

PO-CH/NL/0013

PART C

SECRET

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PO -CH /NL/0013



PART C

1987 BUDGET STATEMENTS

PO -CH /NL/0013

PART C

PART C

DD's 25 years 23-3-98 NAZG.

STARTS 11-03-87.

BUDGET CONFIDENTIAL

FROM: M F BROWN

DATE: 4 March 1987

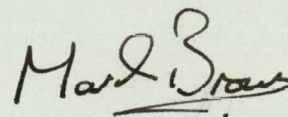
MR A P HUDSON

cc FST/PS
Mr Cassell
Mrs Lomax
Mr Scholar
Mr Culpin
Mr Ilett
Mr Neilson
Mr Cropper
Mr Ross Goobey

BUDGET SPEECH: OWNERSHIP

Your note of today. We have no comments on the speech, just on the interpretation of the figures. I understand Inland Revenue are commenting separately on the employee share scheme section.

2. It may be acceptable to describe 7% to 19½% as a "trebling" - given the margins of error involved - though "roughly trebled" may be better. But this should not be justified by a suspicion that the 7% estimate is a shade on the high side. It is the best (ie central) comparison that we can make with the 19½% estimate. The 1979 estimate of 5% from the FRS survey records a narrower measure of share ownership, and the recent results to this survey are therefore correspondingly lower. The best comparison that we can make with the FRS would be our estimate of 18%, which excludes unquoted shares. It would not be consistent to include unquoted shares in our headline total, but to exclude them in calculations of the extent to which share ownership has increased since 1979.



M F BROWN



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE

Please Dial my Extension Direct:
Use Code (01)-382 followed by
Extension Number 5.023

A C S Allan Esq
Principal Private Secretary
HM Treasury

Parliament Street
LONDON
SW1P 3AG

4 March 1987

Dear Alex

BUDGET STATEMENT: TAXATION SECTION: THIRD DRAFT

We have the following comments on the draft you circulated on 2 March:

✓ D25 et seq: The draft no longer takes credit for going further than the consultation document (eg on the turnover limit) - this looks to us like missing a presentational trick.

✓ D27 and 29: I understand the Minister of State will propose amendments.

✓ D31: This should read "Fourth, there will be changes to [the rules for] the special VAT schemes for retailers. ⁱⁿ particularly ~~to make the simpler ones~~ ^{will be h} schemes more widely available to small and medium-sized businesses". This is because there are several changes we wish to make, and because the operation referred to in the Speech is one less of simplification than of extension of the benefits.

D32:

Part of the cost in 1988-89 stems from the deferment of Keith III, which is not mentioned in the Speech (it does figure in the FSBR). Rather than saying "They will cost ...", the last sentence should more accurately begin "The cost will be ...".

D34:

Rather than "noting", we suggest that the House "will also be pleased to know" (more positive). In the same passage, the standard method is described in over-simplified terms: it is not a way of accounting for VAT, but a method of "calculating gross takings for VAT" and we suggest that this admittedly more cumbersome phrase be used.

standard method by which retailers calculate their gross takings for VAT, or

D37:

The Chancellor should perhaps remind the House that he has already announced his decision to go ahead with the anti-avoidance package: insert after "changes" in line 4 on page 10 ", which I announced to the House last December,". In the following sentence, for "special arrangements", we suggest "simplifications and reliefs".

a simpler system for small bus, with spec reliefs.

F4:

The Minister of State will propose a redraft. However, the item for goods donated for export should probably come out: it legislates for an existing extra statutory concession, so it is misleading to present it as an extension. In line 8, "directly" would be better than "exclusively", but neither word is really necessary.

MS7 points out that we could explain exactly what we're doing

F7:

Since the 5p differential includes consequential VAT, it is more correct to call it a "tax" differential in line 2.

Copies go to Simon Judge and Carolyn Sinclair at the Treasury, and to Peter Jefferson Smith, David Howard and John Bone here.

Yours ever

Peter

P G WILMOTT

PWP



FROM: A P HUDSON
DATE: 4 March 1987

MR M F BROWN

cc: FST
Mr Cassell
Mr Scholar
Mrs Lomax
Mr Culpin
Mr Ilett
Mr Neilson
Mr Betenson
Mr Cropper
Mr Ross Goobey

BUDGET SPEECH: OWNERSHIP

The Chancellor has seen your minute of 3 March giving the results of the Treasury/Stock Exchange share ownership survey.

2. He has commented that, in the Budget Speech, he can clearly say that share ownership has "trebled", since there is reason to believe that the 1979 estimate of 3 million is a shade on the high side, and "almost 20 per cent of the adult population".

3. I attach the relevant section of the Budget Speech, amended to take in these decisions. Please could you let me have any comments by tonight if at all possible.

4. Please could Mr Betenson confirm the references to home ownership in paragraphs E3 and E4.

A handwritten signature in black ink, appearing to be 'A P HUDSON'.

A P HUDSON

BUDGET - CONFIDENTIAL

E. TAXES ON SAVING 1309

E1. I turn now to the taxation of savings.

E2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

E3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the encouragement of employee share schemes, which now involve 1½ million workers, compared with [40,000] in 1979; through the massively successful privatisation programme, where Britain has led the world; and most recently through the Personal Equity Plan scheme, which I announced in last year's Budget and which started up on 1 January this year. More than 2,000 people a day [UPDATE AS NECESSARY] are currently taking out Personal Equity Plans, many of them first-time investors, as I had hoped.

BUDGET - CONFIDENTIAL

E4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979. There are, however, no official figures for the rather more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange have therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some ~~8 1/2~~ ^{8 1/2} ~~xx~~ million individual shareholders in this country, amounting to ^{almost 20} ~~yy~~ per cent of the total adult population, and ~~fully~~ three times the number there were in 1979.

BUDGET - CONFIDENTIAL

BUDGET CONFIDENTIAL



FROM: A P HUDSON
DATE: 4 March 1987

MR M F BROWN

cc: FST
Mr Cassell
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A P HUDSON

BUDGET - CONFIDENTIAL

E. TAXES ON SAVING

13.09

E1. I turn now to the taxation of savings.

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E3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the encouragement of employee share schemes, which now involve $1\frac{1}{2}$ million workers, compared with [40,000] in 1979; through the massively successful privatisation programme, where Britain has led the world; and most recently through the Personal Equity Plan scheme, which I announced in last year's Budget and which started up on 1 January this year. More than 2,000 people a day [UPDATE AS NECESSARY] are currently taking out Personal Equity Plans, many of them first-time investors, as I had hoped.

BUDGET - CONFIDENTIAL

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BUDGET CONFIDENTIAL



PWP
(or return to MCS)

FROM: P D P BARNES
DATE: 4 March 1987

Mr ACS Allan

MR SCHOLAR

Yours, now.

MCS/SB

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Mr Culpin
Miss O'Mara
Miss Sinclair
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
Mr McManus - IR

Sir Angus Fraser - C & E
Mr Knox - C & E
Mr Wilmott - C & E
Mr Bone - C & E

^A
BUDGET STATEMENT: TAXTION THIRD DRAFT
_h

The Economic Secretary has seen the Chancellor's draft of the Second half of the Budget Statement, attached to Mr Alan's minute of 2 March.

2. The Economic Secretary had the following comments:

D2 and 3

3. The Economic Secretary thinks that the second half of the last sentence of D2 is justified by the last sentence of D3. He

suggests transferring the second sentence of D2 to the end of 3 and phrasing it as follows: "Just as the new system has undoubtedly improved the ^{gravity} policy of business investment decisions in Britain, so the 35 per cent rate is encouraging overseas companies to set up here, thus creating more jobs".

D14

4. In order to end the paragraph on a favourable note the Economic Secretary suggests reversing the order of the two elements of the last sentence. The last sentence might read: "Where it turns out that the initial payment was too low, the company will pay interest to the Revenue; where the initial payment was too high, the Revenue will pay interest to the company."

D40

5. Subject to the comments of the Inland Revenue, the Economic Secretary would prefer an alternative second sentence along the following lines. "At present, Lloyds syndicates are the only traders within our tax system who have an absolute right to decide on the level of provision for future liabilities to deduct from their pre-tax income, and so in effect to determine their own tax bill."

E14

6. The Economic Secretary would like to replace the second sentence by the following: "I did so because the movement's tax privileges were being increasingly exploited by certain new Friendly Societies which had been set up for purely commercial reasons".

E15

7. The Economic Secretary would prefer to replace the existing paragraph E15 by the following: "On the other hand, I am anxious that the traditional Friendly Societies, which have played a valuable part in mutual self help for many generations, should

BUDGET CONFIDENTIAL

be able to plan for the future with confidence. To raise the existing tax-exempt limits would merely invite a return to the commercial exploitation which led to the changes of 1984. The existing tax-exempt limits, being based on sums assured and annuity payments, tend in practice to be more restricted for the traditional societies, because they generally offer much longer term policies. I have therefore decided to replace the existing limits with a new limit based on annual premiums. I propose to set this at £100 per annum, which will make little difference to the commercial societies but will greatly increase the scope of the traditional societies to offer life and annuity policies to their members".

E19

8. The Economic Secretary would omit the last 3 lines

G9

The Economic Secretary suggests replacing 'marginal' by 'only'.

RB

P D P BARNES
Private Secretary

BUDGET CONFIDENTIAL



FROM: A P HUDSON
DATE: 5 March 1987

MISS NOBLE

BUDGET STATEMENT: SECTION E

Miss Sinclair asked me to let you have a sight of this section of the Statement.

2. Please could I have any comments by 4 pm tomorrow (Friday 6 March)?

A handwritten signature in black ink, appearing to be 'A P Hudson'.

A P HUDSON

P.S. I shall show the comments in Mr Row Goobey's 3 March minute to the Chancellor over the weekend, so these are neither included nor rejected.

E. TAXES ON SAVING

E1. I turn now to the taxation of savings.

E2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

E3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the encouragement of employee share schemes, which now involve 1½ million workers, compared with [40,000] in 1979; through the massively successful privatisation programme, where Britain has led the world; and most recently through the Personal Equity Plan scheme, which I announced in last year's Budget and which started up on 1 January this year. More than 2,000 people a day [UPDATE AS NECESSARY] are currently taking out Personal Equity Plans, many of them first-time investors, as I had hoped.

E4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979. There are, however, no official figures for the rather more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange have therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some xx million individual shareholders in this country, amounting to yy per cent of the total adult population, and fully three times the number there were in 1979.

E5. And then there is wider pension ownership. This will be brought about by the introduction on 1 January next year of the new personal pensions developed by my Rt Hon Friend the Secretary of State for Social Services.

E6. Personal pensions are an important dimension of ownership in three ways. First, they will enable employees - if they so wish - to opt out of their employers' schemes and made their own arrangements. Second, they will be a new opportunity for the 10 million employees who at present do not belong to an occupational scheme. And third, people may, again if they so wish, use them to contract out of SERPS.

E7. In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

E8. This will also implement other useful reforms proposed in the consultative document. In particular, employers will be permitted to set up simplified occupational schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme.

E9. In addition, I have decided to go beyond the proposals set out in the consultative document in one important respect. I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

E10. The cost of the proposed tax concessions for personal pensions and freestanding additional voluntary contributions will be £75 million in 1988-89.

E11. The proposals I have outlined will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. It will widen the range of choices people can make about their pensions; and it will mean that in future they will have more control over the way in which their pension contributions are invested.

E12. But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated, including a stricter definition of final salary.

E13. Details of all these changes are set out in an Inland Revenue press notice published today.

BUDGET CONFIDENTIAL



FROM: P D P BARNES
DATE: 5 March 1987

MR SCHOLAR

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Mr Culpin
Miss O'Mara
Miss Sinclair
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
Mr McManus - IR

Sir Angus Fraser - C & E
Mr Knox - C & E
Mr Wilmott - C & E
Mr Bone - C & E

BUDGET STATEMENT: TAXTION THIRD DRAFT

The Economic Secretary would like to insert the following paragraph after his suggested paragraph E15 of the Budget statement (my minute of 4 March):

"I also want to help the trade unions in respect of the tax relief which they enjoy for sickness and accident benefits provided to their members. The current tax-ex^emp^t limits, £2,400 for lump sums and £500 per annum for annuities, were set in 1982, and with effect from today I propose to increase them to £3,000 and £625 respectively."

BUDGET CONFIDENTIAL

2. In addition, the Economic Secretary has pointed out that the word "restricted" in paragraph 7, line 9 of my minute to you of 4 March should have been "restrictive".

RB

P D P BARNES

Private Secretary

REVISED PARAGRAPH E15

C. F14 However, I am anxious that the traditional Friendly Societies, which have played a valuable part in mutual self-help for many generations, should be able to plan for the future with confidence. To raise the existing tax-exempt limit would merely invite a return to the commercial exploitation which I had to counter in 1984. The present rules for tax-exempt business mean that the sum assured has to be at least three-quarters of the total premium paid over the life of the policy. This tends in practice to be more restrictive for the traditional societies, which generally offer much longer-term policies, and so have to set premiums at a level which is less economic. I have therefore decided to replace the existing limit based on the sum assured with a new limit based on annual premiums. I propose to set this at £100 a year, which will make little difference to the commercial societies but will greatly increase the scope of the traditional societies to offer life policies to their members.

NEW PARAGRAPH E15A

C. F15 I also want to help the trade unions in respect of the tax relief which they enjoy for sickness and

I hope this makes clear what the proposal is.

What will the reaction be in the House if you open a para "I also want to help the trade unions..."? I've suggested a different approach over.

accident benefits provided to their members. The current tax-exempt limits, £2,400 for lump sums and £500 per annum for annuities, were set in 1982, and with effect from today I propose to increase them to £3,000 and £625 respectively.

OR F15. The tax-~~ex~~ exempt limits governing sickness and accident benefits which trade unions provide for their members have ^{not} been ~~not~~ changed since 1982. With effect from today, I propose to increase them to £3000 for lump sums and £625 for annuities.

BUDGET CONFIDENTIAL

NEW PARAGRAPH E18A.

Redrafted as
you asked,
mainly by
Brian Aughton.

Thanks to the efforts of this Government, the tax regime for the heritage has been much improved. Today, I have two further changes to propose. First, I am exempting from inheritance tax settled property that is put into a heritage maintenance fund within two years of the death of a life tenant. And second, I propose to improve the arrangements for acceptance of property in lieu of tax. In future, owners will have the choice of either the present system, or an arrangement under which no interest would be charged between ~~[the date of]~~ the offer and ~~[the date of]~~ acceptance, but the tax ~~satisfied~~ ^{on that case} would be based on the market value ^{at} ~~of~~ the ~~date~~ of the offer and not, as now, ^{at} the date of acceptance.

From: N MONCK

Date: 5 March 1987

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
 PS/Financial Secretary
 Mr Cassell Sir P Middleton
 Mr Scholar
 Miss O'Mara
 Mr Painter, IR

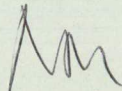
BUDGET STATEMENT : TAXATION SECTION : THIRD DRAFT

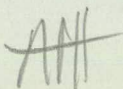
I mentioned the lobby in favour of tax subsidies for R & D at the overview. It is possible that the lobby which favours this will latch on to the new PRT relief for research spending mentioned in para D19 of the Chancellor's draft. It might argue, for instance, that it is odd to give a new North Sea relief, but not to do more for R & D generally which is needed to help improve the manufacturing trade balance now that oil prices have fallen.

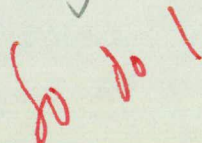
2. The answer to this is that the new PRT relief will deal with a problem caused by the field basis of PRT which makes the PRT regime tougher on research than the Corporation Tax regime which treats all research expenditure as allowable. This answer will in any event be in the defensive briefing. But it seems worth considering the case for and against making use of it in the speech. The case against is that to do so would draw attention to the argument about industrial R & D generally. The case in favour is that it would be worth trying to nip the argument in the bud from the start. This might be done by adding one low key sentence at the end of the paragraph on the lines of:

"The treatment of research for PRT will then be closer to the Corporation Tax regime which treats all research expenditure as allowable."

C. FC letter to Gg.
 I asked Frank Cassell's views on this.
 He thinks it's better left for press releases & briefing. Also that it would tend to belittle what you're doing on oil.
 I agree.


 N MONCK





C.
This follows discussion with IR & MCS.
They advise it is worth mentioning.
The revenue-raiser is this PAYE
measure, not subcontractors.

BUDGET CONFIDENTIAL

NEW PARAGRAPH D40A

E41. Fifth, I also propose to implement the Keith
Committee's recommendation that interest ~~rates~~
should be charged in the limited number of cases
where PAYE is not applied properly and a formal
assessment has to be made to recover the tax. The
change will take effect from April next year, and
the yield in 1988-89 is estimated at £45 million.

CONFIDENTIAL

BUDGET CONFIDENTIAL

C.
You asked for a
sentence or so
on this subject.
This may be too
long. Especially
as I gather MCS
& Derek Taylor Thompson
both think it
doesn't merit
a mention at all.

New paragraph on controlled foreign companies

DLOB. Sixth, I propose to remedy an unintended defect in the legislation on controlled foreign companies. This legislation does not apply where companies meet an acceptable distribution test. But at present, some companies are meeting this, but then moving their residence to the UK before paying the necessary dividend. This can result in the company's income escaping tax altogether. The device will be challenged in the courts, but the tax at risk is such that I decided to take immediate action to block it for the future. This will prevent a revenue loss of [at least £10 million].

PHF

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

REF: M 87/4
No 29 of 29 Copies

FROM: A C S ALLAN
DATE: 9 March 1987

MR SCHOLAR

BUDGET SECRET

- cc: ✓ CST
- FST (2)
- ✓ EST (2)
- ✓ MST (2)
- ✓ Sir P Middleton
- Sir T Burns
- Sir G Littler
- ✓ Mr F E R Butler
- Mr Wilson
- ✓ Mr Cassell
- Mr Monck
- ✓ Mr Sedgwick
- Mr Odling-Smee
- ✓ Mr Mowl
- Mr Culpin
- Miss O'Mara
- Miss Evans
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
- Mr Battishill IR
- Sir Angus Fraser - C&E

Ch
 Peter says no comments except
 point he made to you orally about
 3 refs to outside speakers.
 Terry's PS says he gave you
 his comments @ whatever (did he?).
 Otherwise comments incorporated
 from CST, EST, Frank, Sedgwick, Mowl,
 Hache (EB), Peter, Scholar, FERB,
 Odling-Smee,

BUDGET STATEMENT: ECONOMIC SECTION: THIRD DRAFT

I attach the Chancellor's own draft of the Economic Section of the Budget Statement.

2. Please could I have any comments as soon as possible. In particular, please could Mr Sedgwick check the figures in square brackets in B7, and Mr Mowl those in paragraph D2 and D7.

3. Since this part of the speech has fallen into four sections rather than three, the section and paragraph numbers for the remainder will be revised when it is next circulated.

ACSA

A C S ALLAN

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

SECRET

A. INTRODUCTION

A1. The setting for this year's Budget is more favourable than it has been for very many years. We are entering our seventh successive year of steady growth, at the top of the international league table. We are entering the fifth year in which this steady growth has been combined with low inflation. The public finances are sound and strong, and unemployment is falling.

A2. These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets. Once again, I reaffirm those policies.

A3. So the Budget I present today is a Budget built on success, and a Budget for success.

A4. I shall begin, as usual, by reviewing the economic background to the Budget. I shall then turn to monetary policy and to the fiscal prospect this year and next. Finally, I shall propose some changes in taxation designed to improve still further the prospects that lie before us. A number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have sat down.

BUDGET

year they have grown strongly. Indeed, over the last three months the volume of non-oil visible exports was almost 10 per cent higher than a year earlier - a better performance than that of any other major economy. This pattern was reflected in the rapid growth of manufacturing output in the second half of last year.

B5. This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since August unemployment has fallen by more than 100,000; the largest six-monthly fall since 1973. Though the numbers out of work are still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago.

New para, agreed, on Employment Measures. A →

Post 1980

APH (Consequential on BSA.)
PNS ✓

B6. Since the early months of last year, there has ~~also~~ been a further surge in productivity, particularly in manufacturing industry. This continues the remarkable improvement in productivity growth achieved by British industry throughout the 1980s. ~~In the seven years to 1979 UK productivity growth in manufacturing was the lowest of all the seven major industrial countries in the world. In the seven years since 1979 our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries.~~

Could say "1960s and 1970s" as in the broadcast. Suggest reordering, because accent in original falls on manufacturing, rather than UK.

BUDGET

B7. The recorded current account of the balance of payments went into deficit in 1986 by around £1 billion. This followed a cumulative current account surplus of some £20 billion between 1979 and 1985. Some deterioration in our current account was inevitable in the face of a [£5 billion] loss of earnings on oil trade virtually overnight. But the significance of this should not be exaggerated. The exchange rate adjustment that followed the fall in the oil price is already contributing to an improved non-oil trade performance. And earnings from ~~our~~ ^(we have acquired since 1979,) the massive stock of net overseas assets, which at well over £100 billion is second only to that of Japan, will provide a continuing support to the current account in the years ahead.

PNS

CST suggests a comparison with 1979. Could say after Japan "and is much higher than the £12½ billion we inherited." But it breaks the flow.

B8. Looking ahead, I expect 1987 to be another year of steady, balanced growth with low inflation. Total output is forecast to rise by 3 per cent, with exports and investment up rather more than that. Manufacturing industry, in particular, should do well. And with the non-oil economy set to grow at 3½ per cent, there is every ^{prospect} chance of unemployment continuing to fall throughout 1987. In last year's Budget Speech I said that the ^{outlook} prospect for jobs depended on a sustained improvement in the performance of business and industry. That sustained improvement in economic performance has occurred and is continuing.

EST

[EST/APH]

BUDGET

B9. Despite the strong growth in exports, it will inevitably take time for the full effect of the exchange rate adjustment to work through. The current account is thus likely to remain in deficit this year, by some £2½ billion, around half of one per cent of GDP.

PNS (see minute)

B10. As I foreshadowed in the Autumn Statement, inflation may continue to edge up for a time, perhaps to ~~5 per cent~~ ^{just over 4½ per cent} by the Summer, before falling back to 4 per cent by the end of the year. While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an unambiguously downward underlying trend.

B11. Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole. There are still serious imbalances afflicting the three major economies - the United States on the one hand and Japan and Germany on the other - which, if not handled properly, could lead to a simultaneous downturn in all three. And this in turn could be exacerbated by renewed turmoil in the foreign exchange markets, whose tendency to overshoot is as notorious as it is damaging.

SECRET

B12. It was to address these dangers that the Finance Ministers and Central Bank Governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability. In my Budget Speech last year, I said:

"Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."

That is what we have now done, with Plaza II. But it would be idle to deny that the wider risks still remain.

B13. But short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability. Provided it can control its costs and maintain its present competitive advantage, *(and assume no continuation of present policies,* we can look forward to many more years of strong growth combined with low inflation.

C. MONETARY POLICY

C1. For its part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since 1980, the medium-term financial strategy.

C2. The central objective of the MTF5 is steadily to reduce the growth of money GDP over the medium term, so as to squeeze inflation out of the system and ultimately to achieve price stability.

C3. This requires monetary discipline buttressed by low public sector borrowing. The essential instrument of monetary policy must remain short term interest rates. These will continue to be set in the light of monetary conditions as indicated principally by the growth of narrow and broad money and the behaviour of the exchange rate.

C4. For narrow money, M0, the target range for next year will be 2 to 6 per cent, as foreshadowed in last year's MTF5. For broad money, however, as the Governor of the Bank of England cogently argued in his Loughborough lecture last October, in current circumstances it is probably wiser to eschew an explicit target altogether. But broad money will of

~~course~~ continue to be taken into account in assessing monetary conditions, ^{of course} ~~as~~ ^(with the exchange rate)

[~~C5. The exchange rate is assumed to remain broadly unchanged.~~]

^{C6.} ~~and in speeches in the House,~~
C6. In my Lombard Association speech last April, I set out at considerable length precisely how monetary policy is operated. ~~While I note~~ that in some quarters this was felt to be unclear or in some other way ^{unsatisfactory} ~~inadequate~~, I am struck by the fact that Mr Paul Volcker, Chairman of the United States Federal Reserve Board, in his written testimony to the Senate last month, explained how the Fed operates monetary policy in remarkably similar terms.

Mr Peretz
(see minute)
FC agrees

D. Peretz

DLC?

MS AP
C6.

Frank & Michael both think that C6 is the one para in this part of the speech that doesn't really work - ^{it's not clear} ~~As e.g.~~ ^{exactly} why are we referring to Volcker? None of us ~~is~~ has a firm alternative suggestion. But you could end the monetary passage along the lines: "I shall continue to operate monetary policy in the same way as I have done over the past four years. And I shall do so because it works."

B.F.
not (C6) (with pm) (pm)

SECRET

D. PUBLIC SECTOR BORROWING

D1. I mentioned a moment ago the need to keep public sector borrowing low.

D2. The final outturn for the public sector borrowing requirement in 1985-86 was just under £6 billion, equivalent to $1\frac{1}{2}$ per cent of GDP, the lowest level since {1970-71}. In my Budget last year, faced with a massive loss of what now looks like £7 billion of North Sea oil revenue, I nonetheless decided to hold the PSBR for 1986-87 to £7 billion, or $1\frac{3}{4}$ per cent of GDP.

D3. In the event, this year's PSBR looks like turning out at only ^{74/4} £5 billion, or $1\frac{1}{4}$ per cent of GDP: the second successive year of significant undershoot.

D4. This successful outcome is chiefly attributable to the ^{remarkable} ~~unexpected~~ buoyancy of non-oil tax revenues. And this in turn is due not to some short-term surge in consumer spending, but ^{in particular} ~~overwhelmingly~~ to an increase of no less than a third in the yield of Corporation Tax from an increasingly profitable business and industry, ^a ~~coupled with~~ ^h ~~substantial rises~~ in the yields from Stamp Duty and the capital taxes.

BUDGET

[Confirmed by Mr Mowl]

EST ✓

Mr Mowl (and see his minute)

BUDGET

D5. Looking ahead, there is still a degree of uncertainty surrounding oil prices, and I have therefore stuck to the assumption I made last year that the North Sea price will average \$15 a barrel. But it is clear that the increased flow of non-oil tax revenues, coupled with the prospective further growth of the economy in excess of the growth of public expenditure, puts the public finances in an ~~exceptionally~~ strong position.

CS7 thinks this is too strong, & will give him problems with colleagues!

stat /

D6. I intend to keep it that way. Last year's MTFs indicated a PSBR for 1987-88 of £7 billion, or 1 1/4 per cent of GDP; and, as the House will recall, I gave an assurance at the time of the Autumn Statement, when I announced ~~substantial increases~~ ^{higher a £4 3/4 billion} in public spending, that on no account would I exceed that figure.

FERB

minutes & plans

in plans for 1987-88,

D7. Indeed, I believe it is right to go below it. Since its inception in 1980, the MTFs has indicated a steadily declining path for the PSBR expressed as a percentage of GDP. We now have the chance, not merely to take a further step along that path, but to reach what I judge to be its ~~proper~~ ^{appropriate} destination: a PSBR of 1 per cent of GDP. This would represent a ~~degree~~ ^{maintenance of a} of fiscal prudence that has been ~~attained on~~ ^{reached} only ~~two occasions~~ ^{two} in the ~~past~~ ^{quarter of a century} years. [PLEASE COMPLETE]

Mr Mowl /
Mr Odling-Smee
(see minute)

since the war

thirty-five years or more since the early 1950s

D8. Accordingly, I have decided to provide for a PSBR in 1987-88 of £4 billion.

D9. Inevitably, this greatly diminishes the scope I have this year for reducing the burden of taxation, which ^{of course} remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future. That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now. ~~Moreover, as my hon Friends will be glad to learn, it still leaves some scope for reductions in taxation this year.~~

ST would omit
"on theatrical grounds".

D10. Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom concluded, one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

D11. Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but

that without an expansionary fiscal policy sustained growth was impossible. They were wrong, and have been proved wrong. The British economy is now embarking on its seventh successive year of steady growth at ^{approaching} ~~around~~ 3 per cent a year. And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from ~~a shade under~~ 6 per cent of GDP to a ^{little} shade over 2 per cent. Indeed, had I ~~at~~ ^{or my predecessor at} any time heeded the advice of our so-called expansionist critics, the ^{British} economy would never have been in the unprecedentedly favourable position it is in today.

BUDGET

PNS

EST
EST (1st)
FERB (2nd)

stat 1

MCS thinks the ending is a bit flat, but can't think how to alter a v. good para, but has no specific suggestion.

B.L.O.

SECRET

BUDGET CONFIDENTIAL

*Mr ACS Man**OK by me (and Mr Painter)*

From: N MONCK

Date: 5 March 1987

*MCS 513**PWF
(or return to
MCS)*

PRINCIPAL PRIVATE SECRETARY

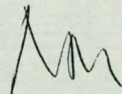
cc PS/Chief Secretary
PS/Financial Secretary
Mr Cassell Sir P Middleton
Mr Scholar
Miss O'Mara
Mr Painter, IR

BUDGET STATEMENT : TAXATION SECTION : THIRD DRAFT

I mentioned the lobby in favour of tax subsidies for R & D at the overview. It is possible that the lobby which favours this will latch on to the new PRT relief for research spending mentioned in para D19 of the Chancellor's draft. It might argue, for instance, that it is odd to give a new North Sea relief, but not to do more for R & D generally which is needed to help improve the manufacturing trade balance now that oil prices have fallen.

2. The answer to this is that the new PRT relief will deal with a problem caused by the field basis of PRT which makes the PRT regime tougher on research than the Corporation Tax regime which treats all research expenditure as allowable. This answer will in any event be in the defensive briefing. But it seems worth considering the case for and against making use of it in the speech. The case against is that to do so would draw attention to the argument about industrial R & D generally. The case in favour is that it would be worth trying to nip the argument in the bud from the start. This might be done by adding one low key sentence at the end of the paragraph on the lines of:

"The treatment of research for PRT will then be closer to the Corporation Tax regime which treats all research expenditure as allowable."



N MONCK

2/9/87

CONFIDENTIAL

PLW
S



FROM: A P HUDSON
DATE: 4 March 1987

SIR T BURNS

BUDGET SPEECH: ECONOMIC BACKGROUND

The Chancellor notes that the main problem for 1987 now looks to be a simultaneous slow down in activity in all three major economies - the USA, Japan, and West Germany.

2. He would like to refer to this point in the Budget Speech, and would be grateful if you could check that there is an appropriate paragraph. If not, please could you suggest how the point can be made by close tomorrow (Thursday 5 March)?

A handwritten signature in black ink, appearing to be "A P HUDSON".

A P HUDSON

BUDGET CONFIDENTIAL



PWP
(or return to MCS)

FROM: P D P BARNES
DATE: 5 March 1987

MR SCHOLAR

Mr Allan
We have told Mr
Barnes that he should
direct these to you not me
in future.

MCS 5/3

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Mr Culpin
Miss O'Mara
Miss Sinclair
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
Mr McManus - IR

Sir Angus Fraser - C & E
Mr Knox - C & E
Mr Wilmott - C & E
Mr Bone - C & E

BUDGET STATEMENT: TAXATION THIRD DRAFT

The Economic Secretary would like to insert the following paragraph after his suggested paragraph E15 of the Budget statement (my minute of 4 March):

"I also want to help the trade unions in respect of the tax relief which they enjoy for sickness and accident benefits provided to their members. The current tax-exempt limits, £2,400 for lump sums and £500 per annum for annuities, were set in 1982, and with effect from today I propose to increase them to £3,000 and £625 respectively."

BUDGET CONFIDENTIAL

2/6/87

2 In addition, the Economic Secretary has pointed out that the word "restricted" in paragraph 7, line 9 of my minute to you of 4 March should have been "restrictive".

RB

P D P BARNES
Private Secretary

BUDGET CONFIDENTIAL

PWH



FROM: A P HUDSON
DATE: 5 March 1987

MISS NOBLE

BUDGET STATEMENT: SECTION E

Miss Sinclair asked me to let you have a sight of this section of the Statement.

2. Please could I have any comments by 4 pm tomorrow (Friday 6 March)?

A handwritten signature in black ink, appearing to be 'A P Hudson'.

A P HUDSON

P.S. I shall show the comments in Mr Ross Goobey's 3 March minute to the Chancellor over the weekend, so these are neither included nor rejected.

E. TAXES ON SAVING

E1. I turn now to the taxation of savings.

E2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

E3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the encouragement of employee share schemes, which now involve 1½ million workers, compared with [40,000] in 1979; through the massively successful privatisation programme, where Britain has led the world; and most recently through the Personal Equity Plan scheme, which I announced in last year's Budget and which started up on 1 January this year. More than 2,000 people a day [UPDATE AS NECESSARY] are currently taking out Personal Equity Plans, many of them first-time investors, as I had hoped.

E4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979. There are, however, no official figures for the rather more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange have therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some xx million individual shareholders in this country, amounting to yy per cent of the total adult population, and fully three times the number there were in 1979.

E5. And then there is wider pension ownership. This will be brought about by the introduction on 1 January next year of the new personal pensions developed by my Rt Hon Friend the Secretary of State for Social Services.

E6. Personal pensions are an important dimension of ownership in three ways. First, they will enable employees - if they so wish - to opt out of their employers' schemes and made their own arrangements. Second, they will be a new opportunity for the 10 million employees who at present do not belong to an occupational scheme. And third, people may, again if they so wish, use them to contract out of SERPS.

E7. In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

E8. This will also implement other useful reforms proposed in the consultative document. In particular, employers will be permitted to set up simplified occupational schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme.

E9. In addition, I have decided to go beyond the proposals set out in the consultative document in one important respect. I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

E10. The cost of the proposed tax concessions for personal pensions and freestanding additional voluntary contributions will be £75 million in 1988-89.

E11. The proposals I have outlined will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. It will widen the range of choices people can make about their pensions; and it will mean that in future they will have more control over the way in which their pension contributions are invested.

E12. But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated, including a stricter definition of final salary.

E13. Details of all these changes are set out in an Inland Revenue press notice published today.

BUDGET SECRET
covering BUDGET LIST ONLY



FROM: A P HUDSON

DATE: 6 MARCH 1987

CHANCELLOR

BUDGET SPEECH: TAXATION SECTION

I attach an annotated version of your draft of the taxation section. There are a ^{large} number of references to other minutes etc, but I hope these are clear.

2. You asked about the yields of various taxes. Mr Calder's minute ^(below) gives the figures. He has done them on an accruals basis, because that is the best picture over time - because of the lags in, eg. Inheritance Tax, the receipts in 1987-88 will not reflect the reductions, but the accruals will. I am doubtful about this, however: it's harder to explain, and the cash figures do not square with the ones we normally publish. I have asked for the same comparisons to be done on the receipts basis. (Now received - attached to Mr Calder's minute.)

3. In the meantime, I have drafted a couple of paragraphs based on the percentage changes in real terms shown in Mr Calder's table. I discussed with Michael Scholar where the point fits best. It would be hard to work in at the start of the tax section, and would break the flow at the end. So I suggest we build on the point you have already made on Inheritance Tax, and the new paragraphs are therefore E21A and E21B. This does make it difficult to mention the higher rates of income tax, because you will not have announced the 1987-88 levels at that stage.

4. Gill Noble has made a general comment on the pensions section. She points out that the Government has made a series of changes

Broad picture is much the same for % changes.

An alternative just struck me, wd be G3.



which amount to a major improvement in the regime for private pensions (early leavers, AVCs, personal pensions, simpler employers' schemes). We are now in a position to draw all these together and bring out the full extent on the changes. Alastair Ross Goobey's suggestions begin to do this, but we could usefully consider going further.

A P HUDSON



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: J R CALDER
DATE: 6 MARCH 1987

COPY NO. 1 OF 25

MR HUDSON

YIELDS OF TAXES

I attach, as agreed, a table providing the figures for tax yields in 1978-79, 1982-83, 1986-87 (estimated) and 1987-88 (forecast) on a **receipts** basis. I also attach the previous accrual table with an updated stamp duty figure for 1987-88 and a minor correction to the real percentage changes based on the RPI from 1978-79 to 1986-87 for the taxes other than corporation tax.

J R CALDER

cc	PS/Chief Secretary	Mr Isaac
	PS/Financial Secretary	Mr Painter
	PS/Economic Secretary	Mr Beighton
	PS/Minister of State	Mr McManus
	Sir P Middleton	Mr Eason
	Sir T Burns	Mr Fitzpatrick
	Mr Cassell	Mr Gonzalez
	Mr Scholar	Mr Greenslade
	Miss O'Mara	Mr Calder
	Miss Sinclair	Mr Ko
	Mr Cropper	PS/IR
	Mr Tyrie	
	Mr Ross Goobey	

TAX YIELDS (ESTIMATED ACCRUALS) £ Million

	1978-79	1982-83	1986-87	1987-88 (Latest forecast)
Corporation tax	4300	6400	15300	17500
of which: North Sea CT	250	900	1400	1400
All other CT	4050	5500	13900	16100
Inheritance tax	420	560	1180	1150
Capital gains tax	480	690	1590	1930
Stamp duties	430	870	1840	2100
Income tax : excess over basic rate	810	1420	2350	3150

2.7x

Percentage change in real terms (GDP deflator)

	1978-79 to 1986-87	1978-79 to 1987-88	1978-79 to 1982-83	1982-83 to 1986-87	1982-83 to 1987-88
Corporation tax	80%	97%	-10%	99%	118%
of which: North Sea CT	183%	171%	119%	30%	24%
All other CT	74%	93%	-17%	110%	134%
Inheritance tax	46%	36%	-18%	78%	65%
Capital gains tax	70%	98%	-12%	93%	125%
Stamp duties	118%	139%	23%	77%	93%
Income tax : excess over basic rate	49%	91%	7%	39%	78%

Percentage change in real terms (RPI)

	1978-79 to 1986-87	1978-79 to 1987-88	1978-79 to 1982-83	1982-83 to 1986-87	1982-83 to 1987-88
Corporation tax	82%	99%	-8%	98%	118%
of which: North Sea CT	186%	174%	121%	29%	24%
All other CT	75%	95%	-17%	110%	133%
Inheritance tax	47%	37%	-16%	76%	64%
Capital gains tax	71%	100%	-11%	91%	123%
Stamp duties	120%	141%	25%	75%	92%
Income tax : excess over basic rate	50%	93%	9%	38%	77%

- Notes : 1. Corporation tax figures are on a calendar year basis (eg 1978 for 1978-79) and are net of repayments.
2. Inheritance tax includes capital transfer tax and estate duty.

BUDGET SECRET

TAX RECEIPTS £ Million

	1978-79	1982-83	1986-87 (Latest estimate)	1987-88 (Latest forecast)
Corporation tax	3940	5680	13300	14900
of which: North Sea CT	90	520	2670	1410
All other CT	3850	5160	10630	13490
Inheritance tax	370	510	990	1100
Capital gains tax	350	630	1050	1300
Stamp duties	430	870	1840	2100
Income tax : excess over basic rate	810	1420	2350	3150

3x

Percentage change in real terms (GDP deflator)

	1978-79 to 1986-87	1978-79 to 1987-88	1978-79 to 1982-83	1982-83 to 1986-87	1982-83 to 1987-88
Corporation tax	73%	86%	-12%	97%	111%
of which: North Sea CT	1375%	646%	243%	330%	117%
All other CT	42%	72%	-18%	73%	110%
Inheritance tax	38%	47%	-15%	63%	73%
Capital gains tax	53%	81%	10%	39%	65%
Stamp duties	118%	139%	23%	77%	93%
Income tax : excess over basic rate	49%	91%	7%	39%	78%

Percentage change in real terms (RPI)

	1978-79 to 1986-87	1978-79 to 1987-88	1978-79 to 1982-83	1982-83 to 1986-87	1982-83 to 1987-88
Corporation tax	75%	88%	-10%	95%	109%
of which: North Sea CT	1385%	652%	248%	326%	116%
All other CT	43%	74%	-17%	71%	109%
Inheritance tax	39%	48%	-14%	61%	72%
Capital gains tax	54%	83%	11%	38%	64%
Stamp duties	120%	141%	25%	75%	92%
Income tax : excess over basic rate	50%	93%	9%	38%	77%

- Notes : 1. Income tax figures are on an accrual basis.
2. Inheritance tax includes capital transfer tax and estate duty.

BUDGET CONFIDENTIAL**NEW PARAGRAPH E21A**

And the picture is the same for other taxes. The capital gains tax exempt amount has gone up substantially, and indexation relief has been introduced - but the yield next year, after taking account of inflation, will be nearly double that in 1978-79.

The yield of stamp duty has more than doubled in real terms, although the rate has been halved generally and cut by 75 per cent for shares. And corporation tax is expected to bring in nearly 90 per cent more in real terms next year than in 1978-79.

NEW PARAGRAPH E21B

These figures testify to the extra activity and widespread prosperity in a flourishing economy. Hon Members opposite - who are pledged to increase most if not all of these tax rates - should take heed. It is far from certain that they would raise any extra revenue. But the damage they would cause to the economy is clear.



FROM: J J HEYWOOD
DATE: 6 March 1987

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Battishill IR
Mr Isaac IR
Mr Painter IR
Mr Beighton IR

BUDGET STATEMENT: TAXATION SECTION: THIRD DRAFT

The Financial Secretary has some suggestions to offer on the latest draft of the Budget Statement [your (BLO) note of 2 March and attachment].

2. First, a general comment on the tone of the whole statement. The Financial Secretary thinks that it is important not to be too partisan, if the Chancellor is to be given a good hearing in the House.

3. On the "third draft" the Financial Secretary has a series of detailed suggestions:

- (i) **Paragraph D12:** since the difference in treatment has already led to abuse, the Financial Secretary suggests a redraft. "This difference in treatment of different companies cannot be justified and has been abused by some companies. In order to prevent the timing of a substantial proportion of the total Corporation Tax yield being put at risk, I propose" running into the rest of paragraph D13.

*No. Not "In order to..."
As agreed at Overnew,
the main purpose is
streamlining.*

BUDGET: SECRET

(ii) **Paragraph D20:** the Financial Secretary is not convinced that the passage on oil measures should include no estimate of net cost. He will consider this further at his meeting on Monday.

(iii) **Paragraph D22:** the Financial Secretary thinks this needs some amplification. He suggests retaining the first three sentences and continuing: "I propose to extend the rules to include post-production distribution activities. Second, there have been complaints that the present rules produce end-year bunching of BES investments and hence crowd out some projects and lead to bad decisions on others. I propose to permit the investor to claim part of the relief against his previous year's income. This will make it easier for BES companies to raise finance throughout the year."

A

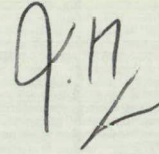
(iv) **Paragraph D23:** the Financial Secretary has had a go at drafting something here: "Training and retraining are vital to a dynamic, flexible, and competitive economy. Some companies may be willing to help with the retraining of workers who are to be deployed in other industries. Under the present rules, if companies give help with training unrelated to an employee's existing job this can give rise to a taxable charge on the employee. I propose to take such training out of tax, to encourage more companies to help employees who are moving jobs to acquire new skills."

finance

(v) **Paragraph E17:** Add "These changes will be of benefit to unquoted companies and to heritage properties, both of which are often held in trust."

BUDGET: SECRET

(vi) Paragraph E19: the Financial Secretary prefers "family house" to "family home."

A handwritten signature in dark ink, appearing to be 'J. Heywood', with a stylized flourish at the end.

JEREMY HEYWOOD
Private Secretary

BUDGET: SECRET

FROM: P N SEDGWICK
DATE: 9 MARCH 1987

MR ALLAN

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Odling-Smee
Mr Culpin
Mr S Davies
Mr Mowl
Miss O'Mara
Ms Evans

BUDGET STATEMENT : CHANCELLOR'S DRAFT

You asked me to check the figures in square brackets in B7. I have added a few more comments on the numbers.

Paragraph B3

The very latest estimates of average growth at an annual rate since 1981H1 are

GDP(O)	GDP(A)
2.83%	2.66%

I suggest that the second sentence of this paragraph refers to "growth approaching 3 per cent a year". The same point applies as well to paragraph D11.

Paragraph B6: first sentence

Given the data so far available we can only say that manufacturing productivity growth has surged.

Paragraph B7

For information the cumulative current account surplus between May 1979 and December 1985 is - taking account of the CSO's latest revisions - £20.2bn.

The oil trade surplus is shown below

	£ billion	
1985	8.1	9.2 (adjusted for coal strike)
1986	4.2	4.2

I think it is correct to quote the figure for the change in oil trade on a coal strike adjusted basis, so the £5bn. figure should stand.

P.N.J
P N SEDGWICK

Paragraph B10

Not sure.
In some ways it would be better to err on the pessimistic side. Politically, the figure will still be higher than at the time of the ~~late~~ last Election.

In the light of the strong possibility of a relatively early mortgage rate cut (none seen) we should put the 5 per cent figure in currency. I suggest in the first sentence

"..... perhaps it just was 4 1/2 per cent, before falling back"

YEAR GDP(A) GROWTH RATE

YEAR	GDP(A)	GROWTH RATE
1948	45.9	
1949	47.6	3.7
1950	49.3	3.6
1951	50.2	1.8
1952	50.5	0.6
1953	52.4	3.8
1954	54.6	4.2
1955	56.5	3.5
1956	57.3	1.4
1957	58.2	1.6
1958	58.0	-0.3
1959	60.3	4.0
1960	63.7	5.6
1961	65.3	2.5
1962	66.2	1.4
1963	68.9	4.1
1964	72.7	5.5
1965	74.8	2.9
1966	76.1	1.7
1967	77.8	2.2
1968	81.1	4.2
1969	83.0	2.3
1970	84.7	2.0
1971	85.9	1.4
1972	88.1	2.6
1973	94.5	7.3
1974	92.9	-1.7
1975	92.0	-1.0
1976	94.4	2.6
1977	96.9	2.6
1978	99.7	2.9
1979	102.4	2.7
1980	100.0	-2.3
1981	98.8	-1.2
1982	100.3	1.5
1983	103.8	3.5
1984	106.6	2.7
1985	110.3	3.5
1986	113.1	2.5
1987	116.6	3.1

1962 11/2
1981/2
 ↓
1986/7

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FROM: A C S ALLAN

DATE: 9 March 1987

MR SCHOLAR

- cc Chief Secretary
- Financial Secretary (2)
- Economic Secretary (2)
- Minister of State (2)
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr F E R Butler
- Mr Wilson
- Mr Cassell
- Mr Monck
- Mr Sedgwick
- Mr Odling-Smee
- Mr Culpin
- Mr Miss O'Mara
- Miss Sinclair
- Miss Evans ← Mr Hudson
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
- Mr Battishill - IR
- Mr Isaac - IR
- Mr Painter - IR
- Mr Beighton - IR
- Mr McManus - IR
- Sir Angus Fraser - C&E
- Mr Knox - C&E
- Mr Wilmott - C&E
- Mr Bone - C&E

Ch...

*In addition, no
for small change
to present
F 6A, line 6: 'both...'
F 10, line 5: '...'
F 12, line 1: 'after...'*

BUDGET STATEMENT: TAXATION SECTION: FOURTH DRAFT

The Chancellor was grateful for the comments on the third draft of the taxation section.

... 2. I attach the fourth draft. Please could I have any comments by 6.00 pm tomorrow (Tuesday 10th).

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3. As I noted in my earlier minute of today, the sections and paragraphs have been renumbered.

4. The Chancellor will be doing further work on the pension section himself, and is thinking further about how to deploy the figures for yields of taxes in 1978-79 and 1987-88.

ACSA

A C S ALLAN

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E. BUSINESS AND ENTERPRISE

E1. I now turn to taxation. First, taxes on business.

E2. The fundamental reform of the Corporation Tax system which I introduced in 1984 came fully into effect last April. The new system has undoubtedly improved the quality of business investment decisions in Britain, and is also encouraging more overseas companies to set up here.

E3. During the transition to the new system, companies were given advance notice of the main rate of Corporation Tax for the year ahead. This helped them in their forward planning, and I intend as far as possible to continue the practice of setting the rate in advance. Accordingly, I can announce now that the main rate of Corporation Tax ~~in 1987-88~~ will be unchanged at 35 per cent - lower than in any other major industrial nation, though the United States is now set to emulate us.

E4. The low rate of Corporation Tax enables me to introduced a further simplification into the system.

*IR may strictly "for the financial year 1987".
Ignore?*

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E5. At present, while companies' capital gains are liable to Corporation Tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as that on capital gains made by individuals. This dates back to the time when the two rates of tax were far apart.

E6. This is no longer the case: indeed, the Corporation Tax rate for small companies is now below the Capital Gains Tax rate.

E7. I therefore propose that, from today, companies' capital gains be charged at the appropriate Corporation Tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.

E8. It has, however, been argued that ~~capital gains~~ ^{distributed in dividends} ~~made by companies~~ ^{capital gains as dividends, the gains are} can in some cases be taxed twice, once in the hands of the company and once in the hands of the shareholder. I believe there is some justice in this complaint. Accordingly, I propose to remedy it by allowing companies to set payments of Advance Corporation Tax against their liability to tax on capital gains.

E9. Taken together, these changes should yield £60 million in 1988-89.

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IR (see minute -
John Isaac, I gather)
APH drafting suggestion.

It is wrong that,
where companies distribute

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MCS (But there are 2!)
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E10. I also have some further simplifications and rationalisation of the Corporation Tax system to announce.

E11. At present, ^{some} companies established before 1965 do not have to pay their Corporation Tax until up to 21 months after the end of the period for which it is due, whereas companies established since 1965 have to pay their tax after 9 months - and some building societies have to pay sooner still.

E12. This difference in treatment cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total Corporation Tax yield at risk.

E13. I therefore propose that all companies and building societies should be treated the same way, with all liable to pay Corporation Tax nine months after the end of the accounting period on which the tax is due. The change will be phased in, but I would expect it to yield around £100 million in 1988-89.

E14. I also propose to legislate now to pave the way for a new method of collecting Corporation Tax, to be known as Pay and File. At present, many company accounts are not received in time to agree the tax liability before payment is due. So there is a

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laborious process of an estimated assessment from the Inland Revenue and an appeal from the company. Under Pay and File companies will estimate their tax liabilities themselves, and pay on the normal due date. Tax liabilities will be finalised once companies submit their returns and accounts. Where it turns out that the initial payment was too low, the company will pay interest to the Revenue; where the initial payment was too high, the Revenue will pay interest to the company.

E15. This new approach was set out in last December's consultative document on the recommendations in the Keith Committee Report, and was generally welcomed by the business community and their tax advisers.

E16. As this change is part of a wider programme of streamlining tax collection, including major developments in the Inland Revenue's computer systems, it will not come into force until the early 1990s. But by legislating now I am giving taxpayers and their advisers a firm basis on which to prepare for the new scheme.

E17. While business and industry as a whole is doing well, the North Sea oil sector has inevitably been hard hit by last year's oil price collapse. My Rt Hon Friend the Secretary of State for Energy and I

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have followed closely the effects on North Sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the companies themselves have ^{repeatedly} always stressed their desire for stability.

E18. However, in the light of the immediate problems, I introduced last autumn legislation to bring forward the repayment of over £300 million of Advance Petroleum Revenue Tax. This has already helped many of the smaller and medium-sized companies faced with cash flow difficulties.

E19. I now propose two further Petroleum Revenue Tax reliefs. First, as from today companies may elect to have up to 10 per cent of the costs of developing certain new fields set against their Petroleum Revenue Tax liabilities in existing fields, until such time as the income of those new fields exceeds the costs incurred. Second, there will be a new relief against PRT for ^{that is} ^{spending on} research ^{into UK} ^h spending ^h on oil extraction not related to any particular field.

E20. I hope that these carefully targeted changes will give a worthwhile measure of help to the North Sea oil sector.

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IR point out this year they're after tax breaks!

h or Shell, which
Cham told me
he didn't want
tax breaks,
but preferred
stability.

IR / APH

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IR

E21. I have to set the 1988-89 car and car fuel benefit scales for those with company cars. The car scale charges still fall well short of the true value of the benefit, and as last year I propose to increase them by 10 per cent. There will be no change in the car fuel benefit scales which, ^{as already} ~~from~~ ^{announced} 6 April, will also be used for VAT purposes, ^{from 6 April.}

E22. Last year I put the Business Expansion Scheme onto a permanent footing. This year I have two further improvements to propose. First, the rules will be relaxed to make it easier for independent film companies to benefit from the scheme. Second, there have been complaints that the present rules produce end-year bunching of BES investments, and hence crowd out some projects and lead to bad decisions on others. I propose therefore to permit the investor to claim part of the relief against his previous year's income. This will make it easier for companies to raise BES finance throughout the year.

IR (contracted by me)

E23. Training and retraining are vital to a flexible and competitive economy. Some ^{employers} ~~companies~~ may be willing to help with the retraining of workers who wish to ^{move on to a different} ~~change their~~ job. At present if ^{employers} ~~companies~~ finance training unrelated to an employee's existing job, ~~this is liable to be taxed as a benefit in kind.~~ I propose to take assistance with training

the employee will generally be liable to tax on the cost. I propose to exempt from tax the cost of training in this kind of case,

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~~out of tax~~, to encourage more companies to help employees ~~who are moving jobs~~ to acquire new skills, *for new jobs.*

E24. The past few years have seen a remarkable and most welcome growth in the number of small businesses and the self-employed. The Government has done a great deal to lighten the burdens on this vitally important sector of the economy. But I am well aware that problems remain, not least in the field of VAT.

E25. Accordingly, I asked Customs and Excise to issue a consultative document last autumn canvassing a number of changes. In the light of the responses to that document, I have four proposals to make.

E26. Perhaps the biggest problem faced by the small businessman today is the trade customer who is late in paying his bills: so late, sometimes, that VAT becomes due before the bill has been paid. I can do nothing about late payment; but I can, I hope, do something about the VAT problem.

E27. My first and most important proposal, therefore, is that, as from 1 October, ^{businesses!} ~~companies~~ whose annual turnover is under £½ million, which means ~~roughly half of all traders~~ ^{over nine thousand registered for VAT, below the VAT threshold} ~~[who pay VAT]~~ ^{in future} will be able to choose to account for VAT on the

[not many unincorporated] X

See minute from MS71

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basis of cash paid and received. In other words, they will have no liability to pay VAT until they themselves have received the money from their customers. In addition to easing the cash flow problems caused by late payers, this system will of course provide automatic VAT relief for bad debts.

E28. I have to warn the House, however, that I cannot legally introduce this change without first obtaining a derogation from the European Community's Sixth VAT Directive. I am applying for the necessary derogation today. The House will note that the upper limit of £¼ million is considerably greater than the £100,000 suggested in the consultative document.

E29. Second, I propose to give these businesses the option of accounting for VAT on an annual basis. Instead of making quarterly returns, they would make regular payments on account, and then file a single return at the end of the year. This option, which offers considerable streamlining, will be available next year.

E30. Third, the period within which businesses must apply to be registered for VAT will be extended from ten to thirty days.

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E31. ~~Fourth, there will be~~ changes to the rules for the special VAT schemes for retailers, and more small and medium-sized businesses will be able to make use of the simpler schemes.

E32. I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. The cost will be £115 million in 1987-88 and £60 million in 1988-89.

E33. In addition, I propose to increase the VAT threshold to £21,300, ^{to maintain it at} the maximum permitted under existing European Community law.

E34. ~~The House will also be pleased to know that,~~ in the light of the responses to the consultative document, I shall not be going ahead either with the withdrawal of the so-called standard method by which retailers calculate their gross takings for VAT, or with the compulsory deregistration of traders below the VAT threshold.

E35. I have one further measure to help the small businessman, unrelated to VAT. I propose to increase the limit for Capital Gains Tax retirement relief by 25 per cent, from £100,000 to £125,000. ^{As usual,} ~~At the same time~~ the annual ^{Capital Gains Tax} exempt amount will be increased, ~~to £6,600,~~ in line with statutory indexation, ^{to £76,600.}

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MCS

CST
(Alex + agree)

Speaks in.
More explanation.

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Handwritten notes in red ink:
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E36. An essential element in any ongoing programme of tax reduction and reform must always be the elimination of unintended or unjustified tax breaks which cause rates of tax generally to be higher than they need to be. Accordingly, I have five proposals to make today to this end.

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There will be spread
among us to
do with the
problem of brewers'
taxed hours. I am
also taking the opportunity
of the new rules to
exclude larger
number of
smaller
businesses
from
the
tax
under
the
provision
altogether.

E37. The first concerns VAT, and has already been the subject of extensive consultation. The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases. But where the activities of a business are in part liable to VAT and in part exempt, the existing rules are excessively generous as to the amount of input tax that can be deducted, and this generosity is being exploited on a growing scale. The rules must therefore be changed, and the changes, which I announced to the House last December, will come into effect on 1 April.

Handwritten notes in blue ink:
MS7 - C & E not
happy about picking out
brewers - but the rest
is helpful.
Many small businesses
will no longer be affected;
and special arrangements will
be made where necessary to meet
the needs of particular
industries. Such an
arrangement has, for example,
already been made for the
brewing industry.

For small businesses, there will be a simpler system, and special reliefs. The yield from this, ^{change,} which in effect is a measure of the potential revenue loss, will be some £300 million in 1987-88 and £400 million in 1988-89.

E38. Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment.

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Genuine trading companies will not be affected. This change, which will take effect on 1 April, follows the similar action recently taken by the United States. The change will yield £125 million in 1988-89.

E39. Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely. This will bring our rules broadly into line with those in most other countries. The change will apply from 1 April this year for new loans and from 1 April next year for existing loans. It will yield some £20 million in 1988-89.

APH
MCS
EST/IR
E40. Fourth, ~~I propose to bring to an end the unsatisfactory tax treatment of Lloyd's syndicates as it applies to the Reinsurance to Close system.~~ I therefore propose to bring ~~the tax treatment of Lloyd's~~ into line with ~~the tax treatment of~~ provisions for outstanding liabilities made by ordinary insurance companies and, indeed, of ~~similar provisions~~ made by other financial traders. I have asked the Inland Revenue to consult urgently with Lloyd's about the details of the legislation. The new rules will first apply to premiums payable

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for the Lloyds account which closes on 31 December this year. ~~The yield will depend on the precise details of the new treatment.~~

E41 Fifth, I also propose to implement the Keith Committee's recommendation that interest should be charged in the limited number of cases where PAYE is not applied properly and a formal assessment has to be made to recover the tax. The change will take effect from April next year, and the yield in 1988-89 is estimated at £45 million.

E42. I have one further proposal to make in the broad field of the taxation of business and enterprise.

E43. In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

E44. I pointed then to two considerable advantages that might be expected to flow from arrangements which relate pay to profits. First, the workforce would have a more direct personal interest in the profits earned by ~~their company~~ ^{business}; and, second, there would be a greater degree of pay flexibility in the face of changing market conditions, ^{Such flexibility} which is vital if, as a nation, we are to defeat the scourge of unemployment.

IR
[IR say unincorporated can use PRP too. True, but I don't think it helps here.] MCS

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E45. Last July I presented a Green Paper on Profit-Related Pay in conjunction with my Rt Hon and Noble Friend the Secretary of State for Employment and my Rt Hon Friend the Secretary of State for Trade and Industry. And I believe the time has come to introduce a scheme of tax relief broadly along the lines floated in the Green Paper.

E46. [The principal change I propose is to double] the proportion of an employee's profit-related pay that is eligible for tax relief from a quarter to a half, ^{up to a maximum of £3000.} So for someone on average earnings receiving 5 per cent of their pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax. The cost will inevitably depend on take-up: it could be £50 million in 1988-89, building up to substantially more than that, as take-up grows, and ^{the} ~~a~~ ^{higher} proportion of ^{an employee's} ~~the~~ pay which is profit-related goes up. ^{to £50 million}

E47. Profit-related pay is no panacea. But then there are no panaceas. What it is is a tool to help British business gradually to overcome one of our biggest national handicaps: the nature and behaviour of our labour market. I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their ^{business} ~~company~~ ^{firm}, their workforce and their country.

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[Sorry, should have spotted "the time has come" ~~for~~ at an earlier stage! ^{skill n X - of 1 mly Ann!}

MCS: My proposals depart from those in the Green Paper in one important respect. I am doubling

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IR

IR (see E 44)

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F. TAXES ON SAVING

F1. I turn now to the taxation of savings.

F2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

F3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the rapid growth of employee share schemes; through the massively successful privatisation programme, where Britain has led the world; and most recently through the new Personal Equity Plans, which I announced in last year's Budget and which started up on 1 January this year. In the first month of the scheme, more than 2,000 people a day took out Personal Equity Plans, many of them first-time investors, as I had hoped.

F4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979.

*Typist
Ignore this
section F.*

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✓ MCS

have been

There were, however, no official figures for the more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some 8½ million individual shareholders in this country - amounting to one fifth of the total adult population, and roughly three times the number there were in 1979.

F5. And then there is wider pension ownership. This will be brought about by the introduction on 1 January next year of the new personal pensions developed by my Rt Hon Friend the Secretary of State for Social Services.

F6. Personal pensions are an important dimension of ownership in three ways. First, they will enable employees - if they so wish - to opt out of their employers' schemes and make their own arrangements. Second, they will be a new opportunity for the 10 million employees who at present do not belong to an occupational scheme. And third, people may, again if they so wish, use them to contract out of SERPS.

F7. In my Budget last year I undertook to bring forward proposals to give personal pensions the same

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favourable tax treatment as is currently enjoyed by retirement annuities. These were duly contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

F8. The Bill will also implement other useful reforms proposed in the consultative document. In particular, employers will be permitted to set up simplified occupational schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme.

F9. In addition, I have decided to go beyond the proposals set out in the consultative document in one important respect. I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employer's schemes. They will be able to top their pensions right up to the present tax approval benefit limits.

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F10. The proposals I have outlined will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. It will widen the range of choices people can make about their pensions; and it will mean that in future they will have more control over the way in which their pension contributions are invested.

F11. But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include a stricter definition of final salary and, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated.

F12. The net cost of the overall package is estimated at £65 million in 1988-89, but will depend very much on take-up.

F13. In my 1984 Budget I reformed the limits that apply to tax exempt life assurance issued by friendly societies. I did so because the movement's

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tax privileges were being increasingly exploited by certain new Friendly Societies which had been set up for purely commercial reasons.

F14. However, I am anxious that the traditional Friendly Societies, which have played a valuable part in mutual self-help for many generations, should be able to plan for the future with confidence. I have therefore decided to replace the existing limit based on the sum assured with a new limit based on annual premiums. I propose to set this at £100 a year, which will greatly increase the scope of the traditional societies to offer life policies to their members.

F15. The tax-exempt limits governing sickness and accident benefits which trade unions provide for their members have not been changed since 1982. With effect from today, I propose to increase them to £3,000 for lump sums and £625 for annuities.

F16. Finally, in this section, I turn to Inheritance Tax.

F17. In my Budget last year I abolished the pernicious Capital Transfer Tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family business. This year I propose to extend the same

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exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession. This will not, however, apply to discretionary trusts. These changes will be of ^{particular} benefit to ^{family businesses} unquoted companies and to heritage properties, both of which are often held in trust.

F18. I also propose to make two minor changes affecting business assets. First, in what is perhaps an unwanted tribute to the unlisted securities market, holdings in USM companies will henceforth be treated for Inheritance Tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing. Second, business relief for minority holdings in excess of 25 per cent in unquoted companies will be increased from 30 per cent to 50 per cent. The purpose of both these changes is to concentrate business relief more accurately on those assets which could provide funds to pay the tax only at the risk of damaging the business.

MCS

F19. Thanks to the efforts of this Government, the tax regime for the ^{nation's} heritage has been much improved. Today, I have two further changes to propose. First, I am exempting from Inheritance Tax settled property that is put into a heritage maintenance fund within two years of the death of a life tenant. And second, I propose to improve the arrangements

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for acceptance of property in lieu of tax. In future, owners will have the choice of either the present system, or an arrangement under which no interest would be charged between the offer and acceptance, but the tax would ~~(in that case)~~ be based on the market value at the date of the offer and not, as now, at the date of acceptance.

F20. The abolition of the tax on lifetime giving was of the first importance to family businesses. But I remain conscious that it did little to help the smallest taxable estates, where the family home is often the main asset.

F21. I therefore propose to make a substantial increase in the threshold for Inheritance Tax, from £71,000 to £90,000, coupled with a simplification of the rate structure from seven rates to four. As a result of this change, the number of estates liable to Inheritance Tax will be cut by roughly a third. The cost will be £70⁵ million in 1987-88 and £160⁷ million in 1988-89.

F22. Despite this substantial relief, however, and all the other much-needed reliefs that my predecessor and I have introduced since 1979, the House may be interested to learn that the expected yield of Inheritance Tax in 1987-88, at ~~over~~^{almost} £1 billion, is nearly three times the yield of

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Capital Transfer Tax in 1978-79, an increase in real terms of over 50 per cent.

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*addition
Photographs
miss ✓ here.
Per M. S. L.*

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G. TAXES ON SPENDING

G1. I now turn to the taxation of spending.

G2. I have already announced some important changes in ^{value added tax} VAT to prevent avoidance and to help the small businessman. I have no other proposals for major changes in ^{VAT} value added tax this year.

G3. However, in the light of representations I have received, I have decided to extend slightly the VAT reliefs I introduced last year for certain aspects of charitable work.

G4. I propose to relieve charities from VAT on certain welfare vehicles used by hospices to transport the terminally ill; on installing or adapting lavatory or bathroom facilities in charity homes for the disabled; on drugs and chemicals used by a charity in medical research; and on specialised location and identification equipment employed by mountain rescue and first aid services.

G5. While on the subject of charitable giving, I should remind the House that this year's Finance Bill will increase the limit on donations to charity under the new payroll giving scheme, which starts next month, from £100 to £120 a year.

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G6. Next, the excise duties. I propose to maintain the revenue ~~I get~~ from the taxation of gambling, but to make some readjustment within the total. I therefore propose to increase the gaming machine licence duty by about a quarter, which will restore it in real terms to its 1982 level, when it was last increased; and to offset this by abolishing, from 29 March, the tax on on-course betting. I hope this measure will be of some assistance to the racing and bloodstock industry, ~~as~~ as well as consoling those hon Members who have complained to me about the clash this year between Budget Day and the Champion Hurdle.

G7. In my Budget Statement last year, I gave advance notice of my intention to introduce a tax differential in favour of unleaded petrol so as to offset its higher production cost. I can now announce that the differential will be 5 pence a gallon, ~~including VAT~~ ^h. This means that the pump price of unleaded petrol should be no higher than that of 4-star leaded petrol. The change will take effect from 6 o'clock this evening.

G8. Following on from the action I took last year, I propose to increase the rates of Vehicle Excise Duty on farmers' lorries, to bring them into line with the use they make of the public roads. This change will take effect from midnight tonight. I

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MCS "not very Budget speech-like"

MS7 - ignore?
(We've got "tax" not "duty" in line 2)

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also propose to increase the rates of duty on trade licences and to rationalise the taxation of recovery vehicles.

G9. I have no further changes to propose this year in the rates of excise duty ~~on any dutiable product.~~

MST (see minute)
- ignore?

I will take a sip from your @ this point, msh.

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H. INCOME TAX

H1. Finally, I turn to income tax.

H2. There is now a worldwide consensus on the economic desirability of tax reform and tax reduction, and in particular the reduction of income tax. This was demonstrated most recently by the various national policy declarations that emerged from last month's meeting of Finance Ministers from the major industrial nations.

H3. Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to improved economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; only by improving our economic performance that we will be able to create jobs on the scale we all want to see.

H4. That is why, ever since we first took office in 1979, we have consistently sought to reduce the burden of income tax. We have cut the basic rate of tax from 33 per cent to 29 per cent and sharply reduced the punitive higher rates we inherited from the Party opposite. We have increased the main tax allowances by 22 per cent more than inflation,

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taking almost 1½ million people out of income tax altogether.

H5. For 1987-88 I propose to raise all the main thresholds and allowances by the statutory indexation factor of 3.7 per cent, rounded up. Thus the single person's allowance will rise by £90 to £2,425 and the married man's allowance by £140 to £3,795. The single age allowance will rise by £110 to £2,960 and the married age allowance by £170 to £4,675. The age allowance income limit becomes £9,800. I propose to raise the first, 40 per cent, higher rate threshold by £700 to £17,900, in line with statutory indexation; but the threshold for the 45 per cent rate will go up by only £200 to £20,400. The other higher rate thresholds will remain unchanged.

H6. I have two other changes in allowances to announce. First, I propose to give an additional increase in the age allowance for those aged 80 or over. For them, the increase will be double the amount due under statutory indexation, so that, for the very elderly, the single age allowance will rise by £220 to £3,070 and the married age allowance by £340 to £4,845. Around 400,000 taxpayers will benefit from this new measure, and up to 25,000 of them will be taken out of income tax altogether.

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H7. Second, the blind person's allowance has remained unchanged since 1981, when it was increased by £180 to its present level of £360. For 1987-88 I propose to increase it by a further £180, to £540.

H8. Finally, I turn to the basic rate of income tax. This is the starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

H9. In my Budget speech last year I reaffirmed the aim set out by my predecessor in 1979, to reduce the basic rate of income tax to no more than 25 per cent. That remains my firm objective.

H10. However, given my decision to use the greater part of the fiscal scope I now have to reduce the Public Sector Borrowing Requirement, that goal cannot be achieved in this Budget.

H11. I can, however, take a further step towards it, as I did last year. I am therefore reducing the basic rate of income tax by twopence, to 27 per cent. This reduction will be worth over £3 a week to a married man on average earnings.

H12. There will, of course, be a consequential reduction in the rate of Advance Corporation Tax, and - as last year - I also propose a corresponding

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cut in the small companies' rate of Corporation Tax from 29 per cent to 27 per cent. Taken together with the income tax change, this will mean a significant reduction in the tax burden on small businesses, which are so crucial for future growth and employment.

H13. The income tax changes I have announced today will take effect under PAYE on the first pay day after 17 May. They will cost a little over £2 billion in 1987-88 over and above the cost of statutory indexation.

H14. The overall cost of all the measures in this year's Budget, again on an indexed basis, is a little over £2½ billion. This is ~~fully consistent~~ with my objective of a PSBR of £4 billion.

IR - ignore?

MCS: could make more of this.
APH, e.g. "And I have been able to ~~do this~~ make this reduction at the same time as achieving my objective... "

As I ~~have~~ ~~been~~ ~~able~~ to make the worthwhile reduction in tax which still achieves my objective of a PSBR of £4 billion.

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FROM: A C S ALLAN

DATE: 9 March 1987

MR SCHOLAR

- cc Chief Secretary
- Financial Secretary (2)
- Economic Secretary (2)
- Minister of State (2)
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr F E R Butler
- Mr Wilson
- Mr Cassell
- Mr Monck
- Mr Sedgwick
- Mr Odling-Smee
- Mr Culpin
- Mr Miss O'Mara
- Miss Sinclair
- Miss Evans
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
- Mr Battishill - IR
- Mr Isaac - IR
- Mr Painter - IR
- Mr Beighton - IR
- Mr McManus - IR
- Sir Angus Fraser - C&E
- Mr Knox - C&E
- Mr Wilmott - C&E
- Mr Bone - C&E

*cd this party to
re-type
and send about para F 23, 9
(There is no para of
update section F the para of
the new section)*

BUDGET STATEMENT: TAXATION SECTION: FOURTH DRAFT

The Chancellor was grateful for the comments on the third draft of the taxation section.

- ... 2. I attach the fourth draft. Please could I have any comments by 6.00 pm tomorrow (Tuesday 10th).

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3. As I noted in my earlier minute of today, the sections and paragraphs have been renumbered.

4. The Chancellor will be doing further work on the pension section himself, and is thinking further about how to deploy the figures for yields of taxes in 1978-79 and 1987-88.

ACSA

A C S ALLAN

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E. BUSINESS AND ENTERPRISE

E1. I now turn to taxation. First, taxes on business.

E2. The fundamental reform of the Corporation Tax system which I introduced in 1984 came fully into effect last April. The new system has undoubtedly improved the quality of business investment decisions in Britain, and is also encouraging more overseas companies to set up here.

E3. During the transition to the new system, companies were given advance notice of the main rate of Corporation Tax for the year ahead. This helped them in their forward planning, and I intend as far as possible to continue the practice of setting the rate in advance. Accordingly, I can announce now that the main rate of Corporation Tax in 1987-88 will be unchanged at 35 per cent - lower than in any other major industrial nation, though the United States is now set to emulate us.

E4. The low rate of Corporation Tax enables me to introduced a further simplification into the system.

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E5. At present, while companies' capital gains are liable to Corporation Tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as that on capital gains made by individuals. This dates back to the time when the two rates of tax were far apart.

E6. This is no longer the case: indeed, the Corporation Tax rate for small companies is now below the Capital Gains Tax rate.

E7. I therefore propose that, from today, companies' capital gains be charged at the appropriate Corporation Tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.

E8. It has, however, been argued that capital gains made by companies can in some cases be taxed twice, once in the hands of the company and once in the hands of the shareholder. I believe there is some justice in this complaint. Accordingly, I propose to remedy it by allowing companies to set payments of Advance Corporation Tax against their liability to tax on capital gains.

E9. Taken together, these changes should yield £60 million in 1988-89.

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E10. I also have some further simplifications and rationalisation of the Corporation Tax system to announce.

E11. At present, companies established before 1965 do not have to pay their Corporation Tax until up to 21 months after the end of the period for which it is due, whereas companies established since 1965 have to pay their tax after 9 months - and some building societies have to pay sooner still.

E12. This difference in treatment cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total Corporation Tax yield at risk.

E13. I therefore propose that all companies and building societies should be treated the same way, with all liable to pay Corporation Tax nine months after the end of the accounting period on which the tax is due. The change will be phased in, but I would expect it to yield around £100 million in 1988-89.

E14. I also propose to legislate now to pave the way for a new method of collecting Corporation Tax, to be known as Pay and File. At present, many company accounts are not received in time to agree the tax liability before payment is due. So there is a

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laborious process of an estimated assessment from the Inland Revenue and an appeal from the company. Under Pay and File companies will estimate their tax liabilities themselves, and pay on the normal due date. Tax liabilities will be finalised once companies submit their returns and accounts. Where it turns out that the initial payment was too low, the company will pay interest to the Revenue; where the initial payment was too high, the Revenue will pay interest to the company.

E15. This new approach was set out in last December's consultative document on the recommendations in the Keith Committee Report, and was generally welcomed by the business community and their tax advisers.

E16. As this change is part of a wider programme of streamlining tax collection, including major developments in the Inland Revenue's computer systems, it will not come into force until the early 1990s. But by legislating now I am giving taxpayers and their advisers a firm basis on which to prepare for the new scheme.

E17. While business and industry as a whole is doing well, the North Sea oil sector has inevitably been hard hit by last year's oil price collapse. My Rt Hon Friend the Secretary of State for Energy and I

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have followed closely the effects on North Sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the companies themselves have always stressed their desire for stability.

E18. However, in the light of the immediate problems, I introduced last autumn legislation to bring forward the repayment of over £300 million of Advance Petroleum Revenue Tax. This has already helped many of the smaller and medium-sized companies faced with cash flow difficulties.

E19. I now propose two further Petroleum Revenue Tax reliefs. First, as from today companies may elect to have up to 10 per cent of the costs of developing certain new fields set against their Petroleum Revenue Tax liabilities in existing fields, until such time as the income of those new fields exceeds the costs incurred. Second, there will be a new relief against PRT for research spending on oil extraction not related to any particular field.

E20. I hope that these carefully targeted changes will give a worthwhile measure of help to the North Sea oil sector.

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E21. I have to set the 1988-89 car and car fuel benefit scales for those with company cars. The car scale charges still fall well short of the true value of the benefit, and as last year I propose to increase them by 10 per cent. There will be no change in the car fuel benefit scales which, from 6 April, will also be used for VAT purposes.

E22. Last year I put the Business Expansion Scheme onto a permanent footing. This year I have two further improvements to propose. First, the rules will be relaxed to make it easier for independent film companies to benefit from the scheme. Second, there have been complaints that the present rules produce end-year bunching of BES investments, and hence crowd out some projects and lead to bad decisions on others. I propose therefore to permit the investor to claim part of the relief against his previous year's income. This will make it easier for companies to raise BES finance throughout the year.

E23. Training and retraining are vital to a flexible and competitive economy. Some companies may be willing to help with the retraining of workers who wish to change their job. At present if companies finance training unrelated to an employee's existing job this is liable to be taxed as a benefit in kind. I propose to take assistance with training

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out of tax, to encourage more companies to help employees who are moving jobs to acquire new skills.

E24. The past few years have seen a remarkable and most welcome growth in the number of small businesses and the self-employed. The Government has done a great deal to lighten the burdens on this vitally important sector of the economy. But I am well aware that problems remain, not least in the field of VAT.

E25. Accordingly, I asked Customs and Excise to issue a consultative document last autumn canvassing a number of changes. In the light of the responses to that document, I have four proposals to make.

E26. Perhaps the biggest problem faced by the small businessman today is the trade customer who is late in paying his bills: so late, sometimes, that VAT becomes due before the bill has been paid. I can do nothing about late payment; but I can, I hope, do something about the VAT problem.

E27. My first and most important proposal, therefore, is that, as from 1 October, companies whose annual turnover is under £¼ million, which means roughly half of all traders [who pay VAT,] will be able to choose to account for VAT on the

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basis of cash paid and received. In other words, they will have no liability to pay VAT until they themselves have received the money from their customers. In addition to easing the cash flow problems caused by late payers, this system will of course provide automatic VAT relief for bad debts.

E28. I have to warn the House, however, that I cannot legally introduce this change without first obtaining a derogation from the European Community's Sixth VAT Directive. I am applying for the necessary derogation today. The House will note that the upper limit of £½ million is considerably greater than the £100,000 suggested in the consultative document.

E29. Second, I propose to give these businesses the option of accounting for VAT on an annual basis. Instead of making quarterly returns, they would make regular payments on account, and then file a single return at the end of the year. This option, which offers considerable streamlining, will be available next year.

E30. Third, the period within which businesses must apply to be registered for VAT will be extended from ten to thirty days.

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E31. Fourth, there will be changes to the rules for the special VAT schemes for retailers, and more small and medium-sized businesses will be able to make use of the simpler schemes.

E32. I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. The cost will be £115 million in 1987-88 and £60 million in 1988-89.

E33. In addition, I propose to increase the VAT threshold to £21,300, the maximum permitted under existing European Community law.

E34. The House will also be pleased to know that, in the light of the responses to the consultative document, I shall not be going ahead either with the withdrawal of the so-called standard method by which retailers calculate their gross takings for VAT, or with the compulsory deregistration of traders below the VAT threshold.

E35. I have one further measure to help the small businessman, unrelated to VAT. I propose to increase the limit for Capital Gains Tax retirement relief by 25 per cent, from £100,000 to £125,000. At the same time the annual exempt amount will be increased to £6,600, in line with statutory indexation.

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E36. An essential element in any ongoing programme of tax reduction and reform must always be the elimination of unintended or unjustified tax breaks which cause rates of tax generally to be higher than they need to be. Accordingly, I have five proposals to make today to this end.

E37. The first concerns VAT, and has already been the subject of extensive consultation. The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases. But where the activities of a business are in part liable to VAT and in part exempt, the existing rules are excessively generous as to the amount of input tax that can be deducted, and this generosity is being exploited on a growing scale. The rules must therefore be changed, and the changes, which I announced to the House last December, will come into effect on 1 April. For small businesses, there will be a simpler system, and special reliefs. The yield from this, which in effect is a measure of the potential revenue loss, will be some £300 million in 1987-88 and £400 million in 1988-89.

E38. Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment.

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Genuine trading companies will not be affected. This change, which will take effect on 1 April, follows the similar action recently taken by the United States. The change will yield £125 million in 1988-89.

E39. Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely. This will bring our rules broadly into line with those in most other countries. The change will apply from 1 April this year for new loans and from 1 April next year for existing loans. It will yield some £20 million in 1988-89.

E40. Fourth, I propose to bring to an end the unsatisfactory tax treatment of Lloyd's syndicates as it applies to the Reinsurance to Close system. I therefore propose to bring the tax treatment of Lloyd's into line with the tax treatment of provisions for outstanding liabilities made by ordinary insurance companies and, indeed, of similar provision made by other financial traders. I have asked the Inland Revenue to consult urgently with Lloyd's about the details of the legislation. The new rules will first apply to premiums payable

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for the Lloyds account which closes on 31 December this year. ~~The yield will depend on the precise details of the new treatment.~~

E41 Fifth, I also propose to implement the Keith Committee's recommendation that interest should be charged in the limited number of cases where PAYE is not applied properly and a formal assessment has to be made to recover the tax. The change will take effect from April next year, and the yield in 1988-89 is estimated at £45 million.

E42. I have one further proposal to make in the broad field of the taxation of business and enterprise.

E43. In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

E44. I pointed then to two considerable advantages that might be expected to flow from arrangements which relate pay to profits. First, the workforce would have a more direct personal interest in the profits earned by their company; and, second, there would be a greater degree of pay flexibility in the face of changing market conditions, which is vital if, as a nation, we are to defeat the scourge of unemployment.

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E45. Last July I presented a Green Paper on Profit-Related Pay in conjunction with my Rt Hon and Noble Friend the Secretary of State for Employment and my Rt Hon Friend the Secretary of State for Trade and Industry. And I believe the time has come to introduce a scheme of tax relief broadly along the lines floated in the Green Paper.

E46. The principal change I propose is to double the proportion of an employee's profit-related pay that is eligible for tax relief from a quarter to a half. So for someone on average earnings receiving 5 per cent of their pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax. The cost will inevitably depend on take-up: it could be £50 million in 1988-89, building up to substantially more than that as take-up grows.

E47. Profit-related pay is no panacea. But then there are no panaceas. What it is is a tool to help British business gradually to overcome one of our biggest national handicaps: the nature and behaviour of our labour market. I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their company, their workforce and their country.

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F. TAXES ON SAVING (REVISED 10.03.87)

F1. I turn now to the taxation of savings.

F2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

F3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the rapid growth of employee share schemes; through the massively successful privatisation programme, where Britain has led the world; and most recently through the new Personal Equity Plans, which I announced in last year's Budget and which started up on 1 January this year. In the first month of the scheme, more than 2,000 people a day took out Personal Equity Plans, many of them first-time investors, as I had hoped.

F4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979.

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There were, however, no official figures for the more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some 8½ million individual shareholders in this country - amounting to one fifth of the total adult population, and roughly three times the number there were in 1979.

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F5. And then there is wider pension ownership. Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement. We have already introduced a number of important new measures to that end, and the tax changes I am announcing today will complete the picture.

F6. The cornerstone of the Government's pensions strategy is the introduction of an entirely new means of provision for retirement, developed by my Rt Hon Friend the Secretary of State for Social Services: the personal pension.

F6A. Personal pensions are an important new dimension of ownership. They will enable

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employees - if they so wish - to opt out of their employers' schemes and make their own arrangements, tailored to fit their own circumstances. And they will ^{provide} be a new opportunity for the 10 million employees who at present do not belong to an occupational scheme to make provision of their own and, if they so wish, to contract out of SERPS.

F7. In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

F8. In addition, to encourage a wider spread of occupational schemes, employers will be able to set up simplified schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme. Again, the Finance Bill will contain the necessary tax provisions.

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Finally, I have decided to go beyond the proposals set out in the consultative document in one important respect. I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

F10. The proposals I have outlined - along with the measures my Rt Hon Friend has already taken - will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. They will widen the range of choices people can make about their pensions; and will mean that in future individuals will have much more control over the way in which their own pension contributions are invested.

F10A Taken as a whole, the changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers, and much greater freedom for individuals to plan their own pensions. This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities.

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F11. But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include a stricter definition of final salary and, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated.

F12. The cost of the overall ^{pensions} package will inevitably depend on take up, but with that proviso is estimated at £65 million in 1988-89.

F13. In my 1984 Budget I reformed the limits that apply to tax exempt life assurance issued by friendly societies. I did so because the movement's tax privileges were being increasingly exploited by certain new Friendly Societies which had been set up for purely commercial reasons.

F14. However, I am anxious that the traditional Friendly Societies, which have played a valuable part in mutual self-help for many generations, should be able to plan for the future with confidence. I have therefore decided to replace the

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existing limit based on the sum assured with a new limit based on annual premiums. I propose to set this at £100 a year, which will greatly increase the scope of the traditional societies to offer life policies to their members.

F15. The tax-exempt limits governing sickness and accident benefits which trade unions provide for their members have not been changed since 1982. With effect from today, I propose to increase them to £3,000 for lump sums and £625 for annuities.

F16. Finally, in this section, I turn to Inheritance Tax.

F17. In my Budget last year I abolished the pernicious Capital Transfer Tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family business. This year I propose to extend the same exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession. This will not, however, apply to discretionary trusts. These changes will be of benefit to unquoted companies and to heritage properties, both of which are often held in trust.

F18. I also propose to make two minor changes affecting business assets. First, in what is

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perhaps an unwanted tribute to the unlisted securities market, holdings in USM companies will henceforth be treated for Inheritance Tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing. Second, business relief for minority holdings in excess of 25 per cent in unquoted companies will be increased from 30 per cent to 50 per cent. The purpose of both these changes is to concentrate business relief more accurately on those assets which could provide funds to pay the tax only at the risk of damaging the business.

F19. Thanks to the efforts of this Government, the tax regime for the heritage has been much improved. Today, I have two further changes to propose. First, I am exempting from Inheritance Tax settled property that is put into a heritage maintenance fund within two years of the death of a life tenant. And second, I propose to improve the arrangements for acceptance of property in lieu of tax. In future, owners will have the choice of either the present system, or an arrangement under which no interest would be charged between the offer and acceptance, but the tax would in that case be based on the market value at the date of the offer and not, as now, at the date of acceptance.

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F20. The abolition of the tax on lifetime giving was of the first importance to family businesses. But I remain conscious that it did little to help the smallest taxable estates, where the family home is often the main asset.

F21. I therefore propose to make a substantial increase in the threshold for Inheritance Tax, from £71,000 to £90,000, coupled with a simplification of the rate structure from seven rates to four. As a result of this change, the number of estates liable to Inheritance Tax will be cut by roughly a third. The cost will be £70 million in 1987-88 and £160 million in 1988-89.

F22. Despite this substantial relief, however, and all the other much-needed reliefs that my predecessor and I have introduced since 1979, the House may be interested to learn that the expected yield of Inheritance Tax in 1987-88, at over £1 billion, is nearly three times the yield of Capital Transfer Tax in 1978-79, an increase in real terms of almost 50 per cent.

F23. As for the other Capital Taxes, the severity of which has also been significantly eased since we first took office, the consequence is that the yield of Capital Gains Tax has risen in real terms by over 80 per cent and of Stamp Duty by more than 140 per cent.

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G. TAXES ON SPENDING

G1. I now turn to the taxation of spending.

G2. I have already announced some important changes in VAT to prevent avoidance and to help the small businessman. I have no other proposals for major changes in value added tax this year.

G3. However, in the light of representations I have received, I have decided to extend slightly the VAT reliefs I introduced last year for certain aspects of charitable work.

G4. I propose to relieve charities from VAT on certain welfare vehicles used by hospices to transport the terminally ill; on installing or adapting lavatory or bathroom facilities in charity homes for the disabled; on drugs and chemicals used by a charity in medical research; and on specialised location and identification equipment employed by mountain rescue and first aid services.

G5. While on the subject of charitable giving, I should remind the House that this year's Finance Bill will increase the limit on donations to charity under the new payroll giving scheme, which starts next month, from £100 to £120 a year.

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G6. Next, the excise duties. I propose to maintain the revenue I get from the taxation of gambling, but to make some readjustment within the total. I therefore propose to increase the gaming machine licence duty by about a quarter, which will restore it in real terms to its 1982 level, when it was last increased; and to offset this by abolishing, from 29 March, the tax on on-course betting. I hope this measure will be of some assistance to the racing and bloodstock industry, as well as consoling those hon Members who have complained to me about the clash this year between Budget Day and the Champion Hurdle.

G7. In my Budget Statement last year, I gave advance notice of my intention to introduce a tax differential in favour of unleaded petrol so as to offset its higher production cost. I can now announce that the differential will be 5 pence a gallon. This means that the pump price of unleaded petrol should be no higher than that of 4-star leaded petrol. The change will take effect from 6 o'clock this evening.

G8. Following on from the action I took last year, I propose to increase the rates of Vehicle Excise Duty on farmers' lorries, to bring them into line with the use they make of the public roads. This change will take effect from midnight tonight. I

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also propose to increase the rates of duty on trade licences and to rationalise the taxation of recovery vehicles.

G9. I have no further changes to propose this year in the rates of excise duty.

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H. INCOME TAX

H1. Finally, I turn to income tax.

H2. There is now a worldwide consensus on the economic desirability of tax reform and tax reduction, and in particular the reduction of income tax. This was demonstrated most recently by the various national policy declarations that emerged from last month's meeting of Finance Ministers from the major industrial nations.

H3. Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to improved economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; only by improving our economic performance that we will be able to create jobs on the scale we all want to see.

H4. That is why, ever since we first took office in 1979, we have consistently sought to reduce the burden of income tax. We have cut the basic rate of tax from 33 per cent to 29 per cent and sharply reduced the punitive higher rates we inherited from the Party opposite. We have increased the main tax allowances by 22 per cent more than inflation,

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taking almost 1½ million people out of income tax altogether.

H5. For 1987-88 I propose to raise all the main thresholds and allowances by the statutory indexation factor of 3.7 per cent, rounded up. Thus the single person's allowance will rise by £90 to £2,425 and the married man's allowance by £140 to £3,795. The single age allowance will rise by £110 to £2,960 and the married age allowance by £170 to £4,675. The age allowance income limit becomes £9,800. I propose to raise the first, 40 per cent, higher rate threshold by £700 to £17,900, in line with statutory indexation; but the threshold for the 45 per cent rate will go up by only £200 to £20,400. The other higher rate thresholds will remain unchanged.

H6. I have two other changes in allowances to announce. First, I propose to give an additional increase in the age allowance for those aged 80 or over. For them, the increase will be double the amount due under statutory indexation, so that, for the very elderly, the single age allowance will rise by £220 to £3,070 and the married age allowance by £340 to £4,845. Around 400,000 taxpayers will benefit from this new measure, and up to 25,000 of them will be taken out of income tax altogether.

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H7. Second, the blind person's allowance has remained unchanged since 1981, when it was increased by £180 to its present level of £360. For 1987-88 I propose to increase it by a further £180, to £540.

H8. Finally, I turn to the basic rate of income tax. This is the starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

H9. In my Budget speech last year I reaffirmed the aim set out by my predecessor in 1979, to reduce the basic rate of income tax to no more than 25 per cent. That remains my firm objective.

H10. However, given my decision to use the greater part of the fiscal scope I now have to reduce the Public Sector Borrowing Requirement, that goal cannot be achieved in this Budget.

H11. I can, however, take a further step towards it, as I did last year. I am therefore reducing the basic rate of income tax by twopence, to 27 per cent. This reduction will be worth over £3 a week to a married man on average earnings.

H12. There will, of course, be a consequential reduction in the rate of Advance Corporation Tax, and - as last year - I also propose a corresponding

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cut in the small companies' rate of Corporation Tax from 29 per cent to 27 per cent. Taken together with the income tax change, this will mean a significant reduction in the tax burden on small businesses, which are so crucial for future growth and employment.

H13. The income tax changes I have announced today will take effect under PAYE on the first pay day after 17 May. They will cost a little over £2 billion in 1987-88 over and above the cost of statutory indexation.

H14. The overall cost of all the measures in this year's Budget, again on an indexed basis, is a little over £2½ billion. This is fully consistent with my objective of a PSBR of £4 billion.

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135. ~~Meanwhile~~ I propose for 198⁷~~6~~-8⁸~~7~~ to raise the main personal allowances in line with the statutory indexation provisions.

136. The single person's allowance will therefore rise by £90 to £2,425 and the married man's allowance by £140 to £3,795.

137. Similarly, the single age allowance will rise by £110 to £2,960 and the married age allowance by £170 to £4,675.

138. The age allowance income limit ^{will} ~~becomes~~ £9,800.

138A. I propose, however, to give an extra increase in the age allowance to people aged 80 and over. For them, the age allowance will be raised by twice the amount of the increase due under indexation so that ^{for the very elderly,} the single age allowance will be £3,070 and the married age allowance, £4,845. Up to $\frac{1}{2}$ million very elderly single people and married couples will benefit from this new provision and the extra increase in the allowance will take some [25,000] of them out of income tax altogether.

As to the higher rates,

145. The threshold for the 40 per cent rate will be raised in line with statutory indexation to £17,900 and the threshold for the 45 per cent rate will go up by £200 [to £20,400]. The thresholds for the 50 per cent, 55 per cent and 60 per cent rates will remain at their 1986-87 levels.

person's

139. The blind allowance was last raised in 1981 when it was increased by £180 to its present level of £360. For 198⁷-8⁸, I am proposing a further £180 increase in the allowance taking it to £540. ~~I am very pleased to announce this extra measure of help for a deserving group.~~

last year, I reaffirmed

141. In my last Budget speech, I ~~said that I shared~~ the aim ^{set out by} of my predecessor ^{in 1979,} to reduce the basic rate of income tax to no more than 25 per cent. That remains my objective.

142. But reductions in the basic rate are expensive. It costs well over £1 billion to reduce the rate by one percentage point. There is clearly no possibility of achieving the goal of a 25 per cent basic rate this year. But I can take a further useful step towards that. I am therefore taking 2 pence off the basic rate for 1987-88.

147. The reduction in the basic rate to 27 per cent will, of course, mean a similar reduction in Advance Corporation Tax.

148. As a further measure to help small businesses, I have decided also to reduce the small companies' rate of corporation tax to 27 per cent. Following the proposals I announced earlier, this rate will also apply to small companies' capital gains, which are currently taxed at 30 per cent. The changes to income tax and corporation tax will mean a significant fall in the tax burden on small companies and the unincorporated sector. This gives the best possible incentive to small businesses, which are so crucial for future growth and employment.

144. [~~This~~ reduction, to a basic rate of 27 pence in the pound, brings down marginal rates for the overwhelming majority of ordinary taxpayers.] The cut in the rate will be worth over £3 per week to a married man on average earnings.

146. The income tax changes I have announced today will take effect under PAYE on the first pay day after 17 May.

[New paragraph] The total cost of the income tax changes will be some [£2 billion] in 1987-88, and the overall cost of the measures I have announced today will be £x billion. The PSBR for 1987-88 will therefore be [£4 billion].



FROM: A P HUDSON

DATE: 9 March 1987

MR MONCK

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Sedgwick
Mr Odling-Smee
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Tyrie
Mr Ross Goobey

BUDGET STATEMENT: EMPLOYMENT MEASURES

We shall be circulating later today the Chancellor's own draft of the first half of the Budget Statement.

2. Paragraph B5 reads:

This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since August, unemployment has fallen by more than 100,000; the largest six-monthly fall since 1973. Though the numbers out of work are still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago."

3. The Chancellor would like a new paragraph, probably to follow this, listing the employment measures that have been taken since the last Budget. Please could you let him have a draft as soon as possible?

A handwritten signature consisting of several vertical strokes, likely representing the initials "A P".

A P HUDSON

PWF



FROM: A P HUDSON
DATE: 9 March 1987

MR MONCK

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Sedgwick
Mr Odling-Smee
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3. The Chancellor would like a new paragraph, probably to follow this, listing the employment measures that have been taken since the last Budget. Please could you let him have a draft as soon as possible?

A handwritten signature consisting of several vertical strokes, resembling the letters 'A P H'.

A P HUDSON

PUP



FROM: P D P BARNES
DATE: 9 March 1987

PRINCIPAL PRIVATE SECRETARY

cc: Mr Scholar

Mr Battishill-IR
Mr Isaac - IR
Mr McManus - IR
PS/IR

BUDGET STATEMENT: TAXATION SECTION: THIRD DRAFT

The Economic Secretary has seen Mr McManus's minute to you of 6 March, and he is content with this.

RB

P D P BARNES
Private Secretary

PWP



FROM: P D P BARNES
DATE: 9 March 1987

PRINCIPAL PRIVATE SECRETARY

AMH for ACSA
Comments transcribed
onto master.

cc: PS/Chancellor
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Odling Smee
Mr Sedgwick
Mr Scholar
Mr Mowl
Mr Culpin
Miss O'Mara
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Battishill, IR
Sir Angus Frazer, C&E

BUDGET STATEMENT: ECONOMIC SECTION: THIRD DRAFT

The Economic Secretary has the following comments on the Economic Section of the Budget Statement, attached to your minute of 9 March.

2. Paragraph B8. The Economic Secretary thinks that "chance of unemployment" in line 7 does not give quite the right flavour. He would prefer "prospect of unemployment" except for the fact that "prospect" occurs in line 9.
3. In paragraph D4, the Economic Secretary would prefer to replace "unexpected" by "remarkable".
4. In paragraph D11, the Economic Secretary would prefer to omit the references to shades in lines 11 and 12. He suggests "nearly 6 per cent" and "a little over 2 per cent".

PB

P D P BARNES
Private Secretary

FROM: COLIN MOWL
DATE: 9 March 1987

PPS CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Mr Culpin
Ms O'Mara
Ms C Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Sir A Fraser - C&E

BUDGET STATEMENT: ECONOMIC SECTION: THIRD DRAFT

Your minute of 9 March asked me to check the figures in square brackets in paragraphs D2 and D7.

Paragraph D2

2. The speech is correct as currently drafted, ie. the PSBR in 1985-86, 1.60 per cent of money GDP, was at its lowest level since 1970-71 when it was 1.45 per cent of GDP.

Paragraph D7

3. A consistent run of PSBR figures on the current definition goes back to 1963-64. Before then only rough estimates on a calendar year basis are available. During the 24 years from 1963-64 to 1986-87 inclusive the PSBR has been at or below 1 per cent of GDP on only two occasions, in 1968-69 when it was $\frac{3}{4}$ per cent and in 1969-70 when there was a net repayment (a surplus) of $1\frac{1}{4}$ per cent. The table attached shows all the figures back to 1963-64.

4. The last sentence of D7 would read therefore:

"This would represent a degree of fiscal prudence that has been attained only twice in the past [24 years/quarter of a century]."

Paragraph D4

5. The last sentence of paragraph D4, on the unexpected buoyancy of non-oil revenues, groups together corporation tax and stamp duty and correctly states that they account for the bulk of the overshoot, £2¼ billion out of £2¾ billion. But, as the Chancellor will be aware from the draft of Chapter 6, VAT, which is not explicitly mentioned in paragraph D4, is more important than stamp duty in absolute terms. The estimated outturns for 1986-87 are £0.8 billion and £0.4 billion higher than in the 1986 FSBR for VAT and stamp duty respectively.

6. We could be even more positive when responding to the 'consumer boom' charge if we were prepared to admit that a significant portion of the unexpected VAT revenue is probably due to the Keith reforms. Customs and Excise now estimate that the introduction of the default surcharge accounts for £0.3 billion of the extra VAT, compared with less than £0.1 billion assumed in the 1986 Budget Forecast.

7. Capital taxes should not be mentioned in the last sentence of paragraph D4 as table 1.2 of the FSBR will show them lower than forecast. Stamp duty is counted as an expenditure tax.

Useful for briefing "If pressed",
though to be handled with care.
But not a point for the speech?
And see MST's
note below.

Colin Mowl

COLIN MOWL

*I know; but
it's a tax on
capital.*

	PSBR (£ million)	% GDP
1963-64	1035	3.27
1964-65	911	2.64
1965-66	948	2.57
1966-67	1143	2.92
1967-68	2018	4.86
1968-69	365	0.81
1969-70	-602	-1.25
1970-71	777	1.45
1971-72	973	1.64
1972-73	2435	3.60
1973-74	4344	5.79
1974-75	8001	8.97
1975-76	10253	9.26
1976-77	8304	6.42
1977-78	5373	3.56
1978-79	9233	5.34
1979-80	10020	4.83
1980-81	12686	5.38
1981-82	8632	3.33
1982-83	8859	3.13
1983-84	9753	3.18
1984-85	10172	3.09
1985-86	5751	1.60
1986-87	[4900]	[1.28]

PWP



Handwritten in red ink: "Handwritten in front half of the Budget speech."

DONE Per full on TB Plan, in order to shorten it, I have used only a small part of the 'vindicat' theme (pages 210 & 211 here) & will save the rest for my wind-up.

Per let me have a word-count.

XL

PWP

B5A. Although I shall have no new employment initiatives to announce in this Budget, we have not stood still since the last Budget steps 1)

^{APPROVED NEW} REVISED DRAFT PARAGRAPH ON EMPLOYMENT MEASURES

announced a year ago. Since then, my Rt hon & noble Friends Secretary of State for Employment has extended the Restart programme for the long-term unemployed, so that

~~B5.A Since my last Budget, we have expanded considerably the help available to these groups. In~~

~~particular, we have extended Restart, so that, next year,~~ ^{starting} ~~next month,~~

all those who have been unemployed for more than six months will be offered Restart interviews twice a year, to give them individual advice and help. There will ^{also} be more places on the successful

Enterprise Allowance Scheme, helping unemployed people to set up their own businesses. ^{Again, the} ~~The~~ number

of Jobclubs is to be quadrupled, with room for 150,000 people a year ^{and} ~~and~~ (once fully underway, the

new Job Training Scheme will give a quarter of a million others, ^{And} most of them young people, ^{of all}

vocational work experience and training. Together with the Youth Training Scheme, these measures give

carefully targetted and practical help to the unemployed. But the best hope ^{of all} for the unemployed ~~is~~

lies in the continuing vigour of the economy. ~~is~~

~~is~~

BUDGET SPEECHDRAFT PARAGRAPH ON EMPLOYMENT MEASURES

Mr. MacArthur
 Mr. MacArthur has been produced by
 Mr. MacArthur. He has been delivering
 made in a big way than you find
 to be
 M 9/3

We have done a great deal since my last Budget. [Within the existing public expenditure totals] my Right Honourable Friend the Secretary of State for Employment has announced several major developments.

There will be more help for young people to get the vocational education they need and the country needs: the ~~Technical and Vocational Education Initiative~~ ^{will be} ~~is~~ being extended to 14-18 year olds in schools across the whole country from this September.

There will be more places on the successful Enterprise Allowance Scheme helping unemployed people to set up their own businesses.

In particular, more will be spent on the long term unemployed. By the end of 1986-87 over one and a quarter million people unemployed over 1 year will have been offered help through the Restart programme. Next year all those who have been unemployed over 6 months will be offered Restart interviews every 6 months. They will get individual advice and help ^{which could} including ^{or} a job interview, ^{or} an Enterprise Allowance, a place in a Jobclub, or individually tailored training. The number of Jobclubs will have been quadrupled with room for 150,000 people a year. Currently two-thirds of participants leave Jobclubs for jobs after a few weeks. Once fully under way the new Job Training Scheme will give a quarter of a million ^{most of them young people} others vocational work experience and training.

These measures will help those least able to take advantage of the continued strong growth of employment: giving advice, motivation and skills. But in ways that work with the grain of the strengthening economy, not against it.

Insert

New
Pensions section

PWF

A

E4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979. There are, however, no official figures for the rather more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange have therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some xx million individual shareholders in this country, amounting to yy per cent of the total adult population, and fully three times the number there were in 1979.

E5. And then there is wider pension ownership. ~~This will be brought about by the introduction on 1 January next year of the new personal pensions developed by my Rt Hon Friend the Secretary of State for Social Services.~~

A

E6. Personal pensions are an important ^{new} dimension of ownership in three ways. First, ^h they will enable employees - if they so wish - to opt out of their employers' schemes and make ^{tailored to fit their own circumstances.} their own arrangements. ^{And} Second, ^h they will be a new opportunity for the 10 million employees who at present do not belong to an occupational scheme. ^{to make provision of their own and,} And third, people may, again if they so wish, use them to contract out of SERPS.

Gill Noble points out the close overlap between the second & third.

E7. In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

In addition, to encourage a wider spread of occupational schemes, we are taking steps to enable employers to allow

~~E8. This will also implement other useful reforms proposed in the consultative document. In particular, employers will be permitted to set up simplified occupational schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme.~~

Again, the Finance Bill will contain the necessary tax provisions.

Finally,
E9. ~~In addition,~~ I have decided to go beyond the proposals set out in the consultative document in one important respect. I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

~~E10. The cost of the proposed tax concessions for personal pensions and freestanding additional voluntary contributions will be £75 million in 1988-89.~~

- along with the measures my Rt Hon Friend the Secretary of State for Social S has already taken

E11. The proposals I have outlined will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. ^{They} It will widen the range of choices people can make about their pensions; and ~~it~~ will mean that in future ^{individuals} they will have ^{much} more control over the way in which their ^{own} pension contributions are invested.

B

E12. But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated, ~~including a stricter definition of final salary.~~

a stricter definition of final salary and

The ~~net~~ cost of the overall package is estimated at ~~£65 million~~ in 1988-89, but will depend very much on take-up.

~~E13. Details of all these changes are set out in an Inland Revenue press notice published today.~~

will absolutely depend on take up, but will not be struck at £65 million in 1988-89.

BUDGET CONFIDENTIAL

"Pensions: Inserts"

A

Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement. ~~Important steps~~ ^{we} have already been ~~taken~~ ^{introduced} a number of ~~important~~ ^{new} ~~measures~~ ^{measures} (Tax and), and the tax changes I am announcing today will complete the picture.

E.6 The ~~most important single step in the~~ ^{cornerstone of the Government's ~~new~~ pensions} strategy is the introduction of an entirely new means of provision for retirement, developed by my Rt Hon Friend the Secretary of State for Social Services: • the personal pension.

B

E11A. Taken as a whole, the changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers, and much greater freedom for individuals to plan their own pensions. This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities.

F 23. As for the other Capture Taxes,

the severity of which has also
been significantly eased since

we first took office, the yield of

Capital Gains Tax has ~~increased in consequence with~~

~~increased~~ in real terms by over 80 per cent

and of Stamp Duties by more than

140 per cent.

- consequence is that the

Apologies for the
mess!
since change
on
(Pl. amend)

X. EXCHANGE CONTROL

X1. Before I turn to my proposals for changes in taxation, I have one other important change of a specific nature to announce.

X2. In 1979, a few months after ~~we~~ ^{the present Government} had first taken office, my predecessor announced the abolition of exchange controls, which had been in continuous operation ever since the outbreak of war in 1939. That bold action has, over the past 7½ years, proved wholly beneficial to the British economy; and I am glad to note that other European countries are now moving in the same direction.

X3. But although the operation of exchange control has ceased, the Exchange Control Act itself remains on the Statute book. So long as it does, there is likely to persist a nagging fear that, in certain circumstances, exchange control might be reimposed; and such uncertainty could be damaging.

X4. I have therefore concluded that the time has come to repeal the Act. The necessary legislation will be contained in this year's Finance Bill.

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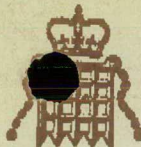
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just made will be welcomed on all sides of the
House.

BUDGET SECRET

C&E 6/3



Copy No 1 of 9

H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE

SPARE

Please Dial my Extension Direct:
Use Code (01)-382 followed by
Extension Number 5.023.

A C S Allan Esq
HM Treasury
Parliament Street
LONDON

10 March 1987

Dear Alex

BUDGET STATEMENT: TAXATION SECTION: FOURTH DRAFT

1. We have the following comment on paragraph E37. There is a stronger point to be made in the penultimate sentence, namely that many small businesses will escape the partial exemption net altogether. We offer the following as a replacement for that sentence, together with a form of words to meet the Chancellor's desire to mention the deal struck with the brewers:

Many small businesses will no longer be affected; and special arrangements will be made where necessary to meet the needs of particular industries. [Such an arrangement has, for example, already been made in respect of the brewing industry.]

2. David Howard has already sorted out with Andrew Hudson a solution to problems posed by paragraphs E27 and E29, and I do not repeat that here.

3. Copies go to Michael Scholar and Simon Judge, and internally here as shown.

Yours ever

P.G.W.

P G WILMOTT

Internal distribution: CPS, Mr Knox, Mr Jefferson Smith,
Mr Howard, Mr Bone.

BUDGET SECRET

BUDGET SECRET

CRE 6/3

Copy No 1 of 9



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Yours ever

Peter

P G WILMOTT

Internal distribution: CPS, Mr Knox, Mr Jefferson Smith,
 Mr Howard, Mr Bone.

BUDGET SECRET

BUDGET

E36. An essential element in any ongoing programme of tax reduction and reform must always be the elimination of unintended or unjustified tax breaks which cause rates of tax generally to be higher than they need to be. Accordingly, I have five proposals to make today to this end.

E37. The first concerns VAT, and has already been the subject of extensive consultation. The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases. But where the activities of a business are in part liable to VAT and in part exempt, the existing rules are excessively generous as to the amount of input tax that can be deducted, and this generosity is being exploited on a growing scale. The rules must therefore be changed, and the changes, which I announced to the House last December, will come into effect on 1 April. ~~For small businesses, there will be a simpler system, and special reliefs.~~ The yield from this, which in effect is a measure of the potential revenue loss, will be some £300 million in 1987-88 and £400 million in 1988-89.

7 - C & E not
py about picking out
vers - but the rest
helpful.

my small businesses
no longer be affected;
special arrangements will
ade where necessary to meet
needs of particular
tries. Such an
ngement has, for example,
dy been made for the
ing industry.

E38. Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment.

Tobacco taxation is only one of the factors which determines the amount of smoking - ^{greater} awareness of the health risks has also been an important factor in the 20 per cent drop in cigarette smoking since 1979. When he increased the duty on cigarettes in last year's Budget, the Chancellor said that he had taken account of the representations he had received on health. But health is only one of the factors which the Chancellor has to take into account in setting duty rates. There are also the effect on revenue and inflation, and

industrial and employment considerations. Much of the direct employment in the tobacco industry is in areas of higher unemployment. So his decision must be a balanced judgement of taking these other factors into account as well.

Draft of 10.3

PWP

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X3. But although the operation of exchange control has ceased, the Exchange Control Act itself remains on the Statute book. So long as it does, there is likely to persist a nagging fear that, in certain circumstances, exchange control might be reimposed; and such uncertainty could be damaging.

X4. I have therefore concluded that the time has come to repeal the Act. The necessary legislation will be contained in this year's Finance Bill.

X5. I note that, in what was clearly intended to be a major speech in New York in September, the

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BUDGET SECRET



FROM: S P Judge

DATE: 10 March 1987

PRINCIPAL PRIVATE SECRETARY

- cc PS/*Chief Secretary*
- PS/Financial Secretary
- PS/Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Sir Geoffrey Littler
- Mr F E R Butler
- Mr Wilson
- Mr Cassell
- Mr Monck
- Mr Odling Smee
- Mr Sedgwick
- Mr Scholar
- Mr Mowl
- Mr Culpin
- Miss O'Mara
- Miss Evans
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
- Mr Battishill - IR
- Sir Angus Fraser - C&E
- Mr Howard - C+E*

BUDGET STATEMENT: ECONOMIC SECTION: THIRD DRAFT

The Minister of State has seen Mr Mowl's submission of 9 March to you.

On his paragraph 6, the Minister of State has commented that he believes a significant portion of the unexpected VAT revenue is a result of better targeted VAT control visits. If the Chancellor decides to be more positive when responding to the "consumer boom" charge, it could be useful if Customs could compare that yield with forecast.

S P JUDGE
Private Secretary

From: J ODLING-SMEE

10th March 1987

PRINCIPAL PRIVATE SECRETARY

cc Sir Terence Burns
Mr Scholar
Mr Sedgwick
Mr Mowl
Mr Riley

BUDGET STATEMENT: ECONOMIC SECTION: THIRD DRAFT

Mr Mowl's minute of 9th March refers to the two occasions in the last 24 years that the PSBR has been at or below 1% of GDP. He says that only rough estimates on a calendar year basis are available for years before 1963-64. This is true, but they were referred to in Sir Terence Burns' Chevening paper and I think that they are reliable enough to be used to extend the historical comparison back to 1952, if the Chancellor so wishes. They show that the PSBR was well above 1% of GDP in every year before 1968-69. Mr Mowl's proposed sentence could therefore read:

*but not
but JOS
tells me
no figures
for pre-1952*

"This would represent a degree of fiscal prudence that has been attained only twice in the past 35 years."

2. This identifies fiscal prudence with the PSBR. A similar comparison on the basis of the PSFD or the PSBR adjusted for privatisation proceeds would show a larger number of years since 1952 in which the deficit was smaller. This need not affect the Speech, but should be taken into account in the briefing.

*Pity in a way to lose
"last quarter of a century".
Say "since the early 1950s"?*

Doc OA

J ODLING-SMEE

BUDGET SECRET

COPY NO 1 OF 10

FROM: DAVID PERETZ
10 March 1987

MR ALLAN

AHJ For ACSA

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Ross Goobcy

BUDGET SPEECH: SECTION C

Thank you for sending me a copy of the Chancellor's draft of the monetary policy section. I have two comments.

2. First, paragraph C5 ("The exchange rate is assumed to remain broadly unchanged") bothers me. It is not entirely clear what the sentence is meant to mean or imply. While this is not always a drawback, I think it does present a difficulty in a section of the speech likely to be subjected to detailed textual analysis, and on which we may be questioned closely by the TCSC.

3. There are three possible interpretations:-

(a) It could be a reference to the assumption made for the forecast, and MTFS projections. But in that case it is in the wrong place in the speech: it looks as if we are saying more than we are.

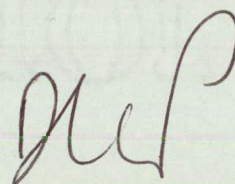
(b) It could be a reference to the Paris accord. But that comes up earlier on in the speech. If we are trying to give a message to industry about our hope for a period of stability in sterling, would it not be better to build on that earlier section - for example by adding "the prospect of a period of exchange rate stability" to the list of reasons why British industry faces such great opportunities.

BUDGET SECRET

(c) It could mean that the target for MO is set on the assumption of an unchanged exchange rate, and is conditional on that. This is a possible formulation, that we have toyed with in the past. But surely it is better to stick to the standard formula, as set out in paragraph 2.14 of the MTFS.

4. All in all there seems much to be said for deleting paragraph C5 altogether - and perhaps adding the words "as will the exchange rate" at the end of C4.

5. Second - though this is more a presentational point - I wonder whether it is right to accept in paragraph C6 that "in some quarters" the Lombard Association speech "was felt to be unclear or in some other way inadequate". Also, if we do refer to the Lombard Association speech would it not be tactful to refer as well to the further lengthy exposition of policy in the Chancellor's House of Commons speech on 17 December last year.



D L C PERETZ



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE

RWP

Please Dial my Extension Direct:
Use Code (01)-382 followed by
Extension Number 5.023...

✓ *AMH*
A C S Allan Esq
HM Treasury
Parliament Street
LONDON

for ACSA

10 March 1987

Dear Alex

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Peter

P G WILMOTT

Internal distribution: CPS, Mr Knox, Mr Jefferson Smith,
Mr Howard, Mr Bone.

PWP



FROM: S P Judge

DATE: 10 March 1987

PRINCIPAL PRIVATE SECRETARY

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 Economic Secretary
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 Sir Terence Burns
 Mr F E R Butler
 Mr Wilson
 Mr Cassell
 Mr Monck
 Mr Sedgwick
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 Mr Culpin
 Miss O'Mara
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 Mr Tyrie
 Mr Ross Goobey
 Sir Angus Fraser -
 C&E
 Mr Knox - C&E
 Mr Howard - C&E
 Mr Jefferson Smith
 - C&E
 Mr Wilmott - C&E
 Mr Bone - C&E

BUDGET STATEMENT: TAXATION SECTION: FOURTH DRAFT

The Minister of State has seen your (BLO) note of 9 March to Mr Scholar. Mr Jefferson Smith and Mr Hudson also spoke to me about VAT and the Brewers.

The Minister would like to discuss at Prayers whether to mention the Brewers in the Budget Speech, taking account of the effect of publicising the generous treatment they have received on negotiations with the oil industry (the letter of 6 March from the United Kingdom Oil Industry Taxation Committee) and capital issuers (Mr Jefferson Smith's submission of 6 March). Preparation of a revision to paragraph E37 is in hand, in case the Chancellor does want to mention the Brewers.

The Minister suggests adding "including VAT" after "gallon" in line 6 of paragraph G7.

BUDGET CONFIDENTIAL

On paragraph G9, the Minister has consistently wondered whether the current draft says enough. The Minister thinks a pause will be needed for it to sink in, and imagines that the Chancellor will say it slowly. The Minister thinks that sinking in might be assisted by adding "on any dutiable product" at the end of the paragraph.

Mr Hudson gave me the following revised version of paragraph E27 on cash accounting:

"My first and most important proposal, therefore, is that, as from 1 October, businesses whose annual turnover is under £½ million, which means over half of all traders above the VAT threshold, will in future be able to choose to account for VAT.....".

The Minister of State thinks it is important to be absolutely clear about what is a percentage of what. Mr Howard kindly supplied the following figures:

All traders registered for VAT	1.5 million
o/w below registration threshold	250,000
o/w payment traders	125,000
← o/w repayment traders	125,000
Registered traders paying VAT	1,180,000
Businesses paying VAT with a turnover below £½ million	840,000
o/w those <u>not</u> on retail/construction schemes	300,000

The choice is thus between expressing the 840,000 VAT payers below the £½ million threshold as a proportion of all payors ($0.84/1.18 =$ "more than two-thirds) or of all registered traders ($0.84/1.5 =$ "over half"). There is no need to use the number of traders over the registration threshold as the denominator. In terms of drafting, these options translate into:

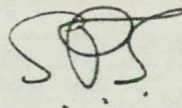
BUDGET CONFIDENTIAL

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The Minister realises that the first is more complicated but more dramatic, the second more comprehensible and adequately impressive. It is a matter of taste: the Minister thinks the very marginal obfuscation is a price worth paying for the greater drama.



S P JUDGE
Private Secretary

PWP



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DATE: 10 March 1987

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 Mr Howard - C&E
 Mr Jefferson Smith
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 Mr Wilmott - C&E
 Mr Bone - C&E

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BUDGET CONFIDENTIAL

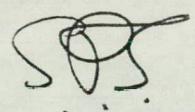
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S P JUDGE
Private Secretary

Ant



FROM: P D P BARNES
DATE: 10 MARCH 1987

✓
PRINCIPAL PRIVATE SECRETARY

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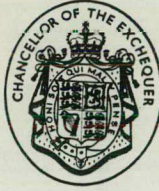
2. The Economic Secretary thought that in paragraph E40, line 8, 'similar' should be replaced by 'comparable'.

fb

P D P BARNES
PRIVATE SECRETARY

BUDGET CONFIDENTIAL

PHP



FROM: A P HUDSON
DATE: 10 March 1987

PS/FINANCIAL SECRETARY

cc: Mr Cassell
Mr Scholar
Miss Noble
Miss Sinclair
Mr Cropper
Mr Ross Goobey
Mr Corlett - IR
Mr Munro - IR

BUDGET STATEMENT: PENSIONS

The Chancellor has revised the section of the Budget Statement dealing with pensions this morning.

... 2. I attach the new version, which you may like to see before your meeting on presentation.

A handwritten signature in black ink, consisting of the letters 'A P H' with a stylized flourish.

A P HUDSON

F5. And then there is wider pension ownership. Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement. We have already introduced a number of important new measures to that end, and the tax changes I am announcing today will complete the picture.

F6. The cornerstone of the Government's pensions strategy is the introduction of an entirely new means of provision for retirement, developed by my Rt Hon Friend the Secretary of State for Social Services: the personal pension.

F6A. Personal pensions are an important new dimension of ownership. They will enable

employees - if they so wish - to opt out of their employers' schemes and make their own arrangements, tailored to fit their own circumstances. And they will be a new opportunity for the 10 million employees who at present do not belong to an occupational scheme to make provision of their own and, if they so wish, to contract out of SERPS.

F7. In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

F8. In addition, to encourage a wider spread of occupational schemes, employers will be able to set up simplified schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme. Again, the Finance Bill will contain the necessary tax provisions.

F9. Finally, I have decided to go beyond the proposals set out in the consultative document in one important respect. I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

F10. The proposals I have outlined - along with the measures my Rt Hon Friend has already taken - will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. They will widen the range of choices people can make about their pensions; and will mean that in future individuals will have much more control over the way in which their own pension contributions are invested.

F10A Taken as a whole, the changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers, and much greater freedom for individuals to plan their own pensions. This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities.

F11. But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include a stricter definition of final salary and, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated.

F12. The cost of the overall package will inevitably depend on take up, but with that proviso is estimated at £65 million in 1988-89.



FROM: S P Judge

DATE: 10 March 1987

PRINCIPAL PRIVATE SECRETARY

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr F E R Butler
 Mr Wilson
 Mr Cassell
 Mr Monck
 Mr Sedgwick
 Mr Odling Smee
 Mr Culpin
 Miss O'Mara
 Miss Sinclair
 Miss Evans
 Mr Cropper
 Mr Tyrie
 Mr Ross Goobey
 Sir Angus Fraser -
 C&E
 Mr Knox - C&E
 Mr Howard - C&E
 Mr Jefferson Smith
 - C&E
 Mr Wilmott - C&E
 Mr Bone - C&E

BUDGET STATEMENT: TAXATION SECTION: FOURTH DRAFT

The Minister of State has seen your (BLO) note of 9 March to Mr Scholar. Mr Jefferson Smith and Mr Hudson also spoke to me about VAT and the Brewers.

See below

The Minister would like to discuss at Prayers whether to mention the Brewers in the Budget Speech, taking account of the effect of publicising the generous treatment they have received on negotiations with the oil industry (the letter of 6 March from the United Kingdom Oil Industry Taxation Committee) and capital issuers (Mr Jefferson Smith's submission of 6 March). Preparation of a revision to paragraph E37 is in hand, in case the Chancellor does want to mention the Brewers.

The Minister suggests adding "including VAT" after "gallon" in line 6 of paragraph G7.

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On paragraph G9, the Minister has consistently wondered whether the current draft says enough. The Minister thinks a pause will be needed for it to sink in, and imagines that the Chancellor will say it slowly. The Minister thinks that sinking in might be assisted by adding "on any dutiable product" at the end of the paragraph.

Mr Hudson gave me the following revised version of paragraph E27 on cash accounting:

"My first and most important proposal, therefore, is that, as from 1 October, businesses whose annual turnover is under £½ million, which means over half of all traders above the VAT threshold, will in future be able to choose to account for VAT.....".

The Minister of State thinks it is important to be absolutely clear about what is a percentage of what. Mr Howard kindly supplied the following figures:

All traders registered for VAT	1.5 million
o/w below registration threshold	250,000
o/w payment traders	125,000
← o/w repayment traders	125,000
Registered traders paying VAT	1,180,000
Businesses paying VAT with a turnover below £½ million	840,000
o/w those <u>not</u> on retail/construction schemes	300,000

The choice is thus between expressing the 840,000 VAT payers below the £½ million threshold as a proportion of all payers ($0.84/1.18 =$ "more than two-thirds) or of all registered traders ($0.84/1.5 =$ "over half"). There is no need to use the number of traders over the registration threshold as the denominator. In terms of drafting, these options translate into:

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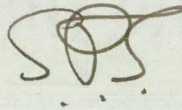
"My first and most important proposal therefore, is that from 1 October, businesses whose annual turnover is under £¼ million - over two-thirds of all the traders who pay VAT to Customs and Excise - will in future be able to choose";

and

"My first and most important proposal, therefore, is that from 1 October, businesses whose annual turnover is under £¼ million - over half of all traders registered for VAT - will in future be able to choose".

The Minister realises that the first is more complicated but more dramatic, the second more comprehensible and adequately impressive. It is a matter of taste: the Minister thinks the very marginal obfuscation is a price worth paying for the greater drama.

The drama is ~~not~~ scarcely a thriller, more like "Waiting for Godot"!



S P JUDGE
Private Secretary

Prof

A

REVISED DRAFT PARAGRAPH ON EMPLOYMENT MEASURES

C.
Won't this ~~be~~ opening
get a jeer from the
Opposition? Better to begin,
"I announced a number of
specific employment measures in
my last Budget, and since
then, my Rt Hon & Noble Friend..."
✓

I announced a number of specific

~~B5.A Although I shall have no new employment
measures to announce in this Budget, we have not
stood still since the steps I announced a year ago.~~

Employment measures in my last Budget,

Since then, my Rt Hon and Noble Friend the Secretary of State for Employment has extended the Restart programme for the long-term unemployed, so that, starting next month, all those who have been unemployed for more than six months will be offered Restart interviews twice a year, to give them individual advice and help. There will also be more places on the successful Enterprise Allowance Scheme, helping unemployed people to set up their own businesses. Again, the number of Jobclubs is to be quadrupled, with room for 150,000 people a year. And once fully under way, the new Job Training Scheme will give a quarter of a million others, most of them young people, work experience and vocational training. Together with the Youth Training Scheme,

*these measures give carefully targetted and
practical help to the unemployed, on a scale no other country can match.*

But the best hope of all for the unemployed lies in the continuing vigour of the economy.

Prof. Check

Plu



INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

10 MARCH 1987

PRINCIPAL PRIVATE SECRETARY

BUDGET STATEMENT : TAXATION SECTION : FOURTH DRAFT

The Inland Revenue comments are as follows:

- ✓ E.3. Strictly speaking, "in 1987-88" in the third sentence should read "for the financial year 1987".
- ✓ E.8. Substitute "distributed in dividends" for "made", and delete "in some cases", in line 2.

This is a point of substance. It is a well known feature of the capital gains tax that there is a "double tier". If a company makes a capital gain, it pays capital gains tax accordingly. And if the shareholder sells his shares (which will reflect the value of that gain), he again pays capital gains tax. The Chancellor is proposing no change in this position. It is essential that the Budget Statement should not (as the present draft does) imply anything else.

though pretty indirectly.

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 PS/Minister of State
 Sir P Middleton
 Mr Monck
 Mr Cassell
 Mr Scholar

Mr Battishill
 Mr Isaac
 Mr Painter
 Mr Beighton
 Mr Calder
 Mr McManus

The proposed change is much more narrowly targeted: at the double charge when a company pays capital gains tax, and the shareholder is liable to income tax when the gain is distributed as a dividend.

- ✓
- E.11. The arrangements for pre-1965 companies apply only to trading companies and we suggest therefore that "established" be replaced by "trading" in the first line. And to take account of the fact that some pre-1965 companies do have a nine-months payment interval, we suggest inserting "may" for "do" at the beginning of the second line.
- X
- E.15. To make clear that the representative bodies have not committed themselves to accepting all the details, it might be better to replace "was" by "its broad thrust has been" in the penultimate line.
- ✓
- E.17. Although the companies have argued the case for stability in previous years, this year they are stressing the need for favourable tax changes, so we suggest toning down the final phrase to read: "but stability is itself a desirable feature for the companies".
- ✓
- E.19. We suggest inserting "UK" before "oil" in the penultimate line: the relief will not extend to research relating to say Indonesia.
- X
- E.20. We suggest adding "as a whole" at the end of the sentence to convey the thought that the Government is helping both North Sea producers and their suppliers.
- ✓
- E.21. It might be clearer if the final sentence were to read: "There will be no change in car fuel scales which, as already announced, will also be used for VAT purposes from 6 April 1987."

E.22. We would prefer "should" instead of "will" in the final sentence as we cannot guarantee that the proposal will solve the end-year bunching problem.

E.23. Second sentence: the phrase "wish to change their job" is a little narrow, since it implies that relief is not now available for retraining for another job for the same employer, or would not in future be available for retraining for self-employment. Nor does it cover compulsory redundancy. And the employer providing the help with training may not be a company. We suggest revising the second sentence to read:

(✓)
"Some employers may be willing to help with the retraining of workers who [for one reason or another] are leaving their current employment, perhaps to take another job or to become self-employed."

Third sentence: expenditure on training by an employer can be an emolument in the hands of those earning less than £8,500 per annum. We suggest revising the third sentence to read:

✓
"At present employees are generally liable to tax on the cost of training paid for by their employer which is unrelated to their present job."

Fourth sentence: as drafted it is not entirely clear that tax relief will be confined to cases where the employee is leaving his current employer, and there is also a possible ambiguity in the concluding phrase "moving jobs to acquire new skills. We suggest the following possible revision of the fourth sentence:

✓
"I propose to exempt from tax the cost of training in this kind of case, to encourage more employers to help employees to acquire new skills for new jobs."

E.40. In line 8, "provisions" should be in the plural.

In the final sentence it might be advisable to delete the word "precise" otherwise it might be argued that if it is only the detailed nitty gritty that still has to be resolved, it ought to be possible to put some figure, however tentative, on the potential yield.

E.41. We suggest altering the final sentence to read: "The change will take effect from April next year, and the effect of encouraging earlier payment is estimated at £45 million in 1988-89."

E.44. Line 5, we suggest substituting "business" for "company", as unincorporated firms will be able to set up PRP schemes.

E.46. There is a slight risk that some "instant commentators" may jump to the conclusion that half of pay may be exempt from tax, simpliciter. To avoid this risk, it might be worth inserting a new sentence between the present first and second sentences:

"I also propose to increase [from £2000] to £3000 the amount of any individual's profit-related pay eligible for tax relief."

It might be better to conclude the final sentence with "... building up substantially in later years". The build up will occur not only as take up increases, but as the proportion of pay which is profit-related increases.

E.47. Last line, substitute "business" for "company" (see comment on E.44).

F.17. We suggest the final sentence should be revised to read:

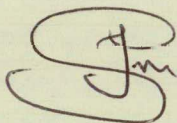
"These changes will be of benefit to family farms and businesses and to heritage properties, all of which are often held in trust."

F.21. The cost is now estimated at £75 million in 1987-88 and £170 million in 1988-89.

F.22. Last line: substitute "almost" for "over".

G.5. In view of what is proposed in G.4 it might be better to begin G.5: "While on the subject of charities,".

H.14. For clarity we suggest inserting "in 1987-88" after "overall cost" in the first line.



S J McMANUS