILLO



This Government is pledged to reduce the burden of taxation particularly on incomes. Lower taxation leaves people - and companies - free to spend more of their own money, and that is an important freedom in itself. Lower taxation also stimulates economic growth, because money invested or spent by individuals or companies tends to be more productively used than money churned through government. We aim to establish a virtuous circle. Growth in the economy will provide the room for tax cuts so long as public expenditure is held in check. And reductions in taxation will stimulate further growth.

It is evident that people start paying tax in this country on too low a level of income, so that a large number of people who are badly off now pay income tax. That is undesirable and was never intended. In part today's high levels of taxation are made necessary by the numerous allowances and exemptions that are built into the system. Each exemption is cherished by those who benefit, but each exemption costs the revenue money. We are today sustaining higher rates of tax and imposing tax at lower levels of income in order to finance those exemptions.

The same general point is true of company taxation. Over the years governments have grafted on to the corporation tax structure a series of allowances aimed at dealing with problems of low investment and of inflation. The result is a complicated tax, and a rate of tax very much higher than is desirable, but made necessary in order to finance those allowances.



BUDGET SECRET

From this I conclude that I should move ahead as rapidly as I can to reduce taxation. In the measures that I announce today for this year I cannot go nearly as far as I would like, though I have found ways nonetheless to make some progress in key areas. And in some ways I am setting the course for future years. But what I also conclude is that I should embark on restructuring our tax system, and in particular on removing some of the allowances - many now outdated - <sup>so</sup> that I can move that much faster on raising thresholds or reducing rates of taxation as appropriate. It is this reasoning which has led me to make this a tax-reforming budget.



Budget Secret PPS.



B (84) 783

B (84) 782

copy 23 of 24 1/2 B-Speech -  
2<sup>nd</sup> Draft

B (84) 781

7 copies of comments

handed to Mr Haire. (9/4).

Haire



I have scribbled  
me

{ Attach  
to 17/2  
Draft of 'B. Speech' }



PS. Also make sure!  
1. We know to write  
of the C&I share  
& its contraction  
2. Explain the  
CT refer up on  
attach on  
moment

C.

This will depress you - but I don't think it need. The first draft is - ~~at least~~ in my limited experience - always a mess, and none of the best drafters (PET/TB etc) have yet had a hand in it. And there's plenty of time.

2. I think you should concentrate now on (a) what's missing, and (b) the structure with sections (The overall structure is as you want, I think)

3. On (a), the obvious gaps are

- ✓ i. the clear restatement of the RTG philosophy
- ✓ ii. The supply side philosophy underlying the tax reforms
- ✓ iii. The 2 year theme
- ✓ iv. the LTPE message.

4. On (b), I've scribbled a bit.

5. I wouldn't try to get the language right yet. Wait for suggestions from copy addresser first. (But I think sections B and G could go back to the drawing-board straight away.) J.D.L.



BUDGET SPEECH 17/2 Draft



+ own redrafts  
o F20/k.  
given to Mr Haire

B (84) 772

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Mr Haire  
12/4



D(84) 772

FROM: A M W BATTISHILL  
DATE: 17 February 1984

COPY NO: |

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Minister of State
- Economic Secretary
- PCC Members
- Mr Evans
- Mr Lankester
- Mr Monger
- Mr Odling-Smee
- Mr Ridley
- Mr Lord
- Mr Portillo
- Sir L Airey - IR
- Mr Painter - IR
- Mr Fraser - C&E
- Mr Wilmott - C&E

BUDGET SPEECH: FIRST DRAFT

... I attach a first complete draft of the Budget Speech.

2. This is based on contributions from the relevant Treasury Divisions and the two Revenue Departments. It follows pretty faithfully the outline discussed with you, though drafting has suggested one or two minor improvements in order. The draft is a little unpolished in places but I hope it provides a satisfactory basis to work on.

3. The draft runs to a little under 12,000 words. Your predecessor's last Budget Speech was about 13,500 words, which he delivered in an hour and twenty minutes.

*too long*

4. You will want to consider the general shape and style of the Speech so that further work can be done on it next week. On particular points:

- (a) the sections on the economic background have been kept fairly short, especially that dealing with the world; but they could be shortened still further if you wished;



PSBR (A state of Budget)  
SW to G. Dis  
No explanation of  
No MTFs

(b) treatment of the PSBR (both in the short and medium term) is split between section D on the MTFs and section G on public sector borrowing and interest rates; this is difficult to avoid this year with the need to discuss the MTFs at a fairly early stage in the Speech; but the allocation of material between the two sections can be looked at;

(c) the section on monetary policy is rather a long one, but there is a good deal to say;

(d) the LTPE Green Paper is dealt with fairly briefly in section F, but could be lengthened;

(e) the short section H is an important one which sets the scene for the structural tax changes;

yes, a ~~small~~ <sup>written</sup> ~~hand~~ <sup>complete</sup> ~~summary~~ <sup>in a few</sup>

introduces

WV

(f) sections I to L describe the tax changes, for the most part in the order of my earlier outline. Share options have been moved (at the Revenue's suggestion) to the section on savings and investment. The capital taxes fit a little awkwardly in the middle of section J, and the treatment of foreign emoluments, foreign earnings etc comes as a bit of an interruption to the passage on income tax. PAS for imports is something of a wild card: there are several places for it, none of them ideal.

AMB

A M W BATTISHILL



**BUDGET-SECRET**

**BUDGET SPEECH: FIRST DRAFT**

Block

- A Introduction
- B World Background
- C Domestic Economy
- D MTFS
- E Monetary Policy
- F Public Expenditure
- G Public Borrowing and Interest Rates
- H Tax Reform
- I Indirect Taxes
- J Taxation of Profits and Capital
- K Savings and Investment
- L Income Tax
- M Conclusion

**BUDGET-SECRET**



retype M.

# BUDGET-SECRET

## BLOCK A: INTRODUCTION

This Budget will set the Government's economic course for this Parliament. It is founded on the policies which we have consistently followed since 1979.

2. The hallmark of this Government is consistency of purpose. To defeat inflation. To improve economic performance. To lay the only sound foundations for future prosperity, more jobs and lower taxation.

3. The results of the medium term financial strategy introduced in 1980 <sup>by the</sup> ~~by my Rt Hon and Learned Friend the Foreign Secretary~~ can be seen in three years of recovery, <sup>a steady recovery of output</sup> rising living standards and inflation at the lowest level for <sup>four</sup> ~~16~~ years. Employment is rising and <sup>there are signs that we may</sup> hopefully we have reached the turning point for unemployment.

4. The success of our policies is not in question. The facts speak for themselves. They are a tribute to the wise stewardship and foresight of the five Budgets presented by my predecessor <sup>with a loan from the Foreign Secretary</sup> from this Despatch Box.

5. My Budget today has two themes: first, to continue our <sup>operation of low inflation, the only sound basis for sustained</sup> policies which will achieve growth through lower inflation; <sup>growth</sup> secondly, to reform taxation. The aim is to achieve a simpler tax system for all. <sup>and where possible simplify, where possible simplify, the tax system.</sup>

# BUDGET-SECRET



**BUDGET-SECRET**

6. As is <sup>customary</sup> ~~traditional~~ I shall begin by reviewing the economic background to the Budget. I shall then deal with the medium term financial strategy; with monetary policy and the monetary targets for next year; and with public spending. This will bring me to the <sup>important</sup> ~~vital~~ issue of public borrowing and to the appropriate PSBR for the coming year. Finally I shall deal with taxation, and <sup>all the major, want</sup> ~~the~~ changes I propose this year. As I have indicated I shall devote some time to matters of tax reform.

As usual, a full list of detailed proposals will be issued in a separate document.

But for full and complete details see the main document - As usual, a full list of detailed proposals will be issued in a separate document.

7. I can tell the House now that there will be no overall tax increases this year. But I shall announce significant tax reductions for next year. This is a Budget for two years, not one.

[While borrowing will be further reduced]

But not worth the trouble @ all

I think that's hasn't come out quite right. We need not just the good tax news, but also the good - for the market - PSBR news - The one without the other could be unsettling.

My new tax package - but we will PSBR 1%

Index, PSBR should be seen as a tax with PSBR paid the way the tax- with the system.

**BUDGET-SECRET**



Ch/Ex Ref No . *B(84)194*



FROM: J O KERR  
DATE: 20 February 1984

Mr Battishill

cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Portillo

BUDGET SPEECH: SECTION A

... I attach the Chancellor's redraft of section A of your 17 February draft. You will note that it omits your para 7 - ie the "no tax increases" paragraph: the Chancellor now feels that its correct home is probably in section G.

*JOK*

J O KERR



**BUDGET - SECRET****BLOCK A: INTRODUCTION**

This Budget will set the Government's economic course for this Parliament. It is founded on the policies which we have consistently followed since 1979.

2. The hallmark of this Government is consistency of purpose. To defeat inflation. To improve economic performance. To lay the only sound foundations for future prosperity, more jobs and lower taxation.

3. The results of the medium term financial strategy introduced in 1980 can be seen in four years of falling inflation, to the lowest levels since the sixties, accompanied now by a steady recovery of output and rising living standards. Employment is rising and there are signs that we may have reached the turning point for unemployment.

4. The success of our policies is not in question. The facts speak for themselves. They are a tribute to the wise stewardship and foresight of the five Budgets presented by my rt Hon and Learned Friend the Foreign Secretary from this Despatch Box.

5. My Budget today has two themes: first, to continue our policies of lower inflation, the only sound basis for sustained growth; and second, to reform and where possible simplify, the tax system.

**BUDGET - SECRET**



BUDGET - SECRET

6. As is customary I shall begin by reviewing the economic background to the Budget. I shall then deal with the medium term financial strategy; with monetary policy and the monetary targets for next year; and with public spending. This will bring me to the important issue of public borrowing and to the appropriate PSBR for the coming year. Finally I shall deal with taxation, and all the major changes which I propose this year. As usual, a full list of detailed press releases will be issued today. As I have indicated I shall devote some time to matters of tax reform. Indeed, this should be seen as a tax reform Budget which will pave the way to the tax-cutting Budgets of subsequent years.

BUDGET - SECRET





FROM: J O KERR  
DATE: 20 February 1984

Ch/Ex Ref No *B.(84).193.*

Mr Battishill

*Ps / Economic Secretary*  
cc Sir P Middleton  
Sir T Burns  
Mr Littler  
Mr Lavelle  
Mr Portillo  
Mr Bottrill

BUDGET SPEECH: SECTION B

The Chancellor was not at all happy with the "world background" Section of your 17 February draft. He would be most grateful if Mr Lavelle could let you have a revised version for incorporation in the next edition.

2. The Chancellor found the first two paragraphs of the 17 February version redundant. He would retain something like the first sentence, but then jump immediately to para 3, and forecast US growth. He would include reference to the fact that UK growth is likely this year to be the fastest in the European Community, as it was last year. He found the interest rates/US budget deficit paragraph - para 4 - much too mealy-mouthed; and would prefer a punchier, more up-to-date presentation, hitting the Americans rather harder. The oil paragraph - para 5 - struck him as not drafted in speech form; and he would omit para 6, though of course making the point that exogenous uncertainties provide a reason for prudent Budget-making.

*JOK*

J O KERR



**BUDGET-SECRET****BLOCK B: WORLD BACKGROUND***(totally useless: complete rewrite)*

The outlook for the world recovery is more favourable now than for sometime. Inflation in the major industrial countries has fallen to its lowest level for more than a decade with consumer prices rising by about [4½] per cent in the past year. Output in the same countries has risen by about [3½] per cent in the past year after three years of virtually no growth. Our overseas markets are growing at an annual rate of about [5] per cent. And the world background is altogether more promising than it was three years ago when the UK economy first began to lead the industrialised world out of the depths of recession.

*own goal  
own goal.**own goal*

2. It is no accident that recovery has followed the emergence of widespread international consensus on the critical need to defeat inflation. This consensus is now firmly established among the members of the international community, as is the understanding of the policies required to achieve that. I was particularly encouraged at the way Finance Ministers from both developed and developing countries readily agreed on the crucial importance of control over monetary and fiscal policies when the world economy was discussed at last year's annual meeting of the IMF.

*Yok*

3. So, what are the prospects? It seems likely that ~~output~~ output in the United States should continue to grow strongly this year. And the recovery in the rest of the world is becoming more broadly based with activity rising in Japan, and signs that the

**BUDGET-SECRET**



# BUDGET-SECRET

long awaited upturn appears at last to be getting underway in Europe.

*(altho' UK likely the first to see the upturn, as it was last)*

4. Of course, there are real risks and uncertainties in the present situation. The continuing high level of international interest rates poses a potential threat to much needed investment. It also makes the solution of debt problems more difficult. And there is wide acknowledgement of the concern generated by the continuing, and growing, high level of US budget deficits. Large imbalances in current accounts may increase the risk of more volatile exchange rates. They also bring risks of greater protectionism.

*Much less  
likely - but  
the upturn  
is up to date*

5. Uncertainties remain, too, in the oil markets, though perhaps on a lesser scale than at sometimes in the past. The possibility of a sharp fall in oil has been reduced by the prospect of steady recovery in the world economy. But it has not disappeared. And a lower oil price though almost certainly helpful to world activity in the long term would be bound to pose short-term problems, while countries adjusted to it.)

*W-1*

6. In managing our own affairs it is only prudent to recognise the risks to world recovery and to give them due weight in framing domestic policies. But the risks should not be exaggerated. The world economy now seems better placed to achieve continued growth with lower inflation than for some years past and to that extent our own prospects are strengthened.

*But how  
low should be  
risks:  
more for  
prospects*





FROM: J O KERR  
 DATE: 20 February 1984

Ch/Ex Ref No *B(84).195*

Mr Battishill

cc Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Monck  
 Mr Ridley  
 Mr Evans  
 Mr Folger

BUDGET SPEECH: SECTION C

The Chancellor hopes that it will be possible to shorten Section C in your 17 February draft.

2. The purpose of the Section, he thinks, is to establish the fact of recovery and what its causes were and are. The first two pages, as at present drafted, strike him as a little fuzzy for this purpose. If it is thought necessary to discuss the balance of payments, he does not think that one can duck the question of trade in manufactured goods - as para 9 now does. Para 10, as now drafted, poses a problem, in that it implies 6 per cent inflation last year! For para 11 - the labour market - he would greatly prefer to use complete 1983 figures. And it will be necessary, he believes, to make a comparison in the Section between the pre-recession output peak, and where we now think we are. Finally, he does not think that the last sentence is quite right. It suggests that we shall have 3 per cent growth this year, and growth that will be "only a little less rapid" "into the first half of 1985". If he said that, the House would assume that he was forecasting the *s*izzling out of the recovery.

*JOK*

J O KERR



**BUDGET-SECRET****BLOCK C: DOMESTIC ECONOMY***with**(too long, needs polishing, probably  
need substance.)**needs to state fact & cause (a un-comsa)*

The world recovery has been more than matched by the progress of our own economy.

*of money  
in part*

2. At the end of the seventies, we were poorly equipped to withstand economic pressures - weakened by many years of high inflation, excessive pay increases, and poor productivity performance. We had to tackle inflation and grossly excessive public borrowing during the deepening world recession. Since 1980, inflation has been falling steadily from a peak of more than 20 per cent, interest rates have fallen, while consumer spending and domestic demand have recovered strongly.

3. 1983 saw a combination of low inflation and soundly-based growth. The increase in prices at 4.6 per cent was the lowest since 1967.

*Winning  
combo*

4. We have seen a welcome further improvement in productivity by the [third] quarter of 1983, for the whole economy, it was [about 10 per cent: - GDP(A)/ELF] above the level three years earlier. In manufacturing alone, output per man hour was up [16 per cent]. Of course, productivity improvements do in part reflect cyclical factors. But in manufacturing the underlying rate of growth of productivity now appears better than the 1 per cent a year recorded between 1973 and 1979.

**BUDGET-SECRET**



5. Productivity gains, combined with a moderate level of pay settlements, produced the smallest annual increase in unit wage costs in manufacturing since 1970 - around 4 per cent. But we cannot rest on our laurels. After all, unit wage costs fell last year in the US and Germany.

6. The slow growth of costs, combined with lower inflation, has allowed a significant and welcome recovery in real levels of profitability. The CBI has put the net pre-tax real rate of return for non-North Sea companies at [6.5 per cent] last year with a further estimated improvement to [7.4 per cent] in 1984. Profitability at these levels, though the best since 1977 and 1978, are still too low. There needs to be still more improvement, as the basis for long run growth and employment.

7. So the background is one of lower inflation, lower costs and lower interest rates.

8. This has produced a better environment for industry and rising business and consumer confidence. Not surprisingly, demand, output, profits and employment all rose during 1983. Lower inflation reduced consumers' needs to save and personal consumption rose by some [3½ per cent] compared with 1982. The rate of investment increased again in the service industries and, although manufacturing investment fell back a little, fixed investment as a whole rose by [4½] per cent last year, rather faster than consumption. Total domestic demand grew by an estimated [4½] per cent.



BUDGET-SECRET

9. These trends were reflected in our balance of payments. Last year UK exports rose by [1] per cent, in line with the slow growth of world trade. The most encouraging growth in export volumes occurred in the fourth quarter of 1983 and into 1984. Imports are estimated to have risen by about 5 per cent. This picture is consistent with our emerging from recession generally more quickly than our trading partners, with demand growing faster in the UK than in overseas markets. For 1983 the balance of payments on current account is expected to have been in a surplus by about £[2] billion, a much better performance than was expected at the time of the November Industry Act Forecast.

*1983, m/v  
did not believe  
young foods  
power.*

10. Nominal GDP in 1983 grew by a bit over [9] per cent of which [3] per cent represented a real growth of output. This is a much healthier division between inflation and real growth than we saw in the 1970s. And it brought the average measure of GDP above its level in the cyclical peak year of 1979. Nevertheless there is still room for further improvement as inflation continues to drop.

*... 62 1/2%?*

11. I am pleased to say that growth in output has started to feed through into the labour market. The number of people in employment increased by 87,000 between May and September last year. The loss of jobs in manufacturing has slowed down sharply, while jobs in services increased by nearly 200,000 in the first nine months of 1983. This is encouraging news for the unemployed and those who will be leaving school later this year.

*stand. in  
for the job?  
(in 1983 in  
work of 700)*



BUDGET-SECRET

15 (2)  
pp 3

12. We are no longer regarded as the poor relation. Last year our growth was the fastest of the members of the European Community. And both the OECD and the European Commission have forecast continued UK growth ahead of our partners in Europe this year.

In 1984  
Comparison with  
pre-recession phase

13. Even the pessimists can no longer doubt the strength of our recovery. I expect inflation to remain low, edging down to 4½ per cent by the end of the year. Although personal consumption, fuelled by rising incomes and low inflation will continue to grow, the recovery is becoming more widely based. Investment encouraged by higher profitability is forecast to rise by [ ] in 1984. And as world trade grows, so there will increasing opportunities for exports, which could rise by about [5] per cent in real terms. Output is expected to rise again at a rate of 3 per cent in 1984 and only a little less rapidly into the first half of 1985.

to know if  
jobs are?  
Can't be left  
alone this

BUDGET-SECRET



CH/EX REF NO B(84)198

FROM: J O KERR

DATE: 20 February 1984

*Ps/Economic Secretary*  
cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Lankester  
Mr Odling-Smee  
Mr Ridley  
Mr Portillo

MR BATTISHILL

**BUDGET SPEECH: SECTION D**

The Chancellor thinks that section D of your 17 February edition of the draft speech is rather good. However, he would be grateful if the drafters could expand it a little to bring out more clearly, eg to new members of the House, what the original purpose of the MTFs was, how it has worked, and how it should continue to work. He would like that to be set out before one comes on to the question of moving to a five-year range (ie para 2).

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR



# BUDGET-SECRET

## BLOCK D THE MTFS

(not bad; but doesn't really restate the purpose of the MTFS.)

Our ultimate objectives are price stability, high employment and sustainable growth. Inflation has fallen, and is set to fall further. Output has been recovering steadily for two years, and there are sound reasons for expecting this growth to continue. It can no longer be doubted that steady growth can be combined with falling inflation if the right policies are followed.

Mr P. Lander 12.  
his new number

State the Policy

then refer to the 5 yr range + the MTFS

2. The MTFS remains the centrepiece of this Government's monetary and fiscal policy. In this first Budget of a new Parliament, therefore, it is appropriate to carry the MTFS forward to the end of the Parliament. That is what I have done in the MTFS published to-day in the FSBR - the Red Book. The policies described there cover the five years from 1984-85 to 1988-89. They indicate a continuing downward path for the monetary ranges over the next five years together with a consistent path for public borrowing. These take full account, as they must do, of important considerations like the pattern of our North Sea oil revenues, and the programme of asset sales. But these more technical aspects must not be allowed to obscure the key role played by the strategy itself in setting a policy framework for strengthening recovery, falling inflation and improving prospects for employment.

5. There can be no disputing the importance of securing continuing growth in output, with falling unemployment. The



MTFS is designed to create the conditions in which lasting improvements can be achieved. The precise figures set out in the MTFS are not to be regarded as a rigid framework, lacking any flexibility. To regard it as such is to misunderstand its purpose, and to ignore the way it has been applied in practice. As in the past, so in the future there may well need to be adjustments to take account of changing economic circumstances. But this is the strength of a medium term strategy that such changes can be made without jeopardising the consistent pursuit of the Government's objectives, in particular lower inflation.

6. Of course, the Government alone cannot determine precisely what happens to inflation, or to the growth of output. But it can influence the growth of total national income, or money GDP. How far growth in national income is then dissipated in rising prices and how far it comes in the form of rising output depends on the behaviour of employers and employees, on productivity, efficiency and attitudes to pay.

7. Within the financial framework the MTFS provides, the more that inflation comes down the more room there will be for output and employment to grow. Interest rates play a role here: nominal rates fall with inflation and help cash flow, encouraging spending by both companies and households. Public spending programmes drawn up in cash terms go further with lower inflation. And, most important of all, with low inflation, slower growth in pay makes room <sup>for</sup> more jobs.



## BUDGET-SECRET

8. The winning combination of falling inflation and rising output which we have seen in the last two years is no accident. It has come about as the result of responsible financial policies, consistently applied, and increasingly better understood throughout the country. At the heart of the MTFSS is a recognition of the crucial importance of sound money, and proper monetary control. It is to monetary policy that I turn next.

BUDGET-SECRET



CH/EX Ref No

B(84)204



FROM: J O KERR  
 DATE: 20 February 1984

Mr Battishill

cc PS/Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Lankester  
 Mr Odling-Smee  
 Mr Ridley  
 Mrs Lomax  
 Mr Riley  
 Mr Portillo

## BUDGET SPEECH: SECTION E

The Chancellor assumes that Section E of your 17 February edition of the draft Speech will undergo a major transmogrification before next weekend. The following are his suggestions of points which might be taken into account as work proceeds this week. His principal concern is that the drafting needs to be very much tauter.

2. He would omit paras 2 and 4-6.
3. Para 9 of the present draft strikes him as very rum. A totally new PSBR paragraph is, he believes, required, including the July measures, and a rebuttal of Gilmourism. The reference to national savings performance this year ought to find a home with that on the target for next year (now para 25), but in Section G.
4. Thirdly, he would transfer paras 13 and 14 to Section K.
5. Fourthly, the paras on the choice of target aggregates - 15/19 - need, the Chancellor believes, to be redrafted ab initio. One might start with a reference to the introduction of narrow money in 1982, move on to a discussion of M1's unsatisfactory performance; then come on to M0, and the case for separate target ranges.
6. In para 22, he would omit the second sentence, but would add, at the end of the first the words "in particular M2 and PSL2".
7. Finally, para 24 ought, he believes, to be suppressed: the argument in it is, or should be, made in Section G.

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



BLOCK E: MONETARY POLICY

*Some structural problems  
push complete monetary union  
- or more in shape*

It will be clear to the House from what I have said about our medium term plans that monetary policy will continue to play a crucial role. I propose now to describe how I expect monetary policy to operate in the coming year.

2. A central theme of my predecessor - and of his predecessor too in his better years - was the need for monetary and financial discipline. My Rt Hon and Learned Friend saw this as the indispensable condition for bringing down inflation and establishing the basis for economic recovery.

3. It remains no less important now that inflation has been substantially reduced and recovery is firmly under way. The Government's success to date would all too easily be thrown away if monetary conditions were to be relaxed. On the contrary, continuing downward pressure on the monetary aggregates will be required to achieve further reductions in inflation which in turn will help sustain the recovery.

*Said that  
+ times  
already*

4. To judge the appropriate degree of monetary pressure is not easy, any more than to achieve it. Monetary targets provide an important framework. But the assessment of monetary conditions remains an art rather than a science. It involves judgements on a variety of evidence, sometimes conflicting -including the monetary aggregates, the exchange rate and interest rates. And our ability to influence monetary



conditions, particularly in the short run and with due regard for external factors, is not untrammelled.

*Apprehensive.*

5. Yet it is important to strike the right balance between excessive stringency which might halt the recovery, and undue laxity which would lead the economy to grow at an unsustainable pace and rekindle inflation.

*65*

6. Looking back over the period since the last Budget, I believe we have achieved such a balance. Monetary conditions in general have been consistent with our objectives. Inflation has turned out lower than even we - and certainly members opposite - anticipated, notwithstanding several unfavourable factors including the rebound of commodity prices. And we can look forward to making further progress. This has demonstrably not been achieved at the expense of the recovery; which has been faster than forecast at the time of last year's Budget.

*best of*

7. The House will find the facts set out in greater detail in the Red Book. Monetary growth over the full year to mid-February, as reflected in the three target aggregates has been at or a little above the top of the target range. There was particularly rapid growth in the early months; but since the summer the growth of all three aggregates has come back within the target range. The growth of MO, about which I will have more to say in a moment, has been fairly steady.

8. So too has been the effective exchange rate. Interest rates have fallen; but in real terms, taking into account



expected inflation, they remain high by historical standards. Other evidence that monetary conditions have not been too lax includes some slowing down in recent months of the rate of increase in house prices.

9. [ I acknowledge that a higher than expected PSBR this year has placed a heavier burden on funding. Nonetheless, net sales of debt to the public have broadly covered the PSBR. ] Consequently, the money supply has not been inflated by the demands of the public sector. Nor have the very substantial sales of gilts prevented long rates from moving down further. National Savings have again made a major contribution, and are likely to achieve this year's target of £3 billion.

10. Lending to the private sector rose rapidly in 1983. This has given rise in some quarters to what I believe are ~~exaggerated~~ <sup>misplaced</sup> fears - either that the recovery is too dependent on borrowing or that it is causing an unwarranted loosening of monetary conditions.

11. There is nothing unusual about company borrowing rising at this stage in the cycle; and there seems little reason to think that lending to individuals - which has helped consumer spending - cannot be sustained. Higher lending for house buying, reflecting the heavy inflows of funds to the building societies, has taken place without this causing an acceleration in house prices. And more generally, as I have said, the overall evidence is that monetary conditions have remained well under control.

*A. H. ...  
difficult PSBR  
para 2/3, ...  
...  
... (substantive)*

*? Am s/w  
to 25*



12. Nonetheless, it would be imprudent not to watch the course of private sector borrowing carefully in the months ahead. If there were to be an excessive build-up of liquidity and spending, that would obviously be cause for concern. But the risks at present do not appear unduly great.

13. One encouraging factor has been the strength of new issues by UK companies. These reached a record £2.8 billion in 1983, more than 50 per cent higher than the previous record. If this continues - and the size of the Bank of England's new issue queue suggests that it may - it should help mitigate the growth of lending to companies, and help companies by strengthening their balance sheets.

14. I propose to introduce four measures in this year's Finance Bill to assist the issue of corporate bonds. The attractive tax arrangements for deep discount stock and the reliefs for companies issuing Eurobonds in this country have already been announced. In addition I propose to exempt all new corporate fixed interest securities from Capital Gains Tax and to extend the stamp duty exemption for such stock to certain convertible instruments. I shall come later to another important change affecting equity finance.

15. Of course the most important contribution the Government can make to the revival of the capital market is to maintain sound financial conditions. I have decided to make two important changes in the way that monetary policy is framed. First, for the coming year, there will be separate

to section J.  
- Mr. Mayhew  
K, letter  
LAPR 2/83

First measure  
to be  
announced  
- must be  
working

21



targets for broad and narrow money. The range for broad money will apply principally to £M3. Secondly, the range for narrow money will apply principally to MO. There will no longer be a target for M1.

*Satisfactory*  
*My intention*  
*was to have*  
*in 1982 - M1.*  
*But M1*  
*unsatisfactory.*  
*∴ no*  
*- and separate*  
*targets.*  
*[The fact can be*  
*do better*  
*considerably]*

16. The reason why I have discarded M1 is that it is no longer a satisfactory measure of narrow money, that is, money held for transactions purposes. Because of the rapid growth of its interest-bearing component, M1 has taken on some of the characteristics of broad money. Falling somewhere between the two, it is becoming a less reliable guide to monetary conditions.

17. I am not, however, willing to go back to the earlier period when we only targeted broad money. <sup>of course</sup> Broad money, and in particular £M3, provides an important measure of liquidity in the economy. But it needs to be supplemented by a measure of money more closely geared to spending.

18. MO consists mainly of the notes and coins in the hands of the public. For the time being at least, that is the best measure of narrow money we have; and recent experience suggests that it is moderately responsive to interest rate changes. It will therefore be the main target aggregate alongside £M3.

19. Separate ranges are needed for broad and narrow money because narrow money, and in particular MO, has over the years tended to grow considerably more slowly. This reflects the

*as drafted*  
*This implies*  
*that we should*  
*always have*  
*had separate*  
*target ranges*

*W. J. ...*



impact of institutional changes, such as the growth of bank accounts, on the public's demand for cash.

20. For later years, the Red Book includes illustrative ranges showing a downward path for both money measures. While precise targets will be decided for those years nearer the time, it should be clear that the Government are determined to achieve a substantial reduction in monetary growth.

21. For the coming year, the target for broad money will be set at 6-10 per cent - <sup>for the same</sup> ~~the same~~ as in last year's MTFs. The target for narrow money <sup>will be</sup> ~~is~~ 4-8 per cent. Both ranges ~~should be~~ <sup>are</sup> consistent with our objective of a continuing reduction in inflation.

X  
22. In assessing monetary conditions, we will also take into account the growth of the other aggregates besides MO and £M3. <sup>in particular M2 & PSL 2.</sup> ~~However, experience has shown that it is not enough simply to look at the money numbers.~~ We will continue to have regard to other evidence as well, including the exchange rate, and changes in behaviour which might affect the demand for money. And whereas in the past, broad money - and in particular £M3 - has perhaps been the prime focus of attention, in future I would expect both broad and narrow money to have equal status. Broad money may be particularly relevant for decisions on fiscal policy and funding, while narrow money may be more relevant for interest rates.



# BUDGET-SECRET

23. I have considered whether the move to a target for MO should be accompanied by any changes in the methods of monetary control. While in principle it would be possible for the authorities to control MO directly, this would involve some unattractive features -including greater interest rate volatility -and some major institutional changes. I have accordingly decided that the time is not ripe for such a move. Control of the money supply will continue to rely on a combination of an appropriate fiscal policy, interest rates and funding.

24. [ In setting the PSBR for 1984-85, which I shall come to in a moment, I have of course taken into account the funding implications. ] The broad aim will be to continue fully to fund the PSBR, though over or under funding from time to time cannot be ruled out. With the PSBR I am planning, there should be a considerably lower requirement for net debt sales, leaving room for planned privatisation issues and for a further pick-up in new capital issues as well as some further reduction in interest rates.

25. I am sure it is right to rely on a continued substantial contribution to funding from personal savings. Within what is likely to be a reduced overall funding requirement, I have decided that the National Savings target for 1984-85 should be [£3½ billion - slightly higher than this year].

? to Section 6 ✓

# BUDGET-SECRET



CH/EX REF NO B(84)199.

FROM: J O KERR

DATE: 20 February 1984

cc PS/Chief Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Anson  
Mr Scholar  
Mr Monger  
Mr Ridley  
Mr Hart

MR BATTISHILL

**BUDGET SPEECH: SECTION F**

The Chancellor's main concern about the public expenditure section in the 17 February edition of the draft Budget speech is that it under-plays the importance of the issues discussed in the LTPE. It ought, he thinks, to contain an historical passage - past apparently inexorable rise of spending and taxation/corner turned on expenditure - PEWP levels constant in real terms/corner turning on tax - as well as a piece on continuing upward pressures, and their containment.

2. The Chancellor suggests that the initial link passage, replacing the present para 1, should explain that fiscal policy must be in harmony with monetary policy [interest rates] [US ad terrorem example], but that the fiscal stance is a matter of the difference between expenditure and taxation, and tells one nothing about the levels of both, yet these are both of the first importance to the economy, and both too high.

3. The Chancellor believes that the treatment of the 1987-88 and 1988-89 figures in para 7 is incorrect. The drafting needs to make it clear that the assumptions for these two years are only assumptions, with nothing as yet decided, and all still to play for.





4. As you know, he thinks that the section should contain a paragraph on manpower targets - the 1984 target achieved, and the 1988 target set.
  
5. In the present para 12, he thinks it important to clarify that, while the announcement of the social security upratings will be in June, the upratings will, as usual, be in November.
  
6. Finally, as the Chief Secretary knows, a discussion on the vexed question of Calke Abbey is proceeding with Mr Jenkin: the purpose is, at minimal price, to enable an announcement to be made at the end of the public expenditure section of the speech. You may wish to get language drafted now.

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

J O KERR



BLOCK F: PUBLIC EXPENDITURE

Too high on LTPE  
History - apparently inconvertible rise - pt + tax - comes  
turned 82/8 - constant in real terms -  
Foreign companies on pt, + tax - Philosophy  
on self-help etc.

Fiscal pol  
- PSBR - must be  
in harmony with  
monetary policy.  
(interest rates).  
(? US)  
But a good point  
state works in  
advice a little  
of left side  
capital & taxes:  
says with  
levels of tax.  
you have an  
of 1% impact to  
GDP and GDP  
high.  
Now read on...  
(? tax strategy)

1. Attention to public borrowing is the natural counterpart to objectives for money. But there is a natural reluctance for Chancellors to discuss borrowing before dealing first with public expenditure. I share that reluctance, and trust the House will allow me to return to the PSBR a little later.

2. In 1984-85 public spending will take over two-fifths of national income. That is why taxation is still far too high. It needs to be brought down. In the early years of the last Parliament we had to give first priority to bringing down inflation by lowering excessive borrowing. <sup>GDP proportion falls</sup> At the same time, we had to meet the additional pressures on expenditure imposed by the recession. There was no alternative but for taxes to rise.

3. This process began to be reversed in my predecessor's last two Budgets. But much more needs to be done if we are to get taxation back to the levels of the 1960s and early 1970s. Much lower taxation is crucial to improving the performance of the economy in the longer term.

4. If, as the economy continues to grow, we succeed in holding public expenditure broadly constant in real terms, public spending will represent a decreasing share of the national product. This will provide the necessary room for reducing the burden of taxation, both for individuals and for business. We

well, yes!



have already taken important steps to achieve this, and I shall be announcing others today.

5. First, the levels of expenditure we have planned, and set out in detail in the Public Expenditure White Paper published last month, mean that total public spending should remain broadly level in real terms for the next three years.

6. Within public spending, negotiations on our contribution to the European Community [are approaching a climax] at next week's European Council. We are continuing to press strongly both for a comprehensive system for reducing budgetary imbalances and for much tighter discipline over agriculture and other expenditure. I can assure the House that there will be no question of asking its authority to increase the Community's revenues until there is satisfaction on these points.

7. Secondly, we have assumed in the updated Medium Term Financial Strategy published in the Red Book today, that public expenditure in 1987-88 and 1988-89, the last two years of the MFTS lustrum, will remain at its 1986-87 level in real terms. Such public expenditure totals, four and five years hence, will naturally be subject to later review and the results of such reviews will be published in successive Public Expenditure White Papers. But the extended period of stability in public expenditure foreshadowed in the MTFs should, as the economy grows, lead to further falls in the share of the national product taken by public spending.

*Wish to PM will.*

*This makes the 87/9 figs harder than the rest*

*?*

*✓*



# BUDGET-SECRET

8. I am also publishing today a Green Paper on the prospects for public expenditure and taxation in the years up to 1993-94. This is a discussion document, intended as the government's contribution to the public debate on these important issues. It does not record decisions by the Government on expenditure programmes or on taxes. Nor does it attempt to forecast the progress of the economy over the next decade or, within that, the likely course of taxation or expenditure policies.

9. What it does show is that it will be possible to make worthwhile reductions in the tax burden over the next ten years <sup>provided</sup> only if firm control over public expenditure continues to be maintained. The illustrations in the Green Paper are of public expenditure remaining level in real terms in the years up to 1993-94; or growing at no more than an average 1% in real terms a year after 1988-89.

*No historic trend - of pressures*

10. The Green Paper also argues that if there is to be room - as there must be - for some expenditure programmes to increase more quickly than public expenditure as a whole, this will have to be created by containing the growth of other programmes, or, where possible, by meeting needs in other ways.

11. I hope that the public debate on these issues will address itself not only to the overall balance between tax and expenditure, but also to the balance to be struck between individual expenditure programmes. I look forward to hearing a wide range of opinions on these issues over the next few months.

*Yuk*

# BUDGET-SECRET



12. The Government has announced its plans for expenditure and intends to stick to them. Consistently with that I have no public expenditure measures as such to announce in this Budget. Decisions on the <sup>November</sup> uprating of social security benefits, including child benefit, will be announced in June by my rt hon Friend, the Secretary of State for Social Services.

Calke Abbey



CH/EX REF NO *B(S4) 203.*

FROM: J O KERR

DATE: 20 February 1984

*Ps/EST.*

cc Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Monck  
 Mr Odling-Smee  
 Mr Ridley  
 Mr Portillo  
*Mr Khan*  
*Mr Riley*

MR BATTISHILL

**BUDGET SPEECH: SECTION G**

The Chancellor is not altogether happy with section G - "Public Sector Borrowing and Interest Rates" of the 17 February edition of the draft Budget speech. He assumes that a major revision will take place this week, and has suggested that the logical order of the section should be as follows:-

- (a) Start with the original MTFS, and the proposed steady reduction in the PSBR. Stress the importance of the fall from  $5\frac{1}{2}$  per cent of GDP to  $3\frac{1}{2}$  per cent, but then point to the 3 flat years, not least because of the 1983-84 over-run, despite the July measures. ~~St~~ State the expected 1983-84 outturn figure.
- (b) Stress the importance of getting back on a downward track. Last year's MTFS indicated  $2\frac{1}{2}$  per cent of GDP ~~equals~~ <sup>is</sup> £8b for 1984-85. But a rather lower PSBR would be prudent - explain why. State revised 1984-85 figure, ie  $2\frac{1}{2}$  per cent of GDP ~~equals~~ <sup>is</sup> £7.5bn.
- (c) At time of Autumn Statement, pointed out that there might have to be an increase in taxation to hit £8 billion. Glad to be able to report that position has improved, due to impact of recovery on tax revenues. As a result, although no net reduction in tax for 1984-85, neither will there need to be any overall increase to bring PSBR down to £7.5 billion.





(d) Moreover, 1985-86 prospect very much better. Hence measures to be announced today, although neutral so far as '84-85 is concerned, will reduce the tax take in 1985-86 by over £1.5 billion. The 2 years need to be seen together.

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

J O KERR



# BUDGET-SECRET

[re-write needed.]  
(as some shrink)

## BLOCK G: PUBLIC SECTOR BORROWING AND INTEREST RATES

I come now, as I said I would, to public sector borrowing.

2. The level of the PSBR must continue to fall if we are to bring down inflation without the need for unacceptably high interest rates. We have reduced the size of the PSBR since coming into office in 1979 from an average of over 5 per cent of GDP in the first two years to under 3½ per cent in the last three. And we have achieved this at a time of recession with heavy pressure on the public finances.

Correct - but not generally understood. Most people think infl. + int. rates go together. I see no value in self-censoring in on this one!

3. In this respect Britain now compares well with most other countries. Others have been less successful in tackling public borrowing. And not because they did not want to. For there is now widespread agreement among industrial countries of the need to bring public deficits under control. As it is the UK now enjoys one of the lowest levels of public borrowing among industrial countries.

4. The downward trend in borrowing has not been smooth in past years, and the problems of forecasting in this area are considerable. In July I was obliged to take action because public spending was running ahead of plans. Despite that, the forecast for borrowing in 1983-84 I gave in the autumn was £10 billion. This remains our best estimate of the likely outturn, though I must remind the House of the large margin of error on PSBR estimates even at this late stage in the year.

State:  
(Tuch) 8.2 / 8.0 (+½)  
(FSBR '83)  
July measures  
Nov 10 / 8 (-½)  
(Conv. around)  
Nov 10 / ----



# BUDGET-SECRET

5. But I must now consider the appropriate level for 1984-85. And here there are a number of considerations bearing on the acceptable level of borrowing next year and beyond. I will mention three in particular.

6. First, interest rates. Interest rates remain high, both in nominal and in real terms, though they are now lower than they have been for [ ] years. Dollar interest rates of course have a major impact on our own. But the influence they exert make it more, not less, important that pressures arising from domestic sources are kept to a minimum. This alone would justify keeping the PSBR on a declining trend.

7. Secondly, asset sales. Figures for these were published in the Public Expenditure White Paper. The Government will continue to return assets to the private sector where this is likely to lead to increased efficiency. Public sector assets will be managed sensibly. The Government are not an investment trust, and we shall dispose of minority holdings from time to time as appropriate. [Will need to be expanded and perhaps moved elsewhere in the light of Chancellor's correspondence with Mr Walker.]

8. Asset sales reduce the PSBR, but they do not help interest rates as much as other cuts in public spending. Their main impact is on the structure rather than the level of interest rates. Next year the Government are planning for a higher level of asset sales than in 1983-84, and the PSBR for next year must naturally take that into account. That fact will come as a

*Complex  
Assume.*

# BUDGET-SECRET



# BUDGET-SECRET

surprise only to those who seem to believe this Government sees asset sales as a means of concealed reflation.

9. Thirdly, North Sea oil revenues. Next year may well be the peak year for revenues from North Sea oil and thereafter they may decline. The more these revenues can be applied to reducing the PSBR now, the lower will be the future burden of debt interest payments when oil revenues are in decline. We shall ease the future difficulties of adjusting again to lower revenues from the North Sea if we make prudent use of the revenue during the years of peak oil production.

10. Accordingly, the MTFs published today projects a gradual decline in public borrowing over a five year period, to  $1\frac{3}{4}$  per cent of GDP in 1988-89. The expenditure and revenue projections which support that also show that there can be room for cutting taxation over the life of this Parliament. But only if firm control is kept on public spending.

11. In the light of these factors, I believe it is right for 1984-85 to aim somewhat below the PSBR of  $2\frac{1}{4}$  per cent of GDP or £8 billion indicated by my predecessor at the time of the 1983 Budget, and included in last year's MTFs. I have accordingly decided to provide for a PSBR next year of  $2\frac{1}{4}$  per cent of GDP, or £7½ billion.

12. In November I told the House that I might have to increase taxes in the Budget by £½ billion to achieve a PSBR of £8 billion in 1984-85. On that basis I should have had to

BUDGET-SECRET



# BUDGET-SECRET

increase taxes by £1 billion to secure a PSBR of £7½ billion. Since the Autumn Statement, however, a number of developments have helped the fiscal prospect, both for 1984-85 and for the following year, 1985-86. These are mainly on the revenue side and include higher North Sea oil revenues following the strengthening of the dollar.

watch this space.

needs v. careful drafting, given that the -0.5 in the AG caused such a fuss. I'd go for a simpler formula - economic prospects + will then revenue prospects, be cushioned to improve.

13. This has eased my task today. Consistently with planning for a PSBR of £7½ billion next year, the measures I shall shortly announce will be broadly neutral in their effect on revenue in 1984-85. But the Budget will reduce taxes in 1985-86 by around £1½ billion, with even larger reductions in succeeding years.

[awkward change of gear here: perhaps the place for a rising percentage on 'tax borrowing' is the right route to tax reductions. Not vice versa (yet) - Govt committed to lower tax - And gov't determined on tax reform - ... ->]

G  
 MTFs: steady increase in PSBR  
 Autumn 85.  
 But the 3 yr plan  
 1983-84 Autumn: despite the increase.  
 Expend 1983-84 Autumn.  
 Must get back on track.  
 Last yr's MTFs means 2½% GDP: £85bn  
 I believe that a better than PSBR will be produced: 2½% GDP: £7½bn  
 Explain why.  
 At time of AS, pointed out that might have to me. taxes to hit £85bn  
 Give to say that part improved (impact of rising on tax revenue)  
 & that, although no net increase in tax for 1984-85, I will not need to the  
 factor which would be by being down to £7½bn.  
 Moreover, the program for 1985-86 in autumn budget. How do autumn I will  
 be running 6.4, although needed to for an 1984-85 in hand, will reduce  
 the tax base in 1985-86 by over £1½ billion. Indeed, the 2 yr has to be  
 seen to be done.

BUDGET-SECRET



CH/EX REF NO B(84)200

FROM: J O KERR

DATE: 20 February 1984

**Ps/FsT**cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monger  
Mr R I G Allen  
Mr Lord  
Mr Portillo

MR BATTISHILL

**BUDGET SPEECH: SECTION H**

The Chancellor assumes that there will be some re-writing this week of the "tax reform" section of the 17 February edition of the draft Budget speech. He suggests that the section should be shortened; that the main point to make is not that there are too many special reliefs and allowances but that rates (and thresholds) are too high (because of the reliefs and allowances), and must come down; that the argument about excessive complication (para 5) can be compressed into one simple point (- ie that a good tax system is a clear and simple one: Ours manifestly isn't or simple: We intend to make it clearer and simpler); and that the philosophical point (para 6) needs to be written up considerably.

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

J O KERR



BLOCK H: TAX REFORM

Right points: but IR language. Needs to be made very clear + snappy. ✓

(para 1-4 was pretty complete work)

This Government is pledged to reduce the burden of taxation to more acceptable levels. I would like to have reduced taxes this year. But if tax cuts must wait another year there are other changes which are too important to defer any longer. I refer to the important subject of tax reform and simplification, on which I have important proposals to announce later.

2. Of course since 1979 we have made considerable progress in re-shaping the tax system, by bringing down the absurdly high top rates of income tax, by providing a more acceptable level and structure for capital taxes, and in other ways. I believe it is now time to make a systematic attempt at a more rational tax structure. I see four major reasons for doing so.

Wrong start. Should start with rates too high, not reliefs too many.

3. First, the tax system has over the years accumulated an array of special reliefs and allowances which only serve to distort the actions of taxpayers, companies and individuals. They influence choices between types of investment, different channels of saving, and, for businesses, between the use of capital and labour. Many have been the subject of endless argument in Finance Bill debates in the House or upstairs in Committee. I propose to reduce and, where possible, abolish these differences of treatment where they have outlived their usefulness, and leave the taxpayer more free to make his own decisions. Over a period, a more neutral tax system must make for a better allocation of resources and help to improve economic performance.

most million rates down thresholds up.



# BUDGET-SECRET

4. Second, tax reform is the way to better incentives to work and invest. There is no point in tax reliefs which simply conceal the true burden of taxation and lead to wide variations between taxpayers, for no very good economic purpose. Far better to reduce or abolish them, and bring down the rates of tax for everyone.

5. Third, partly because of these reliefs, it is widely acknowledged that the tax system suffers from excessive complication. Greater simplicity is a most desirable objective in itself. A simpler tax system eases the task of the Revenue Departments and the compliance costs of taxpayers. It reduces the importance of tax shelters, and the endless pursuit of tax avoidance, which adds nothing to our economic wealth.

✓ only one point needed here - the system should be clear and simple. It manifestly isn't. I intend to make it clearer + simpler.

not a minimum

6. Fourth, I believe it is right to shift more of the burden from direct to indirect taxation, from what we earn to what we spend. Far better to let people choose for themselves how best to spend their own money. We made a start in this direction in the last Parliament: it is now time to carry it further.

Play up philosophy ✓

7. Everyone recognises these anomalies and distortions in our present tax system. Everyone agrees that too many people are putting too much effort into finding investments, not because they are profitable, but because they save tax. But Chancellors have hesitated to change a pattern of taxation, of high reliefs and high rates, that has become increasingly embedded in the whole commercial and financial system. I have come to the conclusion that we must now act. When

own good

# BUDGET-SECRET



Governments misdirect investment, they waste people's hard won savings and impoverish the whole community. And this is just as true, when the misdirection comes through the tax system as when it comes through a "prestige project" financed by the Government's own spending.

8. For all these reasons <sup>This is a tax reform</sup> ~~a major theme of this Budget will be reform and simplification of the tax system. I am anxious not to move too quickly. Whenever changes are made some people do better than others, and some may find themselves worse off than before. That is why the process of change has to be a gradual one, allowing businesses and individuals to adapt to shifts in the fiscal environment. However, I believe it is essential to make a start this year; and I also propose to indicate, as far as I can, the way ahead.~~

9. Today I shall propose changes in three important areas: first, the balance of taxation on income and spending; secondly, business taxation; and thirdly, savings and investment.



Ch/Ex Ref No

B(84)205



FROM: J O KERR  
 DATE: 20 February 1984

Mr Battishill

cc PS/Minister of State  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Monger  
 Mr Griffiths  
 Mr Lord  
 Mr Portillo

Mr Fraser: C & E  
 Mr Willmott: C & E  
 Mr Knox: C & E  
 Mr Freedman: C & E

## BUDGET SPEECH: SECTION I

...

I attach the Chancellor's revised version of the "Indirect Taxes" Section of the 17 February edition of the draft Budget Speech. He assumes that it <sup>will</sup> can be further improved in a number of respects: suggestions are included in square brackets. The paragraph which most concerns him is the wine/beer paragraph. He has also offered, for consideration, an alternative schema for the VAT-base-widening paragraphs.

2. As you know, the Chancellor has asked whether it is really necessary, as was suggested in the 17 February version, to have different operative dates for the three changes to the VAT-base, with Fleet Street being knocked on 1 April, fish and chips on 1 May, and the building trade on 1 June. He wonders whether it would not be feasible, given that it would certainly be desirable, to have a single implementation date.

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

J O KERR



SECRET

**BLOCK I: INDIRECT TAXES**

My right hon Friend began the process of switching more of the tax burden away from taxes on earnings and onto what people spend. This was generally welcomed, and it is important to maintain the momentum. Freedom to spend or save more of one's own money is what matters. So I have reviewed the field of consumer spending to see where it would be right to look for extra revenue to finance lower income tax.

2. I do not see the excise duties as an area for major change. It is now widely accepted that they should be adjusted in line with the movement in prices from one year to the next, and this is broadly the basis of my approach this year.

3. On tobacco, I propose an increase which, including VAT, will put 4p on the price of a packet of 20 cigarettes, with corresponding increases on hand-rolling tobacco and cigars. However, I do not propose to raise the duty on pipe tobacco. These changes will take effect from midnight on Thursday.

4. Next, the oil duties. I am conscious of the concern felt by many of my hon and rt hon Friends about the effects of increases in petrol and derv duties on businesses and on rural motorists. Equally, however, I cannot afford to allow the real value of these duties to fall significantly. I propose therefore to increase the duty on petrol in line with prices by about 4½p a gallon, including VAT. For derv I propose a smaller increase of



about 3½p a gallon, including VAT. These changes will take effect for oil delivered from refineries and warehouses from 6pm tonight.

5. In the last three years the duty on heavy fuel oil has not been increased, and I propose no change again this year. The real burden of this duty will have been reduced by [ ] per cent since 1980. This will be of continuing assistance to industry, by helping to hold down energy costs.

6. To help those - particularly pensioners - who use paraffin to heat their homes, I am abolishing the duty on kerosene. [Play up]

7. I also propose some changes in the rates of vehicle excise duty. In general, these will go up roughly in line with prices. Thus for cars and light vans the duty will be increased by £5 from £85 to £90. However, there will be duty reductions for the lightest lorries offset by higher increases for some heavier lorries, to recognise their differing effects on road costs. These changes will take effect from tomorrow. [Finally, ~~on~~ <sup>from</sup> vehicle excise duty, I propose to extend exemption ↓ to all recipients of War Pensioners' Mobility Supplement.]

8. [In reviewing the duties on alcoholic drinks I am obliged to take into account the judgement of the European Court on the relative taxation of wine and beer. The House will be aware of the history of this particular vexed issue. But it is in the longer term interests of this country and of our export industries that the laws in this area should be observed, and I



intend therefore to comply in full with the Court's judgement. But I do not intend that our important domestic brewing and spirits industries should suffer as a consequence.]

[Rewrite required, including some exposition]

9. I propose to increase the duty on a typical pint of beer by about 2p (including VAT) and to reduce the duty on a bottle of table wine by the equivalent of about 18p, including VAT.

10. Cider, which increasingly competes with beer but pays a lower duty, will go up by 3p a pint. I propose to increase the duty on whisky, fortified wine and sparkling wine by about 10p a bottle, including VAT. [The duties on made wine will be aligned with those on other wine.] [Omit, if possible.]

11. I am determined that our spirits industry should not continue to suffer discrimination in Italy against imports of Scotch whisky. I therefore propose to introduce a temporary duty surcharge on vermouth, the operation of which will depend on the treatment afforded to our exports of spirits. This will further increase the price of a bottle by some 43p, including VAT. [Some exposition required.]

12. All the changes in the duties on alcoholic drinks will take effect from midnight tonight.

13. Next, value added tax. When we were returned to power in 1979, my predecessor saw VAT as the key to a long overdue shift in the balance of taxation. I intend to continue this



# BUDGET - SECRET

approach. But I do not propose to increase the rate of VAT. Instead, I propose to extend the coverage of the tax.

14. At present, little more than half of all consumer spending is subject to VAT. The remainder is either zero-rated or exempt. In extending the standard rate of VAT to items which have previously been zero-rated, I have been concerned to identify those which currently enjoy an anomalous position and which do not impinge heavily on family budgets.

15. So I am proposing to tax, at the standard rate of 15 per cent, newspaper advertisements and news services, newspapers and magazines (but not books), hot take-away food, and alterations to buildings.

16. Taxation of news advertisements, news services and all printed matter except books will take effect from 1 April. The tax treatment of these items will thus come into line with that of the other information media, radio and television.

17. Taxing hot take-away food will align the VAT treatment of prepared food sold in this way with that of catering services generally, which have always been subject to VAT at the standard rate. This change will take effect from 1 May.

18. Taxing building alterations will remove the present complicated and nonsensical borderline between zero-rated alterations and taxable repair and maintenance. In order to allow time for existing commitments to be completed or



# BUDGET - SECRET

adjusted, without also unacceptably eroding the revenue, I propose to apply the change from 1 June.

19. Extending the coverage of VAT in this way should yield just over £600m in 1984-85 and nearly £1 billion in a full year.

20. There is a fourth area which ought to be brought into VAT: financial transactions ([ref IFS]). But this is prevented by Article 6. Instead, therefore, I intend to introduce a duty of excise on the granting of consumer credit -HP agreements and personal loans. The duty will not apply to mortgages or other loans for house purchase or improvement which are eligible for income tax relief. Under these proposals duty will be payable by lenders at the rate of [1] per cent per annum on the amount of outstanding credit. To allow time for preparation and introduction the duty will take effect from 1 July 1985. The tax should eventually yield about [£200] million a year.

21. The net effect of all the changes in indirect taxation will be to raise additional revenue over and above indexation of some [ ] million in 1984-85 and [ ] million in 1985-86. The total increase in revenue will be [ ] in 1984-85 and [ ] in 1985-86. The immediate effect will be to add about [ ] per cent to the overall level of prices, which has already been taken into account in the forecast of inflation which I gave the House earlier.

22. The revenue thus raised will enable me to lighten the burden of taxation on incomes. But I turn first to company taxation.



[Alternative scheme for paras 14-18

14. So I am proposing to tax at the SR of 15 per cent, 3 categories hitherto zero-rated.

15. First, alterations to buildings. At present essential repair and maintenance subject to VAT, alterations zero. No sense, and unenforceable boundaries etc.

16. Second, newspaper ads, news services, newspapers, magazines and books: with the exemption of books, which will remain zero rated, everything in the category liable at 15 per cent. Brings newspapers into line with radio and TV, already subject to VAT at SR.

17. Finally food. In general, this is zero-rated, <sup>But</sup> ~~inc.~~ some examples: <sup>Examples:</sup> ice cream, ~~crisp~~ etc etc and food eaten at restaurants etc. I propose to add to the line of food liable to VAT hot take-away food.]



BLOCK I: INDIRECT TAXES

My right hon Friend began the process of switching more of the tax burden away from taxes on earnings and onto what people spend. This was generally welcomed, and it is important to maintain the momentum. Freedom to spend or save more of one's own money is what matters. So I have reviewed the field of consumer spending to see where it would be right to look for extra revenue to finance lower income tax.

2. I do not see the excise duties as an area for major change. It is now widely accepted that they should be adjusted in line with the movement in prices from one year to the next, and this is broadly the basis of my approach this year. ~~Otherwise the revenue is simply eroded by inflation and eventually has to be corrected by large duty increases.~~

3. On tobacco I propose <sup>an</sup> ~~to~~ <sup>increase</sup> ~~the duty by a little more than the rate of inflation.~~ <sup>which</sup> Including VAT, ~~this~~ will put 4p on the price of a packet of 20 cigarettes, with corresponding increases on hand-rolling tobacco and cigars. However, I do not propose to raise the duty on pipe tobacco. These changes will take effect from midnight on Thursday.

4. Next, the oil duties. I am conscious of the concern felt by many of my hon and rt hon Friends about the effects of increases in petrol and derv duties on businesses and on rural motorists. Equally, however, <sup>I could afford</sup> ~~it would be wrong~~ to allow the

? records to start with VAT, getting the bad news out quick and following it with the more digestible excise duties, beginning with petrol and, in order to get the kerrosme lollipop out soon after the hot take-aways.

wrong order. start with the trader for lower income tax

own goal.



real value of these duties to fall significantly. I propose therefore to increase the duty on petrol in line with prices by about 4½p a gallon, including VAT. For derv I propose a smaller increase of about 3½p a gallon, including VAT. As almost all derv is used by businesses this will help to hold down business costs.

To help those - particularly pensioners - who use paraffin to heat their homes, I am abolishing the duty on kerosene. These changes will take effect for oil delivered from refineries and warehouses from 6pm tonight.

5. In the last three years the duty on heavy fuel oil has not been increased, and I propose no change again this year. The real burden of this duty will have been reduced by [ ] per cent since 1980. This will be of ~~considerable~~ continuing assistance to industry, by helping to hold down energy costs.

~~6. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5 from £85 to £90. On goods vehicles I propose to increase the rates of duty for most vehicles broadly to maintain their real value. However, there will be duty reductions for the lightest lorries offset by higher increases for some heavier lorries, to recognise their differing effects on road costs. [And the current concessionary rate of VED for small horsepower pre-1947 cars will be extended to all pre-1947 cars.] These changes will take effect from tomorrow. [Finally, on vehicle excise duty, I propose to extend exemption to all recipients of War Pensioners' Mobility Supplement, including disabled ex-servicemen injured in service in peacetime prior to 1939, with effect from 21 November 1983.]~~

✓  
Play up.  
Separate para.  
Lump in the front  
tears in the eye  
only papers  
concluding will  
emphasise.

do skip it.

that'll get a laugh!  
They're all over 65!



8. [In reviewing the duties on alcoholic drinks I have taken into account the judgement of the European Court on the relative taxation of wine and beer. The House will be aware of the history of this particular vexed issue. But it is in the longer term interests of this country and of our export industries that the laws in this area should be observed, and I intend therefore to comply in full with the Court's judgement. But I do not intend that our important domestic brewing and spirits industries should suffer as a consequence.]

*This makes no sense as if I have a choice I will win!*

*I fear we will avoid some exposition.*

*[rewrite required, including some exposition]*

*TLS*

9. I propose to reduce the duty on a bottle of table wine by the equivalent of about 18p, including VAT, and to increase the duty on a typical pint of beer by about 2p (including VAT).

*TLS*

10. I propose to increase the duty on whisky, fortified wine and sparkling wine by about 10p a bottle, including VAT. Cider, which increasingly competes with beer but pays a lower duty, will go up by 3p a pint. The duties on made wine will be aligned with those on other wine. [omit, if possible.]

*Can this be omitted?*

10. I am determined that our spirits industry should not continue to suffer discrimination in Italy against imports of Scotch whisky. I therefore propose to introduce a temporary duty surcharge of £50 per hectolitre on vermouth, the operation of which will depend on the treatment afforded to our exports of spirits. This will further increase the price of a bottle by some 43p, including VAT. [Some exposition required]

*"What the heck..."*  
*bring exposition required again, I fear*

11. All the changes in the duties on alcoholic drinks will take effect from midnight tonight.



# BUDGET-SECRET

13. Next, value added tax. When we were returned to power in 1979, my predecessor saw VAT as the key to a long overdue shift in the balance of taxation. I intend to continue this approach. But ~~as I have said before - it is essential to broaden the tax base rather than raise already high tax rates. So the rate of VAT will remain unchanged.~~ <sup>1 do not propose to increase the rate of VAT.</sup> Instead, I propose to extend the ~~VAT~~ <sup>gmu tax.</sup> coverage.

14. ~~There is much to be said for reducing the number of reliefs and for moving towards the sort of broad coverage for which the tax is suited.~~ <sup>into one rate</sup> At present, ~~only about half~~ of all consumer spending is subject to VAT. The remainder is either zero-rated or exempt. In extending the standard rate of VAT to items which have previously been zero-rated, I have been concerned to identify those which currently enjoy an anomalous position and which do not impinge heavily on family budgets.

15. So I am proposing to tax, at the standard rate of 15 per cent, ~~news advertisements and news services, newspapers and magazines (but not books), hot take-away food, and alterations to buildings.~~ <sup>newspaper</sup> ~~news advertisements and news services, newspapers and magazines (but not books), hot take-away food, and alterations to buildings.~~ <sup>the last of these changes will...</sup>

16. Taxation of news advertisements, news services and all printed matter except books will take effect from 1 April. I realise that this will bring into the tax expenditure on such things as newspapers which has traditionally been spared from taxation. But long gone are the days when the printed word was uniquely the way of spreading news and I no longer feel able to justify special treatment for any printed matter other than

BUDGET-SECRET

why 3 different dates?  
C&G main  
ensure that:  
not broken.

✓ good para...



# BUDGET-SECRET

~~books~~. The tax treatment of these items will thus come into line with that of the other information media, radio and television.

17. Taxing hot take-away food will align the VAT treatment of prepared food sold in this way with that of catering services generally, which have always been subject to VAT at the standard rate. This change will take effect from 1 May.

18. Taxing building alterations will remove the present complicated and nonsensical borderline between zero-rated alterations and taxable repair and maintenance. In order to allow time for existing commitments to be completed or adjusted, without also unacceptably eroding the revenue, I propose to apply the change from 1 June.

18. Extending the coverage of VAT in this way should yield just over £600m in 1984-85 and nearly £1 billion in a full year.

19. Any review of the tax base focuses attention on the financial sector. My predecessor referred to this more than once, and it has been an objective of successive Governments to raise more revenue in this field. I propose to do so. I intend to introduce a duty of excise on the granting of consumer credit - HP agreements and personal loans. The duty will not apply to mortgages or other loans for house purchase or improvement which are eligible for income tax relief. Under these proposals duty will be payable by lenders at the rate of [1] per cent per annum on the amount of outstanding credit. To allow time for

hardly a rationale

20. There is a fourth area which is a 4% VAT: financial transactions [see IFS]. This is presented by Article 6. (asked, therefore)









FROM: J O KERR  
DATE: 20 February 1984

Ch/Ex Ref No ... *B(84) 201.*

Mr Battishill

cc PS/Financial Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Monger  
Mr Lord  
Mr Robson  
Mr R I G Allen  
Mr Portillo

*Sir A. King } IR  
Mr Green }*

*Mr Beighton } IR  
Mr Punter }*

BUDGET SPEECH: SECTION J

The Chancellor believes that the balance of the business taxation Section of the 17 February edition of the draft Budget Speech needs to be considerably changed. His prime concern is that only two out of seven pages are devoted to what is, and will be seen as, a major and radical restructuring and reform of business taxation. He is sure that the CT/capital allowances/stock relief proposals must be presented very high profile. He is also clear that it would be tactically wise to announce the reductions in the CT rates before moving on to the allowances and stock relief: the present draft adopts the opposite order. He will also wish to deal straight away with the argument that the reform will reduce investment, and to explain why he believes that it will have the opposite effect. As to the rates to be specified, he suggests that the 1986-87 and 1987-88 numbers for para 8 should be 40 per cent and 35 per cent, and that para 9 should be redrafted to read:-

"Ideally the Corporation Tax rate should be the same as the basic rate of income tax. This gives us a target at which to aim: achievement will depend on success in holding down public spending. But for the great majority of companies, who pay tax at the small companies rate, there need be no delay. I intend to reduce their rate from 38 per cent to 30 per cent forthwith."

2. On the minor items in the Section:-





a. the Chancellor has commented that the VAT threshold should be mentioned;

b. on the other hand, he does not wish groups/ consortia and mining/minerals - present para 10 - to clog up the Budget Speech at all: they can be dealt with in a press release;

c. the BES paragraph (para 11) should he thinks be rather tauter, and might read as follows:-

"I come now to the BES, introduced in 1981 by my RH and LF as the business start-up scheme, and greatly expanded last year. This imaginative scheme puts us well ahead of the world in incentives for investment in new and expanding companies. It is proving a considerable success; and I have only one change to propose. The very generous incentives are intended to encourage investment in projects which are of there very nature more than usually risky. But there is evidence that they are in some cases being exploited by those who ought to know better. This cannot be permitted. Farming will from today no longer be treated as a qualifying trade under the scheme. And any more evidence of abuse would require a further tightening of the scheme."

d. The CTT and CGT paragraphs could both, he believes, be truncated, the former losing its present last sentence, the latter its last two.

e. On DLT, he suggests the following simplified language:-

"We have done much to improve the DLT. Early in the last Parliament, we increased the





threshold by [ ] to £50,000. I now propose a further increase to £75,000, which will reduce the numbers affected by the tax by more than one-third."

f. the four North Sea paragraphs - present 16/19 - can he believes be reduced to one very short one (unless a decision to change PRT has by then been taken);

g. the PAS paragraph (20) is not, he thinks, at all satisfactory, and needs much more thought.

A handwritten signature in cursive script, appearing to read "J. O. Kerr".

J O KERR



*Business*

BLOCK J: TAXATION OF PROFITS AND CAPITAL

✓ Re-ordering required  
- ? add some shortening  
But add dynamic effects  
of CT package

[Next, company taxation.] Our system of company tax is littered with special reliefs and allowances. Some of them reflect concessions introduced to meet short-term pressures. Or high inflation. Others reflect economic priorities or circumstances which, if they were once relevant, are so no longer. As a result, tax rates are too high, investment decisions, and the choice of finance, may be distorted and the relative cost of employing people or installing machinery is influenced too much by considerations of tax.

2. We need both to lower the burden of taxation on businesses generally and reduce these distortions so far as possible. With inflation down to 5 per cent and set to go lower, this is the time to act.

3. First, stock relief. This was introduced by the right hon Gentleman for Leeds East in a desperate attempt to repair the damage he had wrought in his first Budget and to help businesses cope with high inflation. It has since been patched, but is increasingly unnecessary as business profits recover and inflation falls. I propose that it should now go altogether for accounting periods beginning on or after Budget day.

4. Second, capital allowances. They now do much more than allow for depreciation and I intend to eliminate the excess so far as practicable. It would be unreasonable to make a change

*That is a well realized instruction & reform: it must be introduced as such.*

*[It is also that Corp tax reform has been passed, & known as such]*

*WRE high inflation decisively defeated, its day is passed.*

✓ Surely CT rules first, then allowances, stock relief.

*I suspect I'd do rather more than that!*



# BUDGET-SECRET

of this magnitude overnight, so I propose to do so in three stages. In the case of plant and machinery, and the assets where the allowances are linked with them, the first year allowance will be reduced from 100 per cent to 75 per cent for expenditure incurred after today and to 50 per cent for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances at all and all the expenditure will qualify for annual allowances on a 25 per cent reducing balance basis.

5. Similarly, I propose that the initial allowance for industrial buildings will fall from 75 per cent to 50 per cent from tonight, and be reduced to 25 per cent from 31 March 1985. After 31 March 1986 the initial allowance will be abolished, and expenditure will be written off on an annual 4 per cent straight line basis.

6. Over the same period the other capital allowances will be brought into line with these changes. The Inland Revenue will be issuing a press notice tonight giving further details of the proposals on capital allowances and stock relief.

7. By reducing the scale of present distortions, these changes will produce a company tax structure better suited to improving our economic performance. They also enable me to reduce the rates of corporation tax. Indeed I intend to cut the rates by rather more than the additional revenue which the stock relief and capital allowance changes might permit. As an earnest of these intentions I intend to fix the rates of

↑ to para 2.

BUDGET-SECRET



# BUDGET-SECRET

corporation tax not only for profits earned in the year just past as is usual, but also for rather further ahead as well.

8. The 52 per cent rate has stood unchanged since the present system was introduced over 10 years ago. I propose that it should now be cut to 50 per cent for 1984-85; by a further 5 points to 45 per cent for 1985-86; and [at least] by a further 5 points to 40 per cent for 1986-87. And for 1987-88 I propose that it should be cut by a further 5 points to 35 per cent.

~~9. But even that is not as much as I should like. The aim must be a corporation tax rate no higher than the basic rate of income tax. Alas I cannot afford to promise that today for our larger companies. (But for the great majority of companies, who pay tax at the small companies rate, there need be no delay. I intend to reduce their rate to 30 per cent forthwith. [Marginal provisions.]~~

*100% (2000, 10)*  
*should be the same as*  
*The given us a target to aim at: reduce with*  
*done on pub cap etc.*  
*for 382*

10. I shall have other things to say of interest to smaller companies. But first I must deal with two areas of company tax which my RHF the Foreign Secretary announced in his Budget speech last year as in need of review. I refer to the treatment of groups and consortia and the allowances for mining and mineral exploitation. Both will need to be reconsidered in the light of the changes just announced. So I am not proposing any major alterations in them this year. However, I have decided to change the definition for consortium relief so as to increase the permitted number of members, and allow consortia which

BUDGET-SECRET

*Summary  
this  
member's  
to a  
Budget  
re  
John*



include some foreign members. This is a useful change which recognises the increasing need for companies to tackle large projects as a team rather than individually.]

11. I come now to the Business Expansion Scheme introduced in 1981 *by my Rt Hon & LF in the Finance Statement Scheme, at quite a rapid pace.*  
~~last year by my Rt Hon and Learned Friend.~~ This imaginative innovation put us well ahead of the world in the incentives for investment in new and expanding companies. ~~On the evidence so far it is proving a great success, and I do not propose to make changes in it, despite the many suggestions I have been received.~~ *On the evidence so far it is proving a great success, and I have only one change to propose.* But I must stress that the very generous incentives are there to encourage investment in projects which are of their very nature more than usually risky. Accordingly I am withdrawing farming as a qualifying trade under the Scheme from today. *? variety*

*But I am explicit in those who are to have better for (see 2.10)*

12. [Next, the Loan Guarantee Scheme. This has proved its worth in supporting small firms to start up and expand and it will be extended until [ ]. [The Secretary of State for Trade will make a statement on the operation of the scheme [ ]]

13. Unnecessarily high rates of tax discourage enterprise and risk taking. This is true of the capital taxes, just as it is of the corporation and income taxes. It is a matter of particular concern to those involved in running unquoted companies. The highest rates of capital transfer tax are way out of line with comparable rates abroad, and with the top rates of other taxes in this country. I propose therefore to reduce the top rate of capital transfer tax from 75 per cent to 60 per cent. For lifetime gifts I further propose to make the rate one-half of that on death over the whole scale. [Together these changes will encourage those business interests to look more confidently



# BUDGET - SECRET

el ?

ahead and to hand on the reins when it makes commercial sense to do so. ]

14. For capital gains, I will as promised bring forward in the Finance Bill proposals to double the limit for retirement relief for capital gains tax to a figure of £100,000 backdated to April 1983. [ I think it is right also to raise the threshold for the tax, so that it bears only on gains sufficiently large to justify what can often be a very complex calculation. The new threshold will be £ . The increase will cost £m in a full year, and will remove taxpayers from the charge. ]

15. We have done much to improve the development land tax. ~~[ ] years ago~~ <sup>5 years in the Land Powers</sup> we increase the threshold by [ ] to £50,000. ~~The most effective~~ <sup>I now propose a further</sup> further step in simplifying it is to confine the tax to the larger cases. ~~Increasing~~ <sup>the tax by</sup> the threshold to £75,000, <sup>which</sup> will reduce the numbers affected by more than one-third. ~~That is what I propose.~~ [ I hope that this increase will encourage the bringing forward of land for development - to the benefit of the construction industry. ]

Yes, we are clear?

Only out pass - NS, unless we think to change PAS etc.

in the case of the...  
just...  
for...  
etc.

[ 16. I turn now to the North Sea. Tax changes made last year, in particular the improved incentives for future fields, were very well received. We have seen encouraging progress since then both in the number of projects firmly approved for development, and in the number being actively reviewed by the industry. I see no need to make any further major change in the regime at this stage.

N Sea too long



17. The impact on the North Sea of the wider corporate tax changes to which I have just referred should be generally favourable. They should leave the profitability of future fields broadly unchanged, while at the same time improving to some extent the cash flow for existing fields.

18. My rt hon Friend undertook last year to consider whether the special fiscal concessions for development outside the Southern Basin should be extended to Southern Basin fields. After a full study of Southern Basin gas projects, to which the industry itself made an important contribution, my conclusion is that developments in the Southern Basin are already sufficiently profitable and that additional incentives are not required.

19. One feature of the last year has been an increased level of farmouts - by existing North Sea operators. Farmouts often have good commercial motives and can promote North Sea development. But there is a limit to the extent to which they should be carried through at the expense of the Exchequer. Last September I announced my intention to legislate this year to prevent various PRT reliefs for past expenditure being set off against later acquisitions of interests in mature fields. Since then I have further reviewed the implications of farmouts for corporation tax. I am proposing as a result certain measures to limit the potential corporation tax costs to the Exchequer of future farmouts. Details of these, and of certain other technical changes proposed in the fiscal regime, are given in a Revenue Press Release issued today.]



# BUDGET-SECRET

20. I am also making changes in the system by which VAT is charged on the importation of goods into the United Kingdom. At present most importers do not effectively pay VAT on imports. I had hoped to persuade our European partners to adopt our system, which is simple and cost-effective, and facilitates trade between EEC states. But we have so far failed to do so. As there is an incentive under the present arrangements to import goods rather than purchase them on the home market, we cannot continue to plough a lonely furrow in the interests of European harmonisation. [However, I might be persuaded to reconsider my decision if other EEC countries reconsidered theirs.]

*Murchison  
John  
Dunbar  
1984*

21. Under the new arrangements importers will be required to pay VAT due at importation in the same way as customs duties, as they do elsewhere in Europe. This change in procedure will be introduced from 1 October and will give a once-for-all increase in the revenue yield in 1984-85 from VAT of the order of £1.2 billion.

# BUDGET-SECRET





FROM: J O KERR  
 DATE: 20 February 1984

Ch/Ex Ref No *B.(84)202*

Mr Battishill

cc PS/Financial Secretary  
 PS/Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Lankester  
 Mr Monger  
 Mr Ridley  
 Mr R I G Allen  
 Mr Lord  
 Mr Portillo

Sir L Airey: IR  
 Mr Green: IR  
 Mr Isaac: IR  
 Mr Painter: IR

BUDGET SPEECH: SECTION K

The Chancellor has worked over the weekend on the "savings and investment" Section of the 17 February edition of the draft ... Budget Speech. I attach a re-type, including his changes.

2. I add, by way of explanation, that:-

a. the omission of the reference to building societies gilts is quite deliberate: he sees no reason to mention in the Budget Speech a measure not to be covered in the Finance Bill;

b. the marker in para 11 is intended to signal the need for a substantive passage - perhaps even two paragraphs - on what's going on in the Stock Exchange, why its good news, and why this Budget will help;

c. share options have dropped out, because the Chancellor considers that they should go either with business tax, or with personal tax. His own preference would be to put them in Section J - ie with business tax - alongside foreign earnings and emoluments, which he thinks should be transferred from Section L. And he would considerably





boil down paras K 16/18, omitting all but the first sentence of 16, all of 17, and the first sentence of 18.

*JOK*

J O KERR



**BLOCK K: SAVINGS AND INVESTMENT**

1. Next, savings and investment, the third area of the tax system where some reform is long overdue.
  
2. Some moments ago I described how the growth of special allowances and reliefs has distorted the corporation tax, and the pattern of investment decisions by companies; and I announced proposals to remove those distortions. Many Chancellors before me have referred to similar distortions in the pattern of tax and savings, particularly in the way they encourage savings through the institutions, and I have proposals to make here too. Together they should help to improve both the direction and the quality of savings and investment. [Property - owning/share-owning/[Council-house-owning] democracy].
  
3. First I propose to draw more closely together the tax treatment of banks and building societies and of investors in them, which reflects the reality ... [some justification required: not just tidiness.]
  
4. ~~But~~ I have been concerned to achieve greater parity between banks and building societies in the tax treatment of interest paid on personal deposits. I believe they should be able to compete on equal terms.



5. The arrangements whereby the building societies account for income tax at a composite rate on the interest they pay their depositors have been criticised in the past as giving an unfair advantage to the societies. I propose to introduce, therefore, with effect from 1985-86 a similar composite rate scheme to apply to interest received by UK resident individuals from banks or other licensed deposit takers. The composite rate will not apply to non-residents or to the corporate sector. They will continue to receive interest gross as at present.

6. The new arrangement should provide a welcome simplification of the tax treatment of interest for individual bank customers generally. It will also enable tax due to be collected much more economically by the Inland Revenue, *and so* providing<sup>e</sup> significant staff savings [indicate order of magnitude] and avoiding~~ing~~ the prospect of substantial extra staff needs as interest starts to become payable on a wider variety of current accounts.

7. I also intend to remove the special 40 per cent rate of corporation tax from building societies. This change will take effect from 1985-86 when, as I have already proposed, the main rate will come down to 45 per cent.

8. This change will also apply to other bodies such as industrial and provident societies, now covered by the special rate; but the very large majority of them will not be directly affected since they pay tax at the small companies rate and will benefit from the reduction in that to 30 per cent.



BUDGET-SECRET

9. Next life assurance. There is no longer any justification for Life Assurance Premium Relief, the main effect of which is to encourage institutional rather than direct investment. So I propose to withdraw the relief on new policies with effect from today. I stress that this change will apply to new policies only, taken out after today. Existing policy holders will not be affected. The change will yield £90 million in the first year.

10. I come now to stamp duty, which was doubled from its long standing 1 per cent by the post-war Labour Government in 1947, reduced by the Conservative Government in 1963 and again doubled to 2 per cent in the first Budget presented by the rt hon Gentleman the Member for Leeds East in 1974. At its present level it is a clog on mobility and change.

11. I propose to halve the rate to bring it back to 1 per cent. The reduction in the rate of duty on share transfers will remove an important disincentive to direct savings in equities and maintain the competitiveness of the UK stock market.  
[Important changes in securities market. Government's role]

12. To help ease the burden of stamp duty on house buyers, the new 1 per cent rate will apply to land and buildings also. I am sure this will be welcomed by the construction industry. I propose also to raise to £30,000 the threshold below which no duty is paid on house sales; 90 per cent <sup>of</sup> first time buyers will as a result no longer be liable for stamp duty.

13. The reductions in stamp duty take effect on [26 March] and will cost £[435] million in 1984-85.]

BUDGET-SECRET



14. Lastly in this group of measures, I come to the investment income surcharge. A higher charge in one form or another on investment income has been a feature of our tax system for a very long time. But, whatever its historical justification, the present level of surcharge has come increasingly to be regarded as an unfair and anomalous tax on savings and on the rewards of successful enterprise. It hits particularly harshly at elderly people. More than half those who pay the surcharge are 65 or over, and of these more than half would otherwise be liable at only the basic rate of tax.

15. I have accordingly considered whether and how to reduce the level of Investment Income Surcharge. There are obvious difficulties, for the full year yield is some £320 million. Nevertheless I have been concerned that the current anomalous position should if possible ~~be~~ corrected.

16. And I have concluded that the simplest solution is outright abolition forthwith. The cost will be some £20 million in 1984-85. There will be staff savings rising to over 200.

17. Taken together, these proposals will go some way towards providing a simpler and straightforward tax system for savings and investment, ~~making the system~~ at once clearer and more honest, and removing biases which have discouraged the individual saver from investing directly in industry. [Expand: recap on philosophy]



BLOCK K: SAVINGS AND INVESTMENT

1. Next, <sup>Savings & investment,</sup> ~~the financial sector, which brings me to~~ the third area of the tax system where some reform is long overdue.

2. Some moments ago I described how the growth of special allowances and reliefs has distorted the corporation tax, and the pattern of investment decisions by companies; and I announced proposals to remove those distortions. Many Chancellors before me have referred to similar distortions in the pattern of tax and savings, particularly in the way they encourage savings through the institutions, and I have proposals to make here too. Together they should help to improve both the direction and the quality of savings and investment. <sup>[Property - ownership / share-owning / [Council-house-owning] democracy]</sup>

Can we  
bring in  
Council house  
Savings

philosophy  
Propert  
(+ share own)  
democracy  
[Str Good in @  
manion Home]

3. First I propose to draw more closely together the tax treatment of banks and building societies and of investors in them, <sup>which reflects the reality</sup> ~~...~~ <sup>[Some institutions w/lt: not just banks]</sup>

→ 4-6 for next page.

? best to start  
6-7-8 ? ✓

~~4. [As hon Members may know, the Inland Revenue are now taking the view that profits made by building societies on the realisation of gilt-edged securities should, as is the case with banks, be charged to tax at the full corporation tax rates and not to capital gains tax. Moreover] I intend to remove the special 40 per cent rate of corporation tax from building societies. This change will take effect from 1985-86 when, as I have already proposed, the main rate will come down to 45 per cent.~~

Could we omit?  
I will bring  
hope to: w/lt  
~ no PB

Boo

to 45  
8



# BUDGET-SECRET

8. This change will also apply to other bodies such as industrial and provident societies, now covered by the special rate; but the very large majority of them will not be directly affected since they pay tax at the small companies rate and will benefit from the reduction in that to 30 per cent.

to previous  
page -

<sup>First</sup>  
4 I have ~~also~~ been concerned to achieve greater parity between banks and building societies in the tax treatment of interest paid on personal deposits. I believe they should be able to compete on equal terms.

5. The arrangements whereby the building societies account for income tax at a composite rate on the interest they pay their depositors have been criticised in the past as giving an unfair advantage to the societies. I propose to introduce, therefore, with effect from 1985-86 a <sup>similar</sup> composite rate scheme to apply to interest received by UK resident individuals from banks or other licensed deposit takers. The composite rate will not apply to non-residents or to the corporate sector. They will continue to receive interest gross as at present.

6 The new arrangement should provide a welcome simplification of the tax treatment of interest for individual bank customers generally. It will also enable tax due to be collected much more economically by the Inland Revenue, providing significant staff savings <sup>[indicate order of magnitude]</sup> and avoiding the prospect of substantial extra staff needs as interest starts to become payable on a wider variety of ~~accounts, including some~~ current accounts.

Advise  
bank of  
existing  
savings

and  
encouraging  
more welcome  
move towards  
int. bearing  
cust. accounts.

Ann



pass all

? best to start  
this bit with  
13/14/15.

10. I come now to a tax which, it is well known, was originally introduced as a temporary measure to finance a war with the French. I now propose to halve the rate of this tax. The House will remember that stamp duty, which was doubled from its long standing 1 per cent by the post-war Labour Government in 1947, reduced in 1963 and again doubled by the first Budget as presented by the rt hon Gentleman the Member for Leeds East in 1974. At its present level it is a clog on mobility and change.

which  
by the Conservative Gov  
to 22%

as presented by

11. I propose to bring the rate back to 1 per cent. The reduction in the rate of duty on share transfers will remove an important disincentive to direct savings in equities and maintain the competitiveness of the UK stock market. [Important changes in securities market - Government's role]

halve + bring it

back up considerably

(a long time in writing)

12. To help ease the burden of stamp duty on house buyers, the new 1 per cent rate will apply to land and buildings also. I am sure this will be welcomed by the construction industry. [I propose also to raise to £30,000 the threshold below which no duty is paid on house sales; and to abolish the half per cent reduced rate; and at the same time to put an end to certain devices for avoiding stamp duty on sales of land and houses.]

90% of first time buyers

will as a result no longer be liable for stamp duty

Import down  
take place in  
SE + SW  
multi-  
Gov's etc.

90% of first  
time buyers  
will not be  
liable for SD.

13. The reductions in stamp duty take effect on [26 March] and will cost £[435] million in 1984-85. ]

new Jump 2 pages  
to new  
page 14.

14. Next life assurance. [In its present form relief for the payment of life assurance premiums dates from the 19th century. When that relief was introduced, life assurance was the only way in which many people could hope to provide investment.]

There is no longer any justification for the effect of which is to encourage institutional rather than direct investment.

Sold paper [take in + see next page]

our goal

no longer an  
independent  
is to provide  
rather than direct  
investment.



# BUDGET-SECRET

for their dependants after their death, or for their own needs in retirement. But that is no longer true. Most life assurance premiums nowadays represent just a particular form of savings through a particular institutional channel, which happens for historical reasons to attract tax relief.

14. I recognise, of course, that the vast bulk of life assurance savings may well be prudently saved and prudently invested. But the decision to save and the choice of savings is one for the investor to make, and not for the tax system. And the cost of the tax relief -£700 million a year and growing - means that income tax rates have to be higher or tax thresholds lower than they need to be, or should be.

ring goal

A

to previous page

15. So I propose to withdraw the relief on new policies with effect from today. I stress that this change will apply to new policies only, ~~Relief will continue to be available on existing policies for their existing life span.~~ [I have no proposals to make this year on the special tax position of friendly societies; but I shall be keeping this matter under review in the light of the withdrawal of life assurance premium relief.] The change will yield £90 million in the first year.

*Take over ABE b-27. Existing policy-holders will not be affected.*

I hope we can cut it.

B

## Share Options

*Wrong place: this is after connects with subscribers, or with personal tax; it is with savings & investment material*

16. Whatever my doubts about life assurance relief I have none about the importance of encouraging people to share in the ownership and fortunes of the companies for which they work. [The measures introduced in the last Parliament to

*Share options, firm's costs & firm's earnings; profits to be shared; in business (S. 14); perhaps after para 14.*



improve employee involvement through profit sharing and savings related share option schemes have been a notable success. The numbers of these all employee schemes have increased from about [30] in 1979 to over [650] now, benefiting more than [ ] employees.

*very well essential*

17. To maintain and build on this progress I propose to increase the monthly limit on contributions to savings related share option schemes from £50 to £75. [+ Possible relaxation in ESC on long service awards to include the giving of shares.] ]

18. [ But beyond this, I now see the need to do more to attract top calibre company management and to increase the incentives and motivation of existing executives and key personnel by linking their rewards to performance.] A relaxation in the tax treatment of share options can be a central factor in improving the performance, competitiveness and profitability of British industry. [I propose, therefore, to introduce a scheme under which share option schemes generally will, subject to certain conditions, be taken out of income tax, leaving any gain to be charged to capital gains tax on, and not until, disposal of the relevant shares (this can be developed in the light of eventual decision on the shape of the new scheme).]

*to ]*

---

19. Lastly in this group of measures, I come to the investment income surcharge. A higher charge in one form or another on investment income has been a feature of our tax system for a very long time. But, whatever its historical justification, the present level of surcharge has come increasingly to be regarded as an unfair and



anomalous tax on savings and on the rewards of successful enterprise. It hits particularly harshly at elderly people. More than half those who pay the surcharge are 65 or over, and of these more than half would otherwise be liable at only the basic rate of tax.

15. I have accordingly considered how whether and how to reduce the level of investment income surcharge. There are obvious difficulties, for the full new yield is some £320 million. Nevertheless, I have been concerned that the current anomalous position should not if possible be corrected.

16. It no longer has a place in our tax system, and I propose to abolish the surcharge forthwith. The cost will be some £20 million in 1984-85, rising to a full year cost of about £[320] million; there will be staff savings rising eventually to over 200.

21. Taken together, these proposals will go some way towards providing a simpler and straightforward tax system for savings and investment, making the system at once clearer and more honest, and removing biases which have discouraged the individual saver from investing directly in industry. [Expand: recap on philosophy]

This should be a surprise. We lose that surprise by this mistake. 19 needs to be worked to suggest that a reduction is coming. It should be less myly longer: 20 should be v. sharp + sweet. ✓✓

recap philosophy



Ch/Ex Ref No B.C.(84)206



FROM: J O KERR  
 DATE: 20 February 1984

Mr Battishill

cc PS/Chief Secretary  
 PS/Financial Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Monck  
 Mr Monger  
 Mr Ridley  
 Mr R I G Allen  
 Mr Lord  
 Mr Portillo

## BUDGET SPEECH: SECTION L

The Chancellor's principal reaction to the "income tax" Section of the 17 February edition of the Budget Speech is that it is badly balanced. At four pages, it is a little too long; but the real problem is that two of the four are devoted to the trivia of foreign earnings, foreign emoluments, and car benefit scales, whereas the income tax thresholds, and NIS abolition, are squeezed into the other two. So the Section needs, in his view, a comprehensive re-write, losing the present paras 4-8 in Section J, and leaving one and a half to two pages each on income tax, and NIS.

2. For the former, the Chancellor suggests a revised schema along the following lines:-

a. achievement on income tax since 1979 [spelt out].  
 Over the lifetime of this Parliament intend to do much more. Inevitably limited on what I can do this year: but watch this space for 1985 [2-year theme];

b. no change on rates. Statutory indexation for the bulk of allowances and thresholds - age allowance, higher rate band;

c. but special problem of basic thresholds - single and married. [Expand/expatiate];

d. therefore propose to use money from VAT to raise





these substantially. Spell out. Help the poorest etc. etc. Thresholds in real terms will be at highest level since 1972. For both revenue cost, and people taken out of taxation, give figures both including and above indexation.

3. For the NIS surprise, the Chancellor thinks that one needs a bit more theatre. So after the announcement of the income tax threshold increase, he would like a filler paragraph, back on the 2-year Budget theme, hinting at more action on personal taxes in 1985, given the 85/86 forecast fiscal adjustment; but stressing the prudence of not using it in advance, and pointing up the overall revenue neutrality this year, and the importance of holding spending down as the key to future tax cuts. The aim would be to make the House think that the measures so far described do in fact achieve revenue neutrality in 1984-85.

4. On NIS itself, the present para 12 obviously needs considerable expansion. The Chancellor's schema is as follows:-

a. Labour original sin, and second offence of raising the rate;

b. hence inherited rate of  $3\frac{1}{2}$  per cent. Programme of reductions, bringing it down in last Budget to 1 per cent. Private sector thus saved £3 billion a year;

c. many representations for a further  $\frac{1}{2}$  per cent reduction this year. Given careful consideration, but rejected;

d. decided to abolish outright, from earliest possible date - ie 1 August.

*JOK*



BLOCK L: INCOME TAX

This needs to be very crisp: at this stage the House wants the figures, quick.

Finally I come to income tax.

2. ~~Despite~~ what has been achieved since 1979, the rates of tax remain too high and the threshold at which people start to pay tax too low. An excessive burden of tax inhibits effort and enterprise throughout the income range. Low thresholds in particular play a part in creating the poverty and unemployment traps. We should not be taxing people at the same low levels of income that entitle them to social security benefits. Not only is this wrong in principle, [but it drives people into the black economy and creates a wasteful bureaucracy.] There is no cheap or overnight solution. But it is clearly right to build on the progress we have already made, and give priority to raising the basic tax thresholds, before looking to reduce the rates of tax further.

3. And so it is to raising income tax thresholds that I propose to apply the revenue from the changes I have announced on indirect taxes.

4. [ Before announcing details, however, there are two reliefs which I must tell the House I propose to abolish. Both were introduced at a time when this country suffered from excessively high rates of income tax. Now that these have been brought more into line with other countries, I have concluded that the reliefs are no longer justified.

Spill out. Order to lighten the tax v. rates to make more money. Monthly allowances when I can do the year. No change in rates. Statute books for a book of allowances & thresholds - after allowances, higher rates. Poor spenders possible to have thresholds - simple & narrow. Expenditure & Capital. I think progress has to make sure the substitution help the poor etc.

4-8 are are bore: could we lose them in J? Yes, they will show options



## BUDGET-SECRET

5. The first is the 50 per cent deduction (falling after nine years to 25 per cent) given from the emoluments of foreign employees coming here to work for foreign employers. At present income tax rates the UK has come to be described as almost a tax haven for people of foreign domicile. For example, someone in that position earning £60,000 a year may now pay tax at an average rate of no more than 17 per cent. The need for this relief has clearly gone. It has also benefited many for whom it was never designed. So I propose to withdraw the relief for all new cases from 6 April next. Existing beneficiaries will retain their entitlement to relief for the five years to 5 April 1989. This transition should give sufficient time for individuals and their employers to adjust to this change in their expectations.]

6. I propose also to abolish from 6 April next and for very much the same reasons the so-called foreign earnings relief for United Kingdom residents who perform their duties both here and overseas and who spend at least 30 days abroad in a tax year. I further propose to abolish the matching relief for the self-employed who spend 30 days abroad, and similarly for resident employees and self-employed who have separate employments or separate trades carried on wholly abroad. At the same time, I have authorised the Inland Revenue to consult interested parties about a possible relaxation in the rules governing the taxation of expenses incurred by employees in travelling to perform their duties overseas. For the present I propose to make no change to the 100 per cent deduction given for absences abroad of 365 days or more.

BUDGET-SECRET



# BUDGET - SECRET

7. The abolition of these reliefs will eventually yield revenue savings of some [ ] and will be another useful step in removing complexity and distortions.

8. I need also to refer to the car benefit scales for those provided with the use of a car by their employer. Despite the increases <sup>of 2% over 10 years</sup> ~~over recent years~~, the levels still fall short of any realistic measure of the true benefit. I am <sup>proposing</sup> ~~proposing~~ further increases <sup>of 10 per cent</sup> in both the car and car fuel scales with effect from April 1985. ~~But to reflect both the extent of past increases and lower inflation, these will be held to about 10 per cent.~~

9. I can now turn to the main income tax changes. I propose to increase the higher rate thresholds and bands in line with statutory indexation of 5.3 per cent. The first higher rate of 40 per cent will apply when taxable income reaches £15,400 and the top rate of 60 per cent to taxable income of £38,100 or more. [Within these limits I also propose to rationalise the higher rate structure. I propose a similar increase in the age allowance.]

[Depends on decisions]

10. But as I have said, this year I believe it is right to give first priority to raising the levels at which people first pay tax. For the main income tax thresholds simple indexation would mean putting the single and married allowance up by £100 and £150 respectively. I propose to <sup>more than</sup> double these amounts: the threshold for the single person will be increased by £200 from £1785 to £1985 and for the married man by £300 from £2795 to

2000

BUDGET - SECRET



# BUDGET - SECRET

3100  
£3095. The additional personal allowance for single parents and the widow's bereavement allowance will be increased in consequence from £1010 to £1110.

11. Effect will be given to these changes under PAYE as from the first pay day after [ ]. The revenue cost above indexation, will be [£ million] next year. Including indexation the total revenue foregone will amount to some [ ] in 1984-85 and [ ] in a full year. Some [ ] fewer people will pay tax in 1984-85 than if thresholds had remained at their present levels.

*I'd give the above-inlet try as well.*

*Thresholds on what has been higher level since 1972/3.*

12. There is one other tax I must mention before I sit down, the National Insurance Surcharge. This was imposed by the last Labour Government and when we took office the rate was 3½ per cent. In the last couple of years we have cut that to 1 per cent. If the surcharge were still at the level we inherited, the private sector would be paying about £3 billion a year more than they now do. ~~But the time has surely come to be rid of it altogether. I intend to abolish this pernicious tax on jobs.~~ The National Insurance Surcharge will go from 6 August next.

*first introduced, then raised,*

*few too flat*

*Want to cut it again. And with a new neutral budget*

*UV. fund scope to ... abolish it outright - so the*

*that permanent tax on jobs*

*at the earliest possible moment - 6 August*

13. As a result, along with my other Budget proposals the burden of taxes on businesses will have fallen from [ ] per cent of GDP when we came to office to [ ] per cent in [ ].

*? we need a pause before NIS. We also need a hint of more on personal taxes in '85, having suffered not to taxes this time.  
? A paragraph on the 2 year budget here; Re overall revenue neutrality what has had to be given in this time; the 1985/6 forecast f. only (but the prudence of not using it in advance); The impo of holding spending as the key to tax cuts. Make im think you've reached rev. neutrality in 84/5 on the measures already announced. Then the NIS surprise.*

*Scheme for 12.  
General gift.  
Widow's bereavement - 3 1/2%  
Share of budget funds which  
but in 1/2 per cent to 1 1/2%  
May be 1/2 per cent  
give 1/2 per cent  
let's keep the year.  
6 abolition business  
Enhance provisions -  
1 Aug.*





FROM: J O KERR  
DATE: 20 February 1984

Ch/Ex Ref No .. *B.(84.)207*

Mr Battishill

cc Mr Monger

BUDGET SPEECH: SECTION M

The Chancellor liked the draft conclusion of the Budget Speech. His only suggestion at this stage is that it might be useful to repeat, in the peroration, the tax reform point. One could do that by starting the penultimate sentence:-

"And it is an important tax reform Budget, which marks a major step .....".

A handwritten signature in dark ink, appearing to be "J O Kerr".

J O KERR



BUDGET-SECRET

**BLOCK M: CONCLUSION**

This Budget has confirmed the broad strategy on which we embarked in 1979. It takes economic renewal another stage forward. is an important tax reform Budget, which And it marks a major step towards lower taxes and a simpler tax system. I commend it to the House.

The best  
speech.

BUDGET-SECRET