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PART A

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PART A

1985 BUDGET BRIEF

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PO -CH /NL/0032

PART A

14-3-85

1985

Budget

Brief

Draft

## BUDGET CONFIDENTIAL



FROM: MRS R LOMAX  
DATE: 4 February 1985  
CH/Ex Ref No: .F.3...  
Copy No: .12...of .14...copies

MR BATTISHILL

cc PS/Chief Secretary  
PS/Financial Secretary  
Ps/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monger  
Sir L Airey - IR  
Mr Fraser - C&E

**BUDGET ISSUES**

The Chancellor is concerned about the high gearing of the Budget options now under consideration. He would be grateful if officials could suggest measures which would have an offsetting effect on the cost profile of the package. Two ideas have already occurred to him:-

- (i) a switch from royalties in kind to royalties in cash which would have the advantage of getting rid of royalty oil. He thinks that there would be a once for all cost of around £300 million for such a measure;
- (ii) increasing the duty deferment for whisky.

*RL.*

MRS R LOMAX

## BUDGET CONFIDENTIAL



FROM: P WYNN OWEN  
DATE: 5 February 1985

Ch/Ex Ref No: F10.

Copy No: 9... of 11...copies

PS/MINISTER OF STATE

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Monger  
Mr Griffiths  
Mr Lord  
PS/C&E

**BUDGET 1985: BETTING AND GAMING DUTIES**

The Chancellor has seen Mr Jenkins' minute of 31 January to the Minister of State and your minute of 4 February. He is content with the recommendation that these duties be left unchanged.

P  
W.O.

P WYNN OWEN

**BUDGET CONFIDENTIAL**

FROM: MISS O'MARA  
DATE: 11 February 1985

**PS/FINANCIAL SECRETARY**

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Monger  
Mr RIG Allen  
Mr Lord  
PS/C&E  
PS/IR  
Mr Corlett - IR

**KEITH REPORT - VOLUME 3: STAMP DUTY**

The Chancellor has seen your minute of 8 February and Mr Corlett's submission of 6 February. He agrees with the Financial Secretary's view that these proposals should be included as part of the Keith package in 1986 but has noted that the draft Written Answer will need very careful consideration, as will the passage for the Budget Speech.

*MOM*

**MISS M O'MARA**



**NOTE OF A MEETING IN HM TREASURY AT**  
**9.00 ON TUESDAY 12 FEBRUARY 1985**

Those Present    Chancellor  
                    Chief Secretary  
                    Financial Secretary  
                    Economic Secretary  
                    Minister of State  
                    Sir P Middleton  
                    Sir T Burns  
                    Mr Bailey  
                    Mr Cassell  
                    Mr Battishill  
                    Mr Evans  
                    Mr Odling-Smee  
                    Mr Scholar  
                    Miss Peirson  
                    Mr Riley  
                    Mr Cropper  
                    Mr Lord

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**MTFS AND PRESENTATION OF THE BUDGET**

**Papers**

Mr Odling-Smee's minute of 8 February.

Mr Ridley's minute of 11 February.

Mr Pratt's minute of 8 February.

**Economic assumptions for the MTFS**

The Chancellor asked why the profile of the GDP deflator was so uneven in 1984-85 and 1985-86. Sir T Burns said there was a case for smoothing the path leaving the level in 1985-86 unchanged. Other measures of inflation had a flatter profile; the GDP deflator reflected the effects of the coal strike and a lower exchange rate on domestic profits.

2. The Chancellor said he was content with the proposed assumptions for GDP, though the published figures should, as usual, be heavily rounded.



### Public Expenditure: 1985-86

3. There was general agreement that the reserve and hence the planning total for 1985-86 should be increased at the time of the Budget. The key questions were: the scale of the adjustment, how far it should be carried through into the later years, and the presentational implications of any changes, especially for the Budget. It was agreed that there was a significant difference between raising the planning total and publishing higher forecasts for debt interest.

4. In discussion, it was noted that there had been average overrun on the planning total in cost terms of between £2 and £2½ billion over the past few years; even excluding the coal strike the errors had averaged nearly £2 billion a year. Errors had been smaller in cash terms, largely due to lower than expected inflation. The central forecast suggested an overrun of £1½ billion on the planning total plus another £½ billion on debt interest - an increase of £2¼ billion compared with the 1985 PEWP.

5. The Chancellor said the choice of a new planning total should reflect a judgement about what was achievable; but it should also take account of the implications for public expenditure control and the likely market reaction. It was vital to stress that higher public expenditure reflected estimating changes not discretionary action. The uncertain cost of the coal strike was an obvious justification for raising the reserve next year.

6. It was agreed to raise the planning total for 1985-86 by £2 billion. A further £½ billion should be added to net debt interest (consistent with larger increases in the MTFs figures for gross debt interest payments and receipts).

### Later years

7. The Chancellor said that it was clear that the planning total for the later years would need to be increased at some stage; the difficult question was when this should be done - now or in July. In discussion it was agreed that while the need to raise the figures for the later years was less pressing, simply raising the planning total for 1985-86 would make the profile for public expenditure over the MTFs period unrealistic and incredible. It was important not to undermine the status of the MTFs as the macro economic framework within which Survey decisions were taken. On the other hand, carrying through the increase





in the planning total to later years would undoubtedly be seen as a major step both politically and in the markets. It might be difficult to justify - the coal strike was not an acceptable explanation.

8. The Chancellor said that raising the figures now would increase the chances of securing a good outcome on the 1985 survey. The scale of the adjustment would need to strike a balance between reestablishing credibility and maintaining downward pressure on public spending. This pointed to doing something fairly broadbrush. He noted that the forecast was projecting cash overruns of about £2 billion in 1986-87 and nearly £3 billion in 1987-88.

9. It was decided to add £2 billion to the reserve and the planning total in both years. For 1988-89 the planning total should be held flat in real terms at its 1987-88 level. A further £½ billion a year, outside the planning total, would be needed for debt interest. It was for further consideration whether any new special employment measures should be included within the £2 billion addition to the reserve.

### Presentation

10. The Chancellor said that recent events and greater realism would both need to feature in the explanation for these changes; the continuation of the coal strike and the recent rise in interest rates were mainly relevant to 1985-86. Revisions to the planning total should be properly presented as estimating changes, in the context of higher revenue forecasts. They should be kept quite separate from the Budget judgement. Nevertheless, the Budget would need to be tougher than it would otherwise have been, to offset the impression created on public expenditure. He was now thinking in terms of discretionary action of rather less than £1 billion in 1985-86.

11. In discussion, it was suggested that realism pointed to choosing a higher total for the PSBR. On the other hand, a combination of higher spending, tax cuts, and higher borrowing could have a very damaging effect on the markets. The Chancellor noted that last year's MTFS had specified the PSBR of 2 per cent of GDP for 1985-86; this was consistent with a nominal figure within the range £6.8 - £7.4 billion. A decision about the size of the PSBR to be published in the MTFS was deferred.

## BUDGET CONFIDENTIAL



FROM: P WYNN OWEN  
DATE: 22 February 1985

PS/MINISTER OF STATE

cc Sir P Middleton  
Mr Cassell  
Mr Battishill  
Mr Monger  
Mr Gilmore  
Mr Griffiths  
Mr Romanski  
Mr Cropper  
Mr Lord  
PS/C&E

VED

The Chancellor has seen your note of 21 February and Mr Monger's note of 20 February. He is broadly content with the proposed line to take, as amended by the Minister of State, subject to the following small changes:-

(i) Para 6 (b) - amend line 6 to read "a low-key statement that the Government has no present plans to".

(ii) Para 7 (second indent) - redraft to read "it seems right to acknowledge that the Government have no present plans to abolish the duty, but there is no need to close off this option completely".

P  
Pwo.

P WYNN OWEN



FROM: P WYNN OWEN

DATE: 22 February 1985

cc Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Battishill  
Mr Monger  
Mr Romanski  
Mr Cropper  
Mr Lord  
Mr Davies  
PS/C&E  
PS/IR

MR GRIFFITHS

VED

The Chancellor has seen your minute of 19 February commenting on Mr Ridley's letter of 18 February. He is not inclined to press the point raised in paragraph 2 of your minute.

A handwritten signature in cursive script, appearing to read 'P Wynn Owen'.

P WYNN OWEN



RECORD OF A MEETING HELD AT 11.30am ON FRIDAY 22 FEBRUARY 1985  
IN NO.11 DOWNING STREET

Those present:           Chancellor of the Exchequer  
                              Mr Knox, Customs and Excise  
                              Lord Cockfield  
                              Mr Fortiscue

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Lord Cockfield thanked the Chancellor for seeing him to discuss the Chancellor's personal letter to him of 3 January concerning the VAT exemption limit. He had so far prevented the issue from coming before the Commission, but his control was limited. The initiative lay with the Commission services division who held the view that the UK had been put on warning a long time ago and had continued to increase the limit since. Legal services advised that the Commission's case was very strong. The Chancellor replied that the UK had only been put on warning very belatedly and since that date had merely increased the limit in line with the RPI. Lord Cockfield said that the Commission argued that the figure was already excessive, so uprating it each year did not improve the situation. If the limit were raised again, he very much doubted whether he could prevent the Commission from seeing the case. The previous week he had been on the losing side of an 11-3 Commission vote on infraction proceedings against the Germans for subsidising the Saar Railway. The new Commission was flexing its muscles very quickly.

2.     The Chancellor said it was unthinkable that the VAT exemption limit should not be at least uprated in the Budget, though no final decisions had yet been made.     If the Commission wished to declare war then let it do so.     Both he and the Prime Minister felt very strongly on this issue.     The UK had been



completely misled from an early stage by the Commission and could have revalorised the limit at an earlier date had it been forewarned. It had gained the impression from Mr Tugendhat in 1982 that there was no longer any need to worry. The Commission would do serious damage to its relations with the UK Government by seeking to enforce a measure which was contrary to present Government policies on small businesses, employment and the concept of "passport for a job". It was absurd to think that the village corner shop in the UK was competing with major continental stores.

3. Lord Cockfield noted that the Chancellor had deployed the political arguments from a UK perspective, but pointed out that the Commission had a duty to uphold the Treaty. Political arguments from the Germans on the Saar Railway had been totally overruled. On the continent enormous cross-border traffic meant that issues like this one could have wider ramifications.

4. The Chancellor said that he would be delighted if the Commission could propose an increase in the VAT exemption limit community-wide instead. Lord Cockfield said that, in his opinion, member states would not accept any increase. The Chancellor said the UK's record was a good one. It had fought the beer/wine infraction proceedings, lost, and implemented the decision in the very next Budget, although it was an absurdity in revenue terms. But this issue was of a completely different political order, with nationwide implications. Lord Cockfield said that he felt there was little more he could do.

5. The Chancellor asked about Commission initiatives on tax harmonisation. Lord Cockfield said that the Financial Secretary was right that the Commission's approach was fragmentary. He wanted to put together a paper on the whole issue of tax harmonisation. The Chancellor said he assumed that nothing was proposed which would



affect the fundamentals of UK Corporate Tax Law. Lord Cockfield said that a lot was at stake. When the UK had chosen the imputation tax system this was partly done to suit Europe. Then the Germans had switched to withholding tax at the last minute and there was now deadlock because of a row between the Germans and Dutch. A uniform tax system would meet tremendous national resistance in the immediate future. Perhaps the UK had not recognised the consequences of its unqualified support for the free internal market.

6. The Chancellor said that there were much bigger impediments than taxation to the free operation of the internal market. Free movement of capital, which the UK supported and which was in the Rome Treaty, was a necessary prerequisite of the alignment of capital taxation. Lord Cockfield said that progress was needed on all fronts. M. Delors wanted "the abolition of fiscal frontiers" and to do that tax alignment was necessary. Each state had its own peculiar problem with the free internal market, but all were moving in the right direction. Though the last internal market council had caused some difficulties, it had made rapid progress on the initiative on standards.

7. The Chancellor noted that there were some issues which could be resolved by horse-trading and negotiation, but that there were other things of such importance that the Commission would simply have to leave them alone.

P.  
P.W.

P WYNN OWEN

28 February 1985.

Copies to: PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Mr Unwin  
Mr Fitchew  
Mr Monger  
Mr Lord

PS/Customs and Excise  
PS/Inland Revenue

## BUDGET CONFIDENTIAL



FROM: MRS R LOMAX  
DATE: 19 February 1985

MR MONCK

cc PS/Financial Secretary  
Mr Monger  
PS/IR

**BILATERAL WITH MR TEBBIT: 18 FEBRUARY**

At the end of their meeting last night, the Chancellor and Mr Tebbit briefly discussed some of the minor tax issues raised in the DTI's Budget representations.

(i) R&D for pre-trading companies. The Chancellor said he had still not made a final decision. He is awaiting Inland Revenue advice.

(ii) BES: companies with non-resident subsidiaries. The Chancellor said he was not doing this.

(iii) Unincorporated sector. The Chancellor mentioned self-employed NICs and CTT relief for business and agriculture.

(iv) VAT on temporary imports. The Chancellor said he would probably do this.

(v) CGT exemption for hands on venture capital companies. Mr Tebbit asked the Chancellor to reconsider his decision against doing this. The Chancellor promised to look at the papers again over the weekend.

*RL.*

MRS R LOMAX



FROM: MISS M O'MARA

DATE: 20 February 1985

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Mr Monck  
Mr Monger  
Mr Lovell  
Mr R I G Allen  
Mr Cropper  
Mr Lord  
PS/IR  
Mr Beighton - IR  
Mr Prescott - IR

MR BATTISHILL

**BUSINESS EXPANSION SCHEME: MONITORING**

The Chancellor has seen Mr Beighton's minute of 18 February and Mr Prescott's minute of 15 February.

2. He thinks it would be useful to draw on this material for the passage in the Budget Speech which introduces the BES extension for R&D and would like to include the following points:

- (i) Total investment of £95-100 million in about 500 companies for 1983-84.
- (ii) Total number of investors for 1983-84 in the range 15,000-20,000.
- (iii) Direct investment accounted for more than half both of the total of companies invested in (56 per cent) and of total investment (53 per cent), with the final picture for 1983-84 likely to show direct investment accounting for about 60 per cent of the total.
- (iv) Start-ups account for more than half (53 per cent) of total investment, with 36 per cent going to very young start-up companies (less than 1 year old).





3. The Chancellor has also noted from Mr Beighton's minute the Times article which reveals how the Efficiency Unit have been lobbying in public. He would be grateful if the Revenue could supply him with a draft letter of complaint to Lord Young.

*MOM*

MISS M O'MARA

## BUDGET CONFIDENTIAL



FROM: P WYNN OWEN  
DATE: 27 February 1985

MR MONGER

cc PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Battishill  
Mr Gilmore  
Mr Griffiths  
Mr Romanski  
Mr Cropper  
Mr Lord  
PS/IR

VED

Now that a line to take on the future of VED at Budget time has been broadly agreed internally (see your minute of 20 February, Mr Norgrove's minute of 21 February and my minute of 22 February), the Chancellor would be grateful if you could open up discussions direct with DTp officials. He would like to see a submission on how these discussions have gone in time for the next Budget overview.

*P.wo.*

P WYNN OWEN



FROM: MRS R LOMAX  
DATE: 4 March 1985

MS SEAMMEN

cc Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Monck  
Mr Battishill  
Mr Monger  
Miss Noble

**EMPLOYEES' NATIONAL INSURANCE CONTRIBUTIONS**

The Chancellor is very enthusiastic about the scheme outlined in Miss Noble's note of 1 March. He attaches top priority to working out how to deal with the SERPS complication with DHSS officials. In addition he would like further work on the self-employed in time for tomorrow's overview meeting. He thinks that Class 2 contributions will clearly need to be reduced as you suggest. This will affect the costing of offering tax relief on 50 per cent of Class 2 and Class 4 contributions. On the basis of these revised costings, he would like to know how far the cost of reducing Class 2 contributions could be met by confining tax deductibility to either 50 or 100 per cent of Class 4 contributions.

A handwritten signature in cursive script, appearing to be 'R. Lomax'.

MRS R LOMAX



FROM: P WYNN OWEN  
DATE: 4 March 1985

APS/MINISTER OF STATE

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Monger  
Mr Griffiths  
Mr Cropper  
PS/C&E  
Mr Jefferson Smith (C&E)

**VAT ON COMPUTER EQUIPMENT SUPPLIED TO HOSPITALS  
AND UNIVERSITIES FOR MEDICAL PURPOSES**

The Chancellor has seen Mr Jefferson Smith's minute of 25 February and your minute of 27 February. He is content with what is proposed.

*Pwo.*

P WYNN OWEN



FROM: MISS M O'MARA

DATE: 5 March 1985

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Battishill —  
Mr Odling-Smee  
Mr Monger  
Mr R I G Allen  
Mr Grimstone  
Mr Folger  
Mr Cropper  
Mr Lord  
Mr H Davies  
PS/IR —  
Mr J D Farmer - IR  
Mr Graham - OPC

APS/FINANCIAL SECRETARY —

**APPROVED EMPLOYEE SHARE SCHEMES**

The Chancellor has seen your minute of 1 March and is very content with the Financial Secretary's recommendation.

MISS M O'MARA



FROM: MISS M O'MARA

DATE: 5 March 1985

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Battishill —  
Mr R I G Allen  
Mr Cropper  
PS/IR —  
Mr Isaac - IR  
Mr Corlett - IR  
Mr Draper - IR  
Mr Graham - Paly. Counsel

PS/FINANCIAL SECRETARY —

**STAMP DUTY: BUDGET SPEECH**

The Chancellor has seen Mr Draper's submission of 1 March. He has commented that he agrees with both of the recommendations in paragraph 12. He envisages moving to a rate of  $\frac{1}{2}$  per cent in the 1986 Budget but also catching intra-account transactions. However, he sees no need to trail this now.

*MOM*

MISS M O'MARA



FROM: MISS M O'MARA

DATE: 5 March 1985

cc PS/Chief Secretary  
 PS/Minister of State  
 PS/Economic Secretary  
 Sir P Middleton  
 Mr Cassell  
 Mr R I G Allen  
 Mr Robson  
 Mr Cropper  
 Mr Lord  
 PS/IR  
 Mr Green - IR  
 Mr Crawley - IR  
 Mr Pitts - IR  
 Mr Graham - Parly Counsel

PS/FINANCIAL SECRETARY

**FINANCE BILL STARTER 132**

The Chancellor has seen Mr Pitts' submission of 1 March and would be grateful if the Financial Secretary could deal with this as a matter of urgency.

2. The Chancellor's own views on the recommendations contained in paragraph 17 are:-
- (a) The Chancellor is not at all attracted to this suggestion. He has noted that we certainly do not want to draw attention to the oil aspect of SRAs. He believes it would be far better to let sleeping dogs lie.
  - (b) He would like to confine the oil SRA to the UKCS, unless to do so would be illegal, as he suspects it may be.
  - (c) The Chancellor is content with this recommendation, given the document, unless the Financial Secretary can think of a quick solution immediately.
  - (d) The Chancellor's strong preference is for the main recommendation and not for the fall-back.

*Mom*

MISS M O'MARA



FROM: MISS M O'MARA  
DATE: 5 March 1985

PS/FINANCIAL SECRETARY -

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Monger  
Mr Lovell  
Mr P A Shaw  
Mr H Davies  
Mr Lord  
PS/IR -  
Mr Martin (IR)

**SCRUTINY OF BURDENS ON BUSINESS  
NON-CUMULATIVE PAYE**

The Chancellor has seen Mr Martin's minute of 1 March and thinks it would be wrong to make too much of this issue.

2. He has noted that this subject was discussed at the Prime Minister's meeting and that the Financial Secretary has been, on her instructions, charged with "debugging" our section of the report, as Mr Trippier will be well aware. The Chancellor suggests that we should therefore cut out the section of the report on NICIT altogether, include what we want to say on self-employment (covering consistency, clear explanation etc) and indicate that work is being done on the advantages and disadvantages of non-cumulation.

*MOM*

MISS M O'MARA





FROM: MISS M O'MARA

DATE: 5 March 1985

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Battishill —  
Mr Odling-Smee  
Mr Monger  
Mr R I G Allen  
Mr Grimstone  
Mr Folger  
Mr Cropper  
Mr Lord  
Mr H Davies  
PS/IR —  
Mr J D Farmer - IR  
Mr Graham - OPC

APS/FINANCIAL SECRETARY —

#### **APPROVED EMPLOYEE SHARE SCHEMES**

The Chancellor has seen your minute of 1 March and is very content with the Financial Secretary's recommendation.

MISS M O'MARA



CH/EX REF. NO. M17  
COPY NO. 17 OF 17 COPIES

FROM: P WYNN OWEN

DATE: 5 March 1985

cc PS/Financial Secretary  
PS/Sir P Middleton  
Mr Cassell  
Mr Battishill  
Mr Lankester  
Mr Sedgwick  
Mr Peretz  
Mr Hall  
Mr S N Wood  
Mr Mathews  
Mr Ilett  
Mr Brummell - T. Sol.  
PS/IR  
Mr McConnachie - IR

PS/ECONOMIC SECRETARY

#### SHORT TERM CORPORATE BONDS

The Chancellor has seen your minute of 4 March and Mr Wood's minute of the same date. He is content with the draft passage for the Budget Speech, as amended by the Economic Secretary, and is likely to insert it in the company section of the speech. He is also content with the time-table for resolution of these issues as described in Mr Wood's minute.

*P  
W.O.*

P WYNN OWEN



FROM: P WYNN OWEN

DATE: 7 March 1985

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Byatt  
Mr Cassell  
Mr Battishill  
Mr Monger  
Ms Seammen  
Mr Cropper  
Mr Lord  
Mr Davies  
PS/IR  
Mr Isaac - IR

MR MACE - INLAND REVENUE

**FULLY TRANSFERABLE ALLOWANCES: THE ELDERLY**

The Chancellor has seen and was grateful for your minute of 6 March.

*Pws.*

P WYNN OWEN



FROM: MRS R LOMAX  
 DATE: 8 March 1985

CH/EX REF NO M33  
 COPY NO 29 OF 24 COPIES

SIR PETER MIDDLETON

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Mr Bailey  
 Sir T Burns  
 Mr Littler  
 Mr Cassell  
 Mr Monck  
 Mr Battishill  
 Mr Monger  
 Mr Odling-Smee  
 Mr Scholar  
 Mr R Allen  
 Mr Culpin  
 Mr Folger  
 Ms Seammen  
 Mr Cropper  
 Mr H Davies  
 Mr Lord  
 Sir L Airey (IR)  
 Mr P Lewis (IR)  
 PS/IR  
 Mr Fraser (C&E)  
 Mr Wilmott (C&E)  
 PS/C&E

#### PRESENTATION OF BUDGET MEASURES

The Chancellor and other Treasury Ministers have discussed the allocation of responsibility, at Ministerial level, for co-ordinating the presentation of the Budget. The following has been agreed:

**Chief Secretary:** all aspects of public expenditure (including tax versus infrastructure, heritage, agriculture).

**Financial Secretary:** measures affecting business: capital taxes, including DLT; income tax changes; Green Paper on Reform of Personal Tax System.



Minister of State: the effect of the Budget on individuals (distributional effects); National Insurance Contributions; employment measures; indirect taxation.

Economic Secretary: monetary and exchange rate policy; financial sector.

The Chancellor will be taking direct responsibility for presenting the "jobs" theme.

2. Ministers will be overseeing the briefing in their particular areas. It is envisaged that as much material as possible will be incorporated in the main Budget brief; a first draft has already been commissioned and will be circulated by EB on Monday 11 March. Ministers will also be identifying key contacts (institutions, Ministerial colleagues, backbenchers, press, individuals) to be approached in the period immediately following the Budget, and considering how best to handle them.

3. There will be a discussion of presentation at the next Budget Overview meeting on Tuesday 12 March at 11am.

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

MRS R LOMAX



FROM: MISS M O'MARA

DATE: 8 March 1985

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Monck *Mr Bathshill*  
Mr Monger  
Mr R I G Allen  
Mr Cropper  
Mr Lord  
PS/IR  
Mr Beighton - IR  
Mr Bush - IR

PS/FINANCIAL SECRETARY

**FB 1985: CAPITAL ALLOWANCES: BUDGET DAY PRESS RELEASE**

The Chancellor has seen Mr Bush's submission of 7 March. He has commented that the second, key, paragraph on de-pooling in the Press Release is far too obscure. He would be grateful if the Financial Secretary could redraft it.

*MEM*

MISS M O'MARA

BUDGET SECRET



FROM: MRS R LOMAX  
DATE: 8 March 1985

CH/EX REF NO M33  
COPY NO 29 OF 29 COPIES

SIR PETER MIDDLETON

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Cassell  
Mr Monck  
Mr Battishill  
Mr Monger  
Mr Odling-Smee  
Mr Scholar  
Mr R Allen  
Mr Culpin  
Mr Folger  
Ms Seammen  
Mr Cropper  
Mr H Davies  
Mr Lord  
Sir L Airey (IR)  
Mr P Lewis (IR)  
PS/IR  
Mr Fraser (C&E)  
Mr Wilmott (C&E)  
PS/C&E

#### PRESENTATION OF BUDGET MEASURES

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**Financial Secretary:** measures affecting business: capital taxes, including DLT; income tax changes; Green Paper on Reform of Personal Tax System.

PRESENTATION OF BUDGET MEASURES

SPATE



Minister of State: the effect of the Budget on individuals (distributional effects); National Insurance Contributions; employment measures; indirect taxation.

Economic Secretary: monetary and exchange rate policy; financial sector.

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3. There will be a discussion of presentation at the next Budget Overview meeting on Tuesday 12 March at 11am.

A handwritten signature in cursive script, appearing to read 'RL'.

MRS R LOMAX





FROM: MISS M O'MARA

DATE: 8 March 1985

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Battishill  
Mr Monger  
Mr R I G Allen  
Ms Seammen  
Mr Cropper  
Mr Lord  
PS/IR  
Mr Corlett - IR  
Mr Munro - IR

**PENSIONS: LOANBACKS AND RELATED EXPLOITATION**

The Chancellor has seen Mr Corlett's submission of 7 March and Mr Munro's minute of the same date.

2. He stressed that the removal of these abuses would have fitted very well into this year's Budget. But, subject to the Financial Secretary's views, he does not see how we can entertain such complicated starters at this late stage. He therefore believes we shall have to act in 1986 instead. However, he has noted that these possibilities should have been put to Ministers in time for action this year.

MCM  
MISS M O'MARA



FROM: MISS M O'MARA

DATE: 8 March 1985

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Monck *Mr Bathshill*  
Mr Lovell  
Mr Monger  
Mr Cropper  
Mr Lord  
PS/IR  
Mr Green - IR  
Mr Beighton - IR  
Mr Crawley - IR

PS/FINANCIAL SECRETARY

**TAX RELIEF FOR PRE-TRADING RESEARCH AND DEVELOPMENT**

The Chancellor has seen your submission of 7 March and agrees with the Financial Secretary's recommendation .

*MM*

MISS M O'MARA



FROM: P WYNN OWEN

DATE: 11 March 1985

cc Sir P Middleton  
Mr Cassell  
Mr Battishill  
Mr Lankester  
Mr Sedgwick  
Mr Peretz  
Mr Hall  
Mr Mathews  
Mr Ilett  
Mr S N Wood  
Mr Brummell - T. Sol.  
PS/IR  
Mr McConnachie - IR

PS/ECONOMIC SECRETARY

**SHORT TERM CORPORATE BONDS**

The Chancellor has seen Mr Wood's minute of 8 March. He is content with the proposals therein.

P  
W.O.

P WYNN OWEN

## BUDGET CONFIDENTIAL



FROM: MISS M O'MARA  
DATE: 11 March 1985

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Wood  
Mr Cropper  
Mr H Davies  
PS/IR  
Mr Bryce (IR)  
Mr Graham (Parly Counsel)

**STARTING DATE FOR CGT INDEXATION CHANGES**

The Chancellor has seen Mr Bryce's submission of 6 March and has commented that it would be best to follow the 1982 precedent, as Mr Bryce recommends.

MOM

MISS M O'MARA

## BUDGET CONFIDENTIAL



FROM: MISS M O'MARA  
DATE: 11 March 1985

MR DRAPER - INLAND REVENUE

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr R I G Allen  
Mr Cropper  
PS/IR  
Mr Corlett (IR)  
Mr Bowman (Parly Counsel)

**STAMP DUTY PACKAGE**

The Chancellor has seen your submission of 7 March to the Financial Secretary. He has enquired how many pages of the Statute Book would "disappear" as a result of this package.

*MOM*

MISS M O'MARA

## BUDGET CONFIDENTIAL



FROM: MISS M O'MARA  
DATE: 11 March 1985

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Minister of State  
PS/Economic Secretary  
Mr Battishill  
Mr Monger  
Mr R I G Allen  
Mr Cropper  
Mr Lord  
PS/IR  
Mr Isaac (IR)

**DLT AND STAMP DUTY CHANGES: ANNOUNCEMENTS TO STAFF**

The Chancellor has seen your minute of 8 March, Mr Ellis' minute of 7 March and Mr Isaac's original submission of 6 March. He agrees with the Economic Secretary that the decision will undoubtedly be price sensitive.

*mom*

MISS M O'MARA

## BUDGET CONFIDENTIAL



FROM: P WYNN OWEN  
 DATE: 11 March 1985

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir P Middleton  
 Mr Cassell  
 Mr Lankester  
 Mr Monger  
 Mr R I G Allen  
 Mr Peretz  
 Mr Wood  
 Mr Cropper  
 Mr Lord  
 Mr Plenderleith (B/E)  
 Mr Graham (OPC)  
 PS/IR  
 Mr McConnachie (IR)

**COUPON STRIPPING**

The Chancellor has seen Mr McConnachie's minute of 20 February and your minute of 8 March.

2. He thinks that the key issue is in paragraph 8 of Mr McConnachie's minute: will this help or hinder (or be neutral towards) non-bank corporate finance? The measure should not proceed unless he can be confident that it will not hinder non-bank corporate finance. If it does proceed, then because the UK is moving to the US treatment of accrued income in a year's time, the reason given in the final sentence of your minute will not wash. Should the reference be to the tax treatment of deep discounts rather than accrued income?

P  
 Pwo.

P WYNN OWEN

## BUDGET CONFIDENTIAL



FROM: MISS M O'MARA

DATE: 11 March 1985

MR CORLETT - INLAND REVENUE

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Minister of State  
 PS/Economic Secretary  
 Sir P Middleton  
 Mr Cassell  
 Mr Battishill  
 Mr Monger  
 Mr R I G Allen  
 Ms Seammen  
 Mr Cropper  
 Mr Lord  
 PS/IR  
 Mr Graham (Parly Counsel)

**PENSIONS: LOANBACKS AND RELATED EXPLOITATION**

The Chancellor has seen your minute of 8 March and Mr Cropper's minute of the same date.

2. The Chancellor has noted that, with respect to ~~Mr Cropper~~, paragraph 6 of your minute is not true. The question is also precisely what abuses we are going to deal with and how tough we are going to be. He does not see how Ministers can decide this now in time for the Budget (hence his displeasure that the Revenue did not raise the issue before) and until it has been decided, he sees dangers in saying anything in the Budget Speech, even the line set out in paragraph 5 of your minute.

3. Nevertheless, the Chancellor has noted that he will want to act as soon as these issues have been decided and he has therefore stressed that the pension fund passage in the Budget Speech should be examined carefully to ensure that it does not inadvertently either rule this action out or promise a Green Paper first.

*mom*

MISS M O'MARA





cc PS/FST  
 Mr MONCK  
 Mr MONGER  
 Mr LORD  
 PS/IR  
 Mr BEIGHTON - IR

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000 11 March 1985

The Rt. Hon. Norman Tebbit MP  
 Secretary of State for Trade and Industry

A handwritten signature in dark ink, appearing to read 'Norman Tebbit'.

As I promised when we met, I have looked very carefully at the two taxation measures to encourage research, development and innovation about which you wrote to me on 22 February.

It seems that in the very large majority of cases it is possible to get immediate tax relief for R&D expenditure (whether by way of a deduction for revenue expenditure or through the scientific research allowance which, as you know, I have agreed to retain at 100 per cent for capital expenditure). But as you suggest, relief may not always be available until trading begins in the case of joint ventures such as those carried on by consortia or limited partnerships. However, there may often be other difficulties in the general law in setting up these arrangements and I therefore doubt whether to give tax relief for R&D before trading begins would by itself do much to encourage the growth of R&D activities here.

In any case, the change would have a substantial impact and cost in relation to the oil industry. Expenditure on oil exploration and appraisal qualifies for the scientific research allowance and I doubt whether it would be feasible to distinguish for this purpose such expenditure from expenditure on R&D. On this basis, the cost of allowing relief before trading begins would be around £25m a year, and I am afraid that I could not countenance such a significant increase in the level of the tax reliefs which the oil industry already enjoys. For Community reasons, it might also not be easy to limit any relief to R&D incurred in the United Kingdom.

Nevertheless, it might be useful for officials to continue to keep this point under review. Meanwhile I hope that the proposed extension of the Business Expansion Scheme to R&D companies will encourage individuals to invest in this area.

I have also carefully considered the possible exemption of hands-on venture capital companies from capital gains tax but there remain a number of difficulties. Under the scheme which the British Venture Capital Association have recommended, the treatment of the managers' rewards could be controversial since they do not appear to be prepared to settle for anything less than the tax treatment which can be secured from setting up offshore funds. In addition, their insistence that a proportion of funds must be available for investment overseas and in investments other than venture capital means that in practice we should be extending CGT exemption to funds only part (ie less than 50 per cent if BVCA had their way) of which was invested in small high technology companies in this country.



Like you, I certainly want to encourage institutional investors to invest more equity in unquoted trading companies. But I am not so far persuaded that this exemption is the most effective way of achieving that. You will have seen the recent criticism the Business Expansion Scheme has attracted through its use for property development companies and other low-risk activities. That provides a good example of the dangers of giving tax reliefs except where they can be targeted very closely indeed.

In particular the decision to retain the scientific research allowance and the extension of BES to R&D companies should help the presentation of your announcement about your Department's public expenditure support for R&D.

NIGEL LAWSON

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written in a cursive style.



CH/EX REF. NO. M96  
COPY NO. 20 OF 20 COPIES  
FROM: P WYNN OWEN  
DATE: 18 March 1985

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Bailey  
Mr Cassell  
Mr Battishill  
Mr Monger  
Mr Folger  
Mr Culpin  
Mr Cropper  
Mr Lord  
Mr H Davies  
PS/IR  
PS/C&E

MR MONCK

#### AIDE MEMOIRE FOR THE CBI

The Chancellor has seen your minute to the Financial Secretary covering a first draft of the Aide Memoire for the CBI.

2. He has the following comments:-

- (i) Paragraph 2(a): In the first line insert "more than" before "double indexation".
- (ii) Paragraph 2(c): The first paragraph should contain a reference to the continuing benefit from NIS.
- (iii) Paragraph 4(c): Redraft to read "DLT - will be abolished, helping to bring more land forward for development."
- (iv) Paragraph 4(f): Delete from "businesses are ..." to "... In addition".



(v) Paragraph 4(h): Insert "development" between "property" and "companies".

(vi) Paragraph 5(b): redraft to read "The future of Wages Councils is to be reviewed, with possibility of abolition."

*Pws*

P WYNN OWEN



FROM: MISS O'MARA  
DATE: 18 March 1985

MR MURPHY

cc Sir P Middleton  
Mr Littler  
Mr Battishill  
Mr Monger

**GUIDANCE TELEGRAM FOR OVERSEAS POSTS**

The Chancellor has seen the draft attached to your minute of 15 March. He had the following comments:

Paragraph 11, first sentence: amended to "Provided employers contribute a major share of the cost, the Government is to provide funds for further expansion of certain employment and training measures. These are designed to give young people improved opportunities..."

Paragraph 12, first tirect, line 5: "...would be to give everyone, in or out of work, the same standard allowance."

Paragraph 16, line 4: delete "Following a review" and amend to "No other extensions in VAT coverage are proposed."

2. The Chancellor has also commented that the Mais lecture theme needs to be brought out more clearly in the telegram.

MOM

MISS M O'MARA



FROM: P WYNN OWEN  
DATE: 18 March 1985

MR MURPHY

cc Mr Battishill

**BUDGET DAY PRESS NOTICES AND OTHER ANNOUNCEMENTS**

... The Chancellor has seen your minute of 13 March and is content with the attached list of press notices.

*P  
Pwo.*

P WYNN OWEN

BUDGET LIST ONLY PRESS NOTICES  
**BUDGET SECRET**  
**BUDGET LIST ONLY**

NOT TO BE COPIED

**TREASURY**

Income Tax  
 Excise Duties and VAT  
 Government Revenue from the North Sea  
 Employment  
 Short term Corporate Bonds

**CUSTOMS AND EXCISE**

Alcoholic Drinks  
 Hydrocarbon Oils  
 Tobacco  
 VAT: Advertising  
 VAT: Bad debt relief  
 VAT: Keith  
 VAT: Credit cards  
 VAT: Imports  
 VAT: Registration limits  
 VAT: Charities

**INLAND REVENUE**

Income tax personal allowances  
 Reform of personal taxation  
 Car and car fuel benefit scales  
 Employee share schemes  
 Stamp duties  
 Charities: higher rate relief  
 Building societies composite rate  
 Offshore life assurance  
 Friendly Societies  
 CGT: retirement relief  
 CGT: other points  
 CTT  
 DLT  
 Business Expansion Scheme  
 Capital Allowances (SLAs, SRAs and ships)  
 Self employed NICs relief  
 Partnerships: basis of assessment  
 Limited partnerships avoidance  
 Futures and Traded Options  
 Coupon stripping  
 Investment Managers acting for non residents  
 Dual resident companies  
 Oil taxation (including Capital allowances for Oil and Mining Industries)  
 MIRAS  
 Banks composite rate - to be decided following Economic Secretary's meeting tomorrow

No press notices from Bank of England or Department of National Savings

**BUDGET SECRET**  
**BUDGET LIST ONLY**

NOT TO BE COPIED

**SCHEDULE OF EMPLOYMENT RELATED MEASURES**

<u>Date</u>	<u>Measure</u>
<b><u>March</u></b>	
Tue 19	BUDGET including initial announcement of the "Switch". Wages Councils' document 14-18 year old measures (and White Paper). unfair dismissal and possibly 'in-service' teacher training.  Press Notices - see paragraph 6 of minute
Wed 20	Budget Debate - Chief Secretary
Thurs 21	Budget Debate - SS/Employment
Mon 25	Budget Debate - SS/Trade and Industry  REPACKAGING OF DTI SUPPORT  MEASURES (initial announcement)
Tue 26	SCHOOLS WHITE PAPER
Thur 28	EMPLOYMENT WHITE PAPER  * CONSULTATION DOCUMENT ON WAGES COUNCILS
Fri 29	DEREGULATION SCRUTINY REPORT
<b><u>April</u></b>	
Tue 2	+ 14-18's WHITE PAPER
Wed 3	SWITCH TO ENGINEERING (Detail) DTI SUPPORT MEASURES (Detail)

+ may be earlier than shown





CH/EX REF. NO. M35  
COPY NO. 18 OF 18 COPIES

FROM: MRS R LOMAX

DATE: 11 March 1985

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Mr Monck  
Mr Battishill  
Mr Scholar  
Mr Culpin  
Mr Folger  
Mr Cropper  
Mr Lord  
Mr Davies

MR BAILEY

**RESERVE INCREASE - INFORMING DEPARTMENTS**

The Chancellor was grateful for your note of 8 March, which he would like to discuss at tomorrow's overview meeting. His initial reaction is to raise this orally at Cabinet on Thursday.

2. As to what was said in last month's Cabinet discussion, his recollection is that he said he "would" rather than "might" have to propose some increase in the reserve; and that there was a brief discussion with colleagues then.

*RL.*

MRS R LOMAX



FROM: P WYNN OWEN  
DATE: 13 MARCH 1985

CH/EX REF NO M55  
COPY NO 37 OF 38 COPIES

PS/MINISTER OF STATE

cc as attached

**BUDGET BRIEF: FIRST DRAFT**

The Chancellor has seen Mr Folger's minute of 12 March but has not had time to study it in detail. He would be grateful if the Minister of State could have a quick and thorough look at this.

2. He thinks there are two obvious questions at first glance:-

(i) why leave out the Budget NIC changes? - see H3, background section (ii). All that is needed is an extra column for  $\frac{1}{4}$  male average earnings. He thinks there must be millions of people (women, youngsters, part-time, some men) earning below  $\frac{1}{2}$  average male earnings.

(ii) do we normally deal with the Excise Duties in this way? The Chancellor does not recall it, especially points (ii) and (iii) of the "indirect taxes" section of H3.

P  
Pwo.

P WYNN OWEN

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Sir P Middleton  
 Mr Bailey  
 Sir T Burns  
 Mr Littler  
 Mr Byatt  
 Mr Cassell  
 Mr Monck  
 Mr Battishill CU  
 Mr H P Evans EA  
 Mr Odling-Smee MP  
 Mr Monger FP  
 Mr Scholar GEP  
 Mr Allen FP1  
 Mr Folger EB  
 Mr Culpin IDT  
 Mr Griffiths FP2  
 Miss Peirson PSF  
 Mr Riley MP1  
 Mr Haigh FP1  
 Mr Halligan FP1  
 Mr Pratt CU  
 Mr Ritchie MP1  
 Mr R K C Evans IDT  
 Mr Matthews ET  
 Miss Noble ST1  
 Mr Cropper  
 Mr H Davies  
 Mr Lord  
 Mr Fraser )CUSTOMS  
 Mr Wilmott )  
  
 Sir L Airey )IR  
 Mr A Walker )

**BUDGET-SECRET**

Ref. No. M50

COPY 20 OF 20

FROM: MRS R LOMAX  
DATE: 13 March 1985

MR BAILEY

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Littler  
Mr Battishill  
Mr Scholar  
Miss Peirson  
Mr Stibbard  
Mr Folger  
Mr Cropper  
Mr H Davies  
Mr Lord  
PS/IR  
PS/C&E

BUDGET SPEECH SIXTH DRAFT: SECTION F

Could you please arrange for the attached redraft of Section F to be checked for factual accuracy. Comments should reach this office - through you please -by close of play today.



RACHEL LOMAX

**BUDGET-SECRET**

# **BUDGET-SECRET**

## **F. PUBLIC EXPENDITURE**

As the House is aware, the Government's economic strategy is founded on twin pillars: a monetary policy designed to bring down the rate of inflation and a supply side policy designed to improve the competitive performance of the economy.

2. The supply side policy is based on the profound conviction, based on practical experience both at home and overseas, that the route to better economic performance is through the encouragement of enterprise, efficiency and flexibility; the promotion of competition, deregulation and free markets; through pressing ahead with privatisation and improving incentives.

3. The argument over which will have a bigger impact on demand, increased public expenditure or lower taxation, completely misses the point. The case for lower taxation derives entirely from the Government's supply side policy: as a means of enhancing incentives, eliminating distortions, improving the use of resources, lightening burdens and heightening the spirit of enterprise.

4. Given the overriding priority of anti-inflation policy, the need to ensure that the Budget deficit is of a size that can and will be soundly financed, this can

# **BUDGET-SECRET**

## **BUDGET-SECRET**

only be achieved by maintaining the firmest possible control of public expenditure.

5. Controlling public expenditure is one of the most difficult tasks facing any democratic government in the modern world. Public expenditure acquires its own momentum and creates its own vested interests. To control it requires constant vigilance and a determination to succeed despite the inevitable setbacks. We have that determination, and have succeeded in holding its growth below that of the economy as a whole. To achieve that has required difficult decisions in successive public expenditure rounds.

6. But there is no virtue in self-delusion. There is no benefit to sound economic management or effective control from sticking to figures which subsequent events have made unattainable.

7. The Budget is the right time to reassess the prospects for spending, revenue, and for borrowing. Such a reassessment must take account of changes in the economic scene since the Public Expenditure Review in the autumn. Of these, the single most important factor has been the coal strike, whose public expenditure cost in 1984-85 is estimated at some £2½ billion -about £1 billion more than allowed for in the Autumn Statement and the Public Expenditure White Paper which explicitly assumed that the strike would end at Christmas. There will also be some further cost in 1985-86.

## **BUDGET-SECRET**

## **BUDGET-SECRET**

8. But quite apart from the coal strike, the upward pressures on public spending remain intense, with the effects of higher interest rates and a lower exchange rate superimposed on the problems of increased take-up of social security benefits and local authority overspending. I now estimate that this year's public expenditure planning total will be exceeded by some £3¼ billion - an overshoot of about 2½ per cent, of which over two-thirds is attributable to the coal strike.

9. In the light of this revised estimate of the outturn for the current year I have reassessed the adequacy of the Reserves for 1985-86, 1986-87 and 1987-88 provided in the January White Paper. In order to provide a realistic basis on which to plan and control the level of public spending I have felt it prudent to add £2 billion to the Reserve and thus to the White Paper planning totals for each of the three years.

10. At the same time, I have increased the figure for debt interest, which is outside the planning total, by £½ billion a year above the levels shown in the White Paper, which itself contained significantly higher figures than last year's Red Book.

11. These estimating changes mean that the planning totals for the next three years have been increased by about 1½ per cent. But let there be no misunderstanding. The new totals still represent a tough target. There is

## **BUDGET-SECRET**

## **BUDGET-SECRET**

no ~~slackening in our determination~~ to curb the size of the public sector. No cash has been added to programmes. Calls on the reserve will continue to be judged on the strictest criteria.

12. Public expenditure will continue to fall as a proportion of GDP, as it has since 1981-82. Expenditure will stay broadly flat in real terms at about this year's level, adjusted for the coal strike. To achieve even these new figures future Public Expenditure Surveys will need to be at least as tough as their predecessors; and there can be no let-up in the tight control of individual spending programmes within the cash limits set for the coming year.

13. On the other side of the public accounts, expected tax receipts have also been revised upwards, partly for related reasons. But not by as much. The scope I have for tax cuts this year is therefore only half the amount I indicated might be available in my Statement to the House in November. In other words, the measures I shall shortly announce will, after indexation, contribute some  $\pounds\frac{3}{4}$  billion net to the  $\pounds 7$  billion borrowing requirement I have set for 1985-86.

## **BUDGET-SECRET**



**BUDGET - SECRET**

SPARE

REF No. M56  
COPY 20 OF 20FROM: MRS R LOMAX  
DATE: 13 March 1985

MR MONCK

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Byatt  
Mr Battishill  
Mr Folger  
Mr Mercer  
Mr Cropper  
Mr H Davies  
Mr Lord  
PS/IR  
PS/C&E**BUDGET SPEECH SIXTH DRAFT: SECTION G2**

Could you please arrange for the attached redraft of the second part of Section G to be checked for factual accuracy and, where necessary, cleared with other Departments. Comments should reach this office - through you please - as soon as humanly possible, and not later than 11am tomorrow morning.

RL.

RACHEL LOMAX

**G2: EMPLOYMENT AND TRAINING MEASURES**

1. Over the last two years we have brought about substantial improvements in vocational education and training for the 14-18 age group. In particular, the Youth Training Scheme has become a successful bridge between school and work.

2. But despite this advance, we in this country still fail to prepare our school-leavers adequately for work. Many employers still fail to recognise that training is an investment in their own commercial interest. And too many trainees are reluctant to accept rates of pay which reflect their inexperience and low contribution to value added, something I shall refer to again later. This is in marked contrast to our major competitors overseas.

3. The Government has therefore decided to promote a major expansion of the Youth Training Scheme. Provided employers are prepared to pay the bulk of the cost, the Government for its part is prepared to provide further funds, over and above the existing £750 million a year of public expenditure on the YTS, to set up an important new scheme. The object of the new scheme would be eventually to provide all 16 or 17 year olds who do not continue in full-time education with the offer of job-related training leading to a recognised qualification. The scheme would offer a place up to the age of 18 - that is

to say, it would last for two years for 16 year olds and one year for 17 year olds.

4. The principal aims of the scheme are a better qualified workforce and more realistic pay levels for young people. But it would also be a major step towards our objective of ensuring that every youngster under the age of 18 has the choice of either staying in full time education, taking a job or receiving training. We want to move to a position where unemployment for anyone under the age of 18 should cease to be an option. But first we have to get this ambitious new scheme in place. It will require a major effort from employers, trade unions and trainees, but one which I am sure they are willing to make.

5. The existing YTS provides foundation training and preparation for work. The new scheme will involve occupational training for both the employed and the unemployed and will aim to meet industry's need for skilled and motivated employees. It would not be unreasonable to expect employers to meet the full cost, as employers in other countries are prepared to do. Indeed, this is essential if the new scheme is to be viable in the longer term. But I recognise that such a major change in attitudes may take time. I am therefore prepared to set aside a fixed sum in public funds to launch the new scheme and get it moving in the right direction. My Rt Hon Friend the Secretary of State for

## BUDGET - SECRET

Employment and my noble Friend the Minister without Portfolio will be announcing details of the scheme in a press notice tomorrow

6. My Rt Hon Friend the Secretary of State will then arrange consultations through the Manpower Services Commission about the share of the cost to be borne by employers, the level of trainee allowances, the quality of training to be provided, and the qualifications it will lead to. Our aim is that these consultations should be completed by July so that the new scheme can be in place for this year's school leavers. Provided the outcome of these consultations is satisfactory, I have undertaken to increase the Department of Employment's programme by £150 million in 1986-87 and £300 million in 1987-88 for this scheme.

7. As well as inadequate basic training, we in this country are increasingly suffering from the fact that our output of graduates in high technology disciplines has not been keeping pace with the expanding needs of industry. My Rt Hon Friend the Secretary of State for Education and Science will therefore be announcing later today shortly a special programme, costing around £40 million over the next three years, to provide additional places in selected higher education institutions, principally in electronic engineering and computer sciences. In this case the cost will be met from within existing public expenditure programmes.

## BUDGET - SECRET

8. While school-leavers will be catered for by the Youth Training Scheme, there remains the problem of the long-term unemployed genuinely seeking work. The Community Programme, which .... (insert brief description here), has proved to be of considerable value in this context, with a significant proportion of those who leave it going on into other jobs.

9. I have therefore agreed to make funds available to enable the Manpower Services Commission to offer an additional 100,000 Community Programme places by June 1986. Those between 18 and 24 who have been unemployed for six months or more, and older people who have been unemployed for over a year, will be eligible for these places. My Rt. Hon. Friend the Secretary of State for Employment will be announcing the full details of this proposal [in a press notice later today/tomorrow]. The Department of Employment's programme will be increased by £140 million in 1985-86 and £460 million in 1986-87 to accommodate this.

10. To an even greater extent than with the Youth Training Scheme, the net public expenditure cost will be substantially less than the gross cost because of savings on social security benefits. The net addition to the expenditure programmes as a result of all the proposals I have announced today will be £75 million in 1985-86 and £300 million in 1986-87.

## BUDGET - SECRET

11. But in this, as in so many other fields, higher public expenditure can at best be only a part of a wider response to the problem. The Government has therefore decided to take further steps to remove legal impediments to the effective functioning of the labour market. However well intentioned, these impediments can only lead to fewer jobs. My Rt Hon Friend will be announcing two important measures [tomorrow]. First, he will be extending to all employers the provisions on unfair dismissal which currently apply to small firms. The qualifying period for unfair dismissal claims will thus become two years for all new employees. This should lessen the reluctance of employers to take on new people.

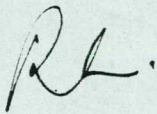
12. Second, my Rt Hon Friend will be issuing a consultative document about the future of the Wages Councils. The main effect of Wages Councils is to increase unemployment by making it illegal for many employers, particularly small employers, to employ people, especially young people, at wages that the employers can afford and for which the potential employees are prepared to work. The document will cover a number of proposals for radical change, including complete abolition.

**BUDGET-SECRET**FROM: MRS R LOMAX  
DATE: 13 March 1985

MR MONGER

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Bailey  
Mr Littler  
Mr Battishill  
Mr Folger  
Mr Cropper  
Mr H Davies  
Mr Lord  
PS/IR  
Mr Isaac (IR)  
Mr Blythe (IR)  
PS/C&E**BUDGET SPEECH SIXTH DRAFT: SECTION H**

Could you please arrange for the attached redraft of Section H to be checked for factual accuracy. Comments should reach this office - through you please - by close of play today.



RACHEL LOMAX

**BUDGET-SECRET**

# BUDGET-SECRET

## H TAX REFORM

I now turn to taxation.

2. In my Budget last year I announced a radical reform of the Corporation Tax system. This had been preceded by the Green Paper on Corporation Tax issued by my predecessor in 1982.

3. I am satisfied that the right way to proceed with major tax reform is to issue a Green Paper first, as a basis for full and informed discussion, followed by legislation when the results of that discussion have been fully digested.

4. I therefore propose to issue a Green Paper later this year on the reform of personal income tax.

4a. It is the firm policy of the Government to reduce the burden of income tax. But we need to make sure that the reliefs we can afford are concentrated where they will do most good.

5. The present structure of personal income tax is unsatisfactory in many ways. The threshold is still too low. Too many young people in particular start paying tax at too low a level. And too many families find themselves in the poverty and unemployment traps. The

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## **BUDGET-SECRET**

system discriminates in favour of the married man whose wife goes out to work and against the wife who stays at home to look after the children. It denies to the partners in a marriage the full opportunity for independence and privacy which they have a right to expect in their tax affairs.

6. I believe that these defects can be removed by a change to a new system of personal allowances more suited to today's economic and social needs. Under this, everyone, man or woman, married or single, would have the same standard allowance. But if a married woman, or for that matter a married man, was unable to make full use of their allowance the unused portion could be transferred, if they so wished, to their husband or wife.

7. This reform would produce a more logical and straightforward system. It would open the way for a significant rise in tax thresholds for families where the wife works at home, where the problems of the poverty and unemployment traps are most pronounced. It would also give a greater incentive for young people to seek work.

8. It would enable far more people to be taken out of the poverty and unemployment traps, and indeed taken out of tax altogether, for a given sum of overall tax relief than is possible under the present system. It would end the present discrimination against the family where the wife feels it right to stay at home rather than go out to

## **BUDGET-SECRET**

## **BUDGET-SECRET**

work, which increasingly nowadays means discrimination against the family with young children.

9. It would give every married women the opportunity for privacy in her tax affairs. Her personal allowance would be her own unless she chose to transfer it to her husband. Husbands and wives would each be taxed separately on their own income irrespective of the income of the other. The whole business of aggregating a wife's earned income and investment income with her husband's income for tax would end.

10. A reform of this kind would require major changes in the way the tax system is run, far beyond its present capacity to deliver. But the computerisation of PAYE is well under way and the full range of facilities should be available by 1989. So it is essential to lose no time in preparing for the changes we wish to make once computerisation is in place. I shall therefore be issuing later this year a Green Paper setting out full details of the proposals I have just outlined as a basis for full and informed discussion. I intend to introduce the necessary legislation in 1987 with a view to full implementation by April 1990. The Green Paper will also discuss other options opened up by computerisation, ranging from non-cumulation to a closer integration of the tax and benefit systems after an appropriate period of consultation.

## **BUDGET-SECRET**

## BUDGET-SECRET

11. There is also a case for changing the tax treatment of pension funds, as part of a thorough-going reform of the tax treatment of personal savings generally. Any fundamental reform of this kind would also, in the same way, need to be preceded by the publication of a Green Paper.

12. The House will, I am sure, be interested to learn that I have no such Green Paper in mind at the present time.

13. Nor, indeed, despite the unparalleled spate of pre-Budget rumours, do any of the detailed proposals in my Budget affect the tax-deductibility of pension fund contributions, the tax-free nature of pension fund income and capital gains, or the anomalous but much loved tax-free lump sum.

14. I note, incidentally, that it is now the official policy of the Opposition to levy a full rate of tax on any pension fund which invests its members' savings in ways of which the Labour Party disapproves.

15. We on this side of the House wholly reject that approach. Indeed, my Rt. Hon. Friends and I envisage a considerably larger role for bona fide private pension provision than exists at the present time, and we shall be expecting the pensions industry to play an active and constructive part in helping to bring this about.

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## **BUDGET-SECRET**

16. Meanwhile, I have a number of important proposals for tax reform to announce today, which will both simplify the system and encourage enterprise.

17. First, Capital Gains Tax. Last year I was unable to do anything about the acknowledged defects of this tax, notably its combination of unfairness and complexity, and undertook to come back to it this year.

18. This I now do.

19. I have decided that the right way to reform Capital Gains Tax is to build on the important change made by my predecessor three years ago, when he introduced the 1982 indexation relief.

20. That relief, valuable though it is, and increasingly valuable as it will become, suffers from three serious limitations.

21. First, the indexation does not cover to the first 12 months of the ownership of an asset. This provision, introduced to discourage the short term conversion of income into capital, required complex identification rules for shares, has made the tax very much more complicated. I am now in a position to remedy this defect. Hon members will recall that I announced last month measures to put an end to the practice known as bondwashing, which represented the principal device for converting income

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## BUDGET-SECRET

into less heavily taxed capital gains. Having done that, I propose to abolish the 12 month rule so far as most disposals are concerned with effect from 6 April. In the case of certain fixed interest securities, however, the rule will need to remain in being until the anti-bondwashing provisions take effect on 28 February 1986.

22. Second, the indexation does not at present extend to losses. I propose that it should do so.

23. Third, the present indexation provision unfairly discriminates against those who acquired their assets prior to 1982, since for them the allowance is based not on the 1982 value of the asset but on its original cost. I now propose that this injustice be remedied, and the indexation allowance will henceforth be based on March 1982 values. There will still, of course, be no indexation of capital gains made prior to 1982, but at least all purely inflationary gains made since that date will now be free of tax, irrespective of when the asset was acquired.

24. This three-pronged reform of Capital Gains Tax will make life simpler for the taxpayer, help the efficient working of the capital markets, relieve the burden on well-established family businesses, and encourage risk-taking and enterprise. Combined with the statutory indexation of the exempt amount, which will rise in 1985-86 to £5,900, these changes will remove some 15,000

## BUDGET-SECRET

## **BUDGET-SECRET**

taxpayers from liability altogether. Increasingly the tax will be levied on real and not inflationary gains. With these reforms, I believe the tax is now on a broadly acceptable and sustainable basis.

25. The combined cost of the three reforms I have announced is £155 million in a full year, but none of it falls in 1985-86.

26. I turn next to the stamp duties.

27. Following widespread consultation I have decided that the time has come to simplify and modernise these ancient duties. I propose in this Budget to sweep away no fewer than 15 separate duties, including the contract note duty and the 1 per cent duty on gifts. Altogether, the changes I am proposing should reduce by over 40 per cent the number of documents which require to be stamped.

28. My final proposal for reform concerns Development Land Tax.

29. This is a particularly complex tax, which was introduced in response to the problem of soaring land values at a time of high inflation. Its chief practical effect is to discourage the bringing forward of land for development. The disincentive effects will grow further as the gap widens between the 60 per cent rate of DLT and a Corporation Tax rate which is on the way down to 35 per cent.

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## **BUDGET-SECRET**

30. I have therefore decided to abolish Development Land Tax altogether, with immediate effect. At the same time I propose to cancel all deferred charges under the tax. The net cost will be some £20 million in 1985-86 and £50 million in a full year. This compares, incidentally, with a collection cost for DLT of some £5 million a year. Development gains will of course continue to be subject to income tax, corporation tax and capital gains tax, in the same way as any other income or capital gains.

31. The abolition of Development Land Tax will, I am sure, be especially welcomed by the building and construction industry. It will also remove no fewer than 200 pages of highly complex legislation from the Statute Book.

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**BUDGET-SECRET**

REF. No. M52

COPY 22 OF 22FROM: MRS R LOMAX  
DATE: 13 March 1985

MR MONGER

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Cassell  
Mr Monck  
Mr Battishill  
Mr Folger  
Mr Cropper  
Mr H Davies  
Mr Lord  
PS/IR  
Mr Green (IR)  
Mr Crawley (IR)  
PS/C&E**BUDGET SPEECH SIXTH DRAFT: SECTION J**

Could you please arrange for the attached redraft of Section J to be checked for factual accuracy. The Chancellor has deliberately shortened this Section substantially. He envisages that the Financial Secretary should announce, during the course of the Budget debate, some of the minor measures. Inland Revenue will wish to consider whether some or all of them need to be covered by Budget Day press releases.

2. Comments should be given to this office - through you please -by close of play today.

*RL.*

RACHEL LOMAX

**BUDGET-SECRET**



# **BUDGET-SECRET**

## **J. BUSINESS TAXATION**

1. I now turn to other aspects of business taxation. It cannot be repeated too often that it is businesses and not Governments that create jobs. The Government's responsibility is to foster the conditions which will encourage businesses to grow and create more jobs. The measures I have to announce are designed with that end in view.

2. First, Corporation Tax. The reforms I announced last year set out a new and improved framework of business taxation for the remainder of this Parliament and beyond. So this year I have only limited changes to make. Details of some minor matters left over for this year's Finance Bill are given in the Red Book.

3. As I promised last year, I have reviewed the Scientific Research Allowance. Given the particular importance of expenditure on research and development if British industry is to hold its own in a competitive world, I have decided, exceptionally, not to reduce this allowances in line with the changes in the other capital allowances. A few minor changes apart, the Scientific Research Allowance will thus remain at 100 per cent.

4. I have also decided to modify the new capital allowance system as it applies to short life assets.

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## **BUDGET-SECRET**

While the new structure of capital allowances enables the generality of plant and machinery to be written off over a period that fairly reflects their useful life, I accept that there is a problem with those assets which enjoy only a short life, including in particular high technology assets which tend to suffer a rapid rate of obsolescence.

5. Accordingly, from next year, a business will be able to exclude from its general pool of capital expenditure any asset which it believes will have only a short life; so that if the asset is subsequently scrapped after, say, four years, it will be fully written off for tax over that period. I believe that this change will be widely welcomed. The cost of this concession is £100 m in 1988-89 rising to about £300 m in 1990's.

6. I now turn to a group of measures which will be of particular interest to smaller businesses and the self-employed, a sector of the economy where an increasing proportion of the jobs of the future are likely to be found.

7. Over the past five years the ranks of the self-employed have risen from under 2 million when we first took office in 1979 to 2½ million in 1984 - an increase of well over half a million or some 30 per cent. And the growth in self-employment has been a particularly marked feature of the encouraging growth in overall employment that has occurred since the Spring of 1983.

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## BUDGET-SECRET

8. But the self-employed suffer from one long-standing grievance so far as tax is concerned. While the National Insurance Contribution paid by an employee is not allowable for tax, the National Insurance Contribution paid by the employer on the employee's behalf is allowable. Yet the National Insurance Contribution payable by the self-employed is not allowable at all.

9. Today I propose to remedy that grievance. As from 6 April, tax relief will be allowed in respect of half the graduated Class 4 National Insurance Contribution payable by the self-employed. In addition, I have agreed with my Right hon Friend the Secretary of State for Social Services that, as from the beginning of October, the flat rate Class 2 National Insurance Contribution payable by the self-employed will be reduced from £4.75 to £3.50 a week. The cost of these reliefs will be £55 million in 1985-86 and £160 million in a full year.

10. Last year I undertook to review the scope of VAT relief for bad debts, a matter of considerable concern to small businesses who suffer most from this type of default. In the light of legislation now proceeding in another place on the reform of the insolvency law, I propose to widen the scope of the existing relief. The new rules will take effect as soon as the provisions of the Insolvency Bill are implemented and will cost some £25 million in the first full year.

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## **BUDGET-SECRET**

11. Although the Business Expansion Scheme has been in existence only two years it has already made an impressive contribution to the promotion and growth of new businesses. Last year getting on for 20,000 people took advantage of the tax reliefs offered by the Business Expansion Scheme to invest some £100 million in more than 500 companies - over a third of them new businesses.

12. I have two changes to propose. The scheme was designed to encourage investment by individuals in new and expanding businesses in risk areas. Accordingly, I propose to include within the coverage of the scheme companies formed to carry out research and development. However by the same token I propose to exclude from the scheme certain ventures which primarily involve property development. Building and construction will, of course, continue to be a qualifying trade under the Business Expansion Scheme.

13. I have already announced a substantial reform of the Capital Gains Tax in addition, I propose to implement many of the proposals contained in last year's consultative document on CGT retirement relief, notably to reduce the age for full relief to 60 and to extend relief to those who are obliged by ill-health to retire before that age. This relief is particularly important to the proprietors of small businesses concerned at the capital gains tax they might have to pay when they come to sell their business on retirement.

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## BUDGET-SECRET

14. Finally, on the small business front, I propose to increase the VAT registration threshold to £19,500 from midnight tonight.

15. I now turn to a number of other detailed measures affecting business.

16. The number of employee share schemes has increased from 30 when we first took office in 1979 to some 850 today, involving over the whole period shares with an initial value of more than £1 billion. The wholehearted commitment of employees to the success of the companies in which they work is vital to our country's economic future. To maintain and build on this progress I propose to reduce from seven to five years the period after which there is no income tax liability on the value of an employee's share under profit sharing schemes.

17. Last year the Inland Revenue issued, on my authority, a consultative document on the taxation of partnerships which contained proposals for tackling the avoidance device to which the Public Accounts Committee drew attention several years ago. Now we must act. I propose that where a partnership ceases and the business is carried on broadly unchanged by a new partnership which may be virtually indistinguishable from the old one, the new partnership will be taxed for the first two years on the profits actually arising in those years. I also intend to take steps to restrict the tax reliefs available for losses incurred by limited partners.

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## **BUDGET-SECRET**

18. I have one further proposal of importance to a number of businesses. Last year I decided to remove a competitive disadvantage to British manufacturers by levying VAT on imports. I am glad to say that thanks to the hard and effective work put in by Customs in consultation with the Port management and trade interests involved, the transition to the new system has not been the painful process many feared. But in response to representations I have decided it would be right to modify the system in two related respects.

19. First, I propose to relieve from VAT goods which are imported into this country solely for repair, or for processing which does not change their identity, and are then re-exported to their original owners overseas. Second, goods which are similarly exported from the UK solely for repair or processing abroad and are then re-imported, will bear VAT only on the value of the repair or processing. These reliefs will take effect on 1 June and have a once-for-all cost in 1985-86 of £30 million.

20. I have no major new proposals this year on the taxation of North Sea oil. I remain committed to the incentives for new fields introduced by my predecessor in 1983, when I myself was Secretary of State for Energy. They have proved highly effective. Since the 1983 Budget exploration and appraisal activity has reached record levels with 182 now well started in 1984 alone (40 per cent higher than in any previous year). I have, as

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indicated last year, reviewed incremental investment in existing fields, but I have not been persuaded that there is an economic case for introducing new fiscal reliefs at this stage. My only proposal for change, apart from some minor technical measures, is to remove immediate PRT relief for onshore exploration and appraisal expenditure. Onshore activities are sufficiently low-cost not to need this special incentive.

21. In last year's Budget Statement I mentioned the Government's deep concern at the spread of unitary taxation within the United States, and the threat that this posed to the US subsidiaries of British companies. Since then, I am glad to note that several American States have abolished unitary taxation; but in others, notably California, no change has yet been made. We shall continue to press for action to be taken this year, and fully support the campaign being waged by the CBI on this issue.

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**BUDGET-SECRET**

SPARE

Ref no. M54

COPY 20 OF 20FROM: MRS R LOMAX  
DATE: 13 March 1985

PS/CUSTOMS AND EXCISE

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Cassell  
Mr Monger  
Mr Griffiths  
Mr Folger  
Mr Cropper  
Mr H Davies  
Mr Lord  
PS/IR  
Mr Wilmott (C&E)**BUDGET SPEECH SIXTH DRAFT: SECTION K**

Could you please arrange for the attached redraft of Section K to be checked for factual accuracy. Comments should reach this office - through you please - by close of play today.

MOM

for RACHEL LOMAX

**BUDGET-SECRET**



# BUDGET-SECRET

## K. PERSONAL TAXATION: TAXES ON SPENDING

1. I turn now to the taxation of personal income and spending. My Budget last year shifted some of the burden of personal taxation from earnings to spending. Today I propose to make a further move in this direction.

2. Accordingly, I propose to increase the revenue from the excise duties by rather more than is required simply to keep pace with inflation - a less painful task now that inflation is relatively low.

3. I propose to increase the duty on cigarettes and hand-rolling tobacco by the equivalent, including VAT, of sixpence on a package of 20 cigarettes. These changes will take effect from midnight on Thursday. I do not however propose any increase at all in the duties on cigars and pipe tobacco.

4. I propose increases which, including VAT, will put between a penny and twopence a pint on most beer (depending on its strength); a penny a pint on cider, sixpence on a bottle of table wine and about tenpence a bottle on sparkling or fortified wine. In recognition of the current difficulties of the Scotch whisky industry, however, I propose to increase the duty on spirits by only tenpence a bottle, well below the amount needed to keep pace with inflation. All these changes take effect from midnight tonight.

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## **BUDGET-SECRET**

5. I propose to increase the duty on petrol and derv by amounts which, including VAT, will raise the price at the pumps by approximately fourpence and threepence-halfpenny a gallon respectively. This does no more than keep pace with inflation. These increases will take effect from 6 o'clock this evening. As last year, I do not propose any change in the duty on heavy fuel oil.

6. I do propose this year, however, to raise more revenue from the Vehicle Excise Duty. For cars and light vans the duty will go up by £10 to £100, although there will be no increase at all for pre-1947 cars. On the advice of my Rt Hon Friend the Secretary of State for Transport, the pattern of duty on lorries will be changed to correspond more closely to the amount of damage they do to the roads. Accordingly, while the duty for most lorries will remain unchanged, for 150,000 of the heaviest rigid lorries there will be increases ranging from 7 per cent to 29 per cent.

7. These changes in the excise duties will, all told, raise an extra £820 million in 1985-86, some £235 million more than is required to keep pace with inflation. The overall impact effect on the RPI of these changes will be one half of one percent. This has already been taken into account in the forecast I have given the House of 5 per cent inflation by the end of the year.

8. I now turn to VAT.

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## **BUDGET-SECRET**

9. I have followed with interest the unprecedented speculation that has built up over recent months about my alleged intentions for VAT. Value Added Tax is of course the biggest single revenue raiser among the indirect taxes, and a major extension of the VAT base, which at present covers little more than half of consumer spending, could finance a significant reduction in income tax as well as removing an obvious economic distortion. Accordingly my Treasury colleagues and I have, over the past 18 months, been reviewing the possibility of extending the VAT base in a number of ways, and indeed I introduced a significant change in this direction in last year's Budget.

10. At the same time, during the course of this review, various candidates have been progressively ruled out on a variety of grounds. I rejected the idea of imposing VAT on books, for example, as far back as January 1984 - well before the current agitation had even begun. It has been suggested that it might have been helpful to the House if I had made a practice of announcing a decision to take no action in a particular direction as soon as each such decision had been taken. But a moment's reflection must make it clear why successive Chancellors have eschewed this course, ever since Mr Gladstone, in 1853, first laid down the doctrine, in these terms:

"If the executive government is, with any advantage to the country, ordinarily to discharge the function of the initiative with respect to finance, it is

## **BUDGET-SECRET**

## **BUDGET-SECRET**

absolutely necessary that the strictest silence should be observed, not in contempt of pressure, but yet, notwithstanding all pressure, till the time arrives when the views of the Government can be regularly and comprehensively disclosed."

11. I can, however, now inform the House that the review has been completed, and that, apart from two relatively minor changes I shall be proposing today, I have decided not to make any further autonomous extensions of the VAT base during the lifetime of this Parliament. I am obliged to use the qualification 'autonomous' since, as hon Members will be aware, this is a field in which European Community law has to be reckoned with. But as the House will know, where we are currently under threat, we are vigorously fighting our case.

12. The first change I propose to make concerns advertisements in newspapers and magazines. At present all other advertising is taxed, but newspaper and magazine advertising is not. There is no justification for this anomaly. It is one thing to maintain that newspapers and magazines should not be liable to VAT: quite another to argue that those who advertise in them should enjoy a similar immunity. Accordingly, I propose that from 1 May newspaper and magazine advertising should be subject to VAT. This will raise £30 million in 1985-86 and £50 million in a full year.

## **BUDGET-SECRET**

## BUDGET-SECRET

13. The other change I propose to make concerns credit cards and similar payment cards, a part of the financial sector which has enjoyed exceptional growth over the past few years. From 1 May transactions between the companies providing the cards and the outlets which accept them will be classified as exempt. This means that the companies will not be able to recover VAT in respect of such transactions. This will raise £15 million in 1985-86 and £20 million in a full year. It is not expected to have any direct effects on the changes made to card holders.

14. I also have a modest VAT concession to make. I have decided to extend the existing VAT relief for medical or scientific equipment bought with donated funds for use in hospitals and the like to cover computer equipment for certain medical uses. Customs and Excise will be announcing the precise details of the reliefs, which will take effect from 1 May.

15. Finally, on VAT, these are the recommendations of the Keith Report on the Enforcement Powers of the Revenue Departments. These recommendations, which taken as a whole strike a careful balance between the powers of the Customs and Excise and the protection of the taxpayer, are principally concerned with improving the fairness and efficiency of the administration of VAT. After extensive consultation, draft clauses were published in November, as a basis for further consultations. The substantive

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## **BUDGET-SECRET**

clauses will appear in this year's Finance Bill. Among other things they will contain powers to deal with the problem of the late payment of VAT. This is expected to bring in extra revenue of about £50 million in 1985-86. By 1988-89 there will have been a cumulative once-for-all revenue gain of about £600 million. Proposals on the Inland Revenue aspects of the Keith Report will follow in next year's Finance Bill. I should like to take this opportunity to pay tribute to Lord Keith and his colleagues for their thorough and professional Report and set of recommendations.

16. Taking into account the improved relief for VAT on bad debts and the new relief for VAT on temporary imports, the overall effect of the VAT changes I have proposed will be to increase the yield of the tax by £60 million in 1985-86 rising eventually to £190 million in a full year. They will have no impact on the RPI. The additional revenue raised from the Excise Duties and VAT taken together will help me to lighten to some extent the burden of income tax.

**BUDGET-SECRET**

**BUDGET-SECRET**

Ref No. M53

Copy 21 of 21FROM: MRS R LOMAX  
DATE: 13 March 1985

PS/INLAND REVENUE

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Cassell  
Mr Battishill  
Mr Monger  
Mr R Allen  
Mr Folger  
Mr Cropper  
Mr H Davies  
Mr Lord  
Mr Isaac (IR)  
PS/C&E**BUDGET SPEECH SIXTH DRAFT: SECTION L**

Could you please arrange for the attached redraft of Section L to be checked for factual accuracy. Comments should reach this office - through you please - by close of play today.

mom

for RACHEL LOMAX

**BUDGET-SECRET**

# **BUDGET-SECRET**

## **L. PERSONAL TAXATION: INCOME TAX**

1. But before turning to income tax, I should briefly mention Capital Transfer Tax. Since 1979 the burden of this tax has been very greatly reduced, and I propose to maintain that position this year by raising the threshold and rate bands set last year in line with statutory indexation. In addition, I propose to widen the scope of the existing CTT exemption for amenity land surrounding a house of outstanding heritage quality. I am sure that this will be welcomed by all those concerned with the preservation of our national heritage.

2. I now turn to income tax.

3. As I announced last year, on 6 April the banks move over to the composite rate system for the payment of tax on bank interest. I now need to legislate to put the corresponding building society composite tax payment dates on broadly the same footing, as from April 1986. Contrary to press rumours, this will not produce additional revenue. I also propose to legislate this year to bring new loans above the £30,000 mortgage interest relief ceiling into the MIRAS system with effect from April 1987 at the very latest.

4. I need to set the 1986-87 car benefit scales for those whose employers provide them with the use of a car.

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As last year, I propose to increase both the car and fuel scales by 10 per cent with effect from April 1986. This will still leave the scale levels well short of the true value of the benefit.

5. There has been some discussion of late about the tax treatment of charities. It has been our consistent policy over the past five years to focus relief rather on the act of giving to charity. In accordance with this principle I now propose to increase from £5,000 to £10,000 the limit to which relief at the higher rates of tax is allowed to individuals for covenants to charities.

6. I now turn to my main income tax proposals.

7. I propose to make no change this year in the rates of income tax. As last year, I believe it is right to concentrate most of the limited resources at my disposal on raising the starting point for tax. Increases in the basic tax thresholds benefit all taxpayers, but they give proportionately more help to those on smaller incomes - and right at the bottom end of the scale take a significant number of people out tax altogether. The tax thresholds we have in this country are too low whether compared with our principal competitors or with our own not so distant past. They discourage young people from starting work and are a major cause of the poverty and unemployment traps. A budget for jobs and for enterprise has to give high priority to raising the tax thresholds.

## BUDGET-SECRET

## **BUDGET-SECRET**

8. The statutory indexation formula means that I should increase all the principal income tax allowances and bands by 4.6 per cent, the increase in the Retail Price Index over the year to last December, rounded up. For the higher rate thresholds and bands I propose this year to do just that. The first higher rate of 40 per cent will be reached at a taxable income of £16,200 and the top rate of 60 per cent will apply to taxable income above £40,200.

9. For the basic thresholds I can do more. Statutory indexation would imply an increase in the single person's allowance of £100. I propose to increase it by precisely twice as much - £200 - from £2,005 to £2,205. Statutory indexation would imply an increase in the married man's allowance of £150. Again, I propose to raise it by precisely twice as much - £300 - from £3,155 to £3,455

10. I propose to increase the age allowances this year by the same cash amount as the corresponding basic allowances. Thus the single age allowance will rise by £200 from £2,490 to £2,690 and the married age allowance will go up by £300 from £3,955 to £4,255.

11. The increase in the basic allowances of almost 10 per cent, or some 5 per cent in real terms, means that for 1985-86 they will be well over 20 per cent higher in real terms than they were in 1978-79, Labour's last year. It means that most single people will enjoy an income tax

## **BUDGET-SECRET**

## **BUDGET-SECRET**

cut of at least £1.15 a week and most married couples an income tax cut of at least £1.73 a week. Compared with no increase at all, some 800,000 people on low incomes - 100,000 of them widows - will be taken out of tax altogether. That is almost twice as many as would have been taken out of tax had the allowances merely been indexed.

12. The income tax changes I have announced today will take effect under PAYE on the first pay day after 17 May. Their cost is considerable: £1.6 billion in 1985-86, of which roughly half represents the cost of indexation.

## **BUDGET-SECRET**

BUDGET SECRET


 CH/EX REF NO *M77*  
 COPY NO *4* OF *4* COPIES

 CC  
*Mr GRIFFITHS*

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

14 March 1985

 Richard Allen Esq  
 Private Secretary to the  
 Secretary of State for Transport  
 Department of Transport  
 2 Marsham Street  
 LONDON SW1

*See Richard*

The Chancellor proposes to include the following paragraph in his Budget Speech:

"I propose this year to raise more revenue from the Vehicle Excise Duty. For cars and light vans the duty will go up by £10 to £100, although there will be no increase at all for pre-1947 cars. On the advice of my Rt. Hon Friend the Secretary of State for Transport, the pattern of duty on lorries will be changed to correspond more closely to the amount of damage they do to the roads. Accordingly, for 150,000 of the heaviest rigid lorries there will be increases ranging from £30 to £360. But for most lorries the rates will remain unchanged."

I should be grateful for information by close tomorrow, Friday 15 March, that your Secretary of State is content with this paragraph.

*Yours ever*  
*Rechel Lomax*

 MRS R LOMAX  
 Principal Private Secretary

## BUDGET SECRET



FROM: MRS R LOMAX

DATE: 18 March 1985

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MR BATTISHILL

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Cassell  
Mr Monck  
Mr Monger  
Mr Scholar  
Mr Culpin  
Mr Folger  
Mr Cropper  
Mr H Davies  
Mr Lord  
PS/IR  
PS/C&E

... The Chancellor has slightly re-ordered and marginally changed some of the material in the eighth draft, circulated under my minute of 16 March. I attach copies of the sections principally affected ie B, C, F, G2, H and K. Any further comments should reach this office as soon as possible.

A handwritten signature in cursive script, appearing to read 'RL'.

RACHEL LOMAX

## B. THE ECONOMIC BACKGROUND

I START WITH THE ECONOMIC BACKGROUND.

2. ONCE AGAIN WE CAN LOOK BACK ON A YEAR OF STEADY GROWTH AND LOW INFLATION. DURING 1984 AS A WHOLE, INFLATION REMAINED AT AROUND 5 PER CENT. OUTPUT GREW BY A FURTHER  $2\frac{1}{2}$  PER CENT, WITH INVESTMENT UP BY 6 PER CENT AND NON-OIL EXPORTS BY 9 PER CENT, TO REACH ALL-TIME RECORD LEVELS IN EACH CASE.

3. MANUFACTURING INDUSTRY RECOVERED PARTICULARLY STRONGLY, WITH OUTPUT UP BY  $3\frac{1}{2}$  PER CENT - THE BIGGEST RISE IN ANY SINGLE YEAR SINCE 1973 - EXPORTS UP BY 10 PER CENT AND INVESTMENT BY 13 PER CENT. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS HAS REMAINED IN SURPLUS, FOR THE FIFTH SUCCESSIVE YEAR. BY INTERNATIONAL STANDARDS, TOO, THE ECONOMY HAS PERFORMED WELL. OUR GROWTH WAS ABOVE, AND OUR INFLATION BELOW, THE EUROPEAN COMMUNITY AVERAGE.

4. MOREOVER, THIS PROGRESS HAS BEEN ACHIEVED IN THE TEETH OF THE COAL STRIKE, FOR WHICH, IN THE SHORT TERM, THE NATION HAS HAD TO PAY A HEAVY PRICE. IN THE CURRENT FINANCIAL YEAR THE COAL STRIKE HAS REDUCED THE LEVEL OF NATIONAL OUTPUT BY OVER  $1\frac{1}{4}$  PER CENT AND WORSENERD THE BALANCE OF PAYMENTS BY SOME £4 BILLION. IT HAS INCREASED PUBLIC EXPENDITURE BY £ $2\frac{1}{2}$  BILLION AND PUBLIC SECTOR

BORROWING BY £2½ BILLION. IT HAS MEANT A LOWER EXCHANGE RATE AND HIGHER INTEREST RATES. IT HAS COST US CONFIDENCE ABROAD AND JOBS AT HOME.

5. BUT THE COSTS, BOTH ECONOMIC AND CONSTITUTIONAL, OF SUBMITTING TO THIS STRIKE WOULD HAVE BEEN INFINITELY GREATER THAN THE COSTS THAT HAVE BEEN INCURRED IN SUCCESSFULLY RESISTING IT.

6. AND IT IS A REMARKABLE TRIBUTE TO THE UNDERLYING STRENGTH OF THE BRITISH ECONOMY THAT IT HAS BEEN ABLE TO WITHSTAND SO LONG AND DAMAGING A STRIKE IN SUCH GOOD SHAPE.

7. LOOKING AHEAD, WE ARE NOW ABOUT TO EMBARK ON WHAT WILL BE THE FIFTH SUCCESSIVE YEAR OF STEADY GROWTH, WITH OUTPUT IN 1985 AS A WHOLE SET TO RISE BY A FURTHER 3½ PER CENT. INFLATION MAY EDGE UP FOR A TIME, PERHAPS TO 6 PER CENT BY THE MIDDLE OF THE YEAR, BUT SHOULD THEN FALL BACK TO 5 PER CENT BY THE END OF THE YEAR AND LOWER STILL IN 1986.

8. WHILE THERE CAN BE NO DISPUTING THE STRENGTH AND DURABILITY OF THE ECONOMIC UPSWING, THERE IS EQUALLY NO DISPUTING THE FACT THAT IT IS MARRED BY AN UNACCEPTABLY HIGH LEVEL OF UNEMPLOYMENT. AND THIS DESPITE THE FACT THAT THE LATEST FIGURES SUGGEST THAT EMPLOYMENT HAS RISEN BY HALF A MILLION OVER THE PAST TWO YEARS, WITH A FURTHER INCREASE LIKELY OVER THE YEAR AHEAD.

9. IF AT HOME THE PAST YEAR HAS BEEN OVERSHADOWED BY THE COAL STRIKE, INTERNATIONALLY IT HAS BEEN DOMINATED BY THE RELENTLESS SURGE OF THE DOLLAR, WHICH ROSE BY A FURTHER 30 PER CENT AGAINST ALL THE MAJOR EUROPEAN CURRENCIES. TO FINANCE ITS MASSIVE BUDGET DEFICIT THE UNITED STATES IS IMPORTING A LARGE PART OF THE REST OF THE WORLD'S SAVINGS AND EXPORTING SOME OF ITS OWN INFLATION.

10. THIS IS NOT A SUSTAINABLE STATE OF AFFAIRS. AS FEDERAL RESERVE CHAIRMAN PAUL VOLCKER LAST MONTH TESTIFIED TO CONGRESS, THE UNITED STATES IS LIVING ON BORROWED MONEY AND BORROWED TIME. BUT MEANWHILE IT IS NOT ONLY AMERICA THAT IS PAYING THE INTEREST.

11. ALL THIS HAS LED TO ONE OF THE MOST TURBULENT YEARS IN THE FINANCIAL MARKETS WITHIN LIVING MEMORY. IT HAS BEEN, AND WILL CONTINUE TO BE, A TIME FOR STRONG NERVES AND SOUND POLICIES.



## C. THE MEDIUM-TERM FINANCIAL STRATEGY

WE HAVE ALREADY SHOWN THAT WE ARE NOT AFRAID TO TAKE ACTION, HOWEVER UNPOPULAR, TO KEEP THE MEDIUM-TERM FINANCIAL STRATEGY ON COURSE IN AN UNPREDICTABLE AND UNCERTAIN WORLD.

2. THAT STRATEGY WAS FIRST LAUNCHED FIVE YEARS AGO NEXT WEEK. ITS OPENING WORDS WERE THESE:

"THE GOVERNMENT'S OBJECTIVES FOR THE MEDIUM TERM ARE TO BRING DOWN THE RATE OF INFLATION AND TO CREATE CONDITIONS FOR A SUSTAINABLE GROWTH OF OUTPUT AND EMPLOYMENT."

3. WE HAVE ACHIEVED THOSE OBJECTIVES TO A GREATER DEGREE THAN ALMOST ANY COMMENTATOR DARED TO FORECAST AT THE TIME. AND OUR COMMITMENT TO THEM REMAINS AS GREAT TODAY AS IT WAS FIVE YEARS AGO. SO TOO IS OUR COMMITMENT TO THE STRATEGY AS THE MEANS OF ACHIEVING THOSE OBJECTIVES.

4. THE MEDIUM-TERM FINANCIAL STRATEGY WAS DESIGNED TO ENSURE A REASONABLE GROWTH OF DEMAND IN MONEY TERMS - AND INDEED HAS SUCCEEDED IN DOING SO.

5. WE ARE DETERMINED TO MAINTAIN STEADY DOWNWARD PRESSURE ON INFLATION. IT IS NOT IN THE GIFT OF ANY

GOVERNMENT TO ELIMINATE SHORT-TERM FLUCTUATIONS ALONG THE WAY, BUT THE UNDERLYING DIRECTION HAS TO BE DOWNWARDS. IT IS THIS OBJECTIVE WHICH GOVERNS THE DESIRABLE GROWTH OF TOTAL SPENDING POWER IN THE ECONOMY, AS MEASURED BY MONEY GDP.

6. THE GOVERNMENT'S ECONOMIC STRATEGY HAS TWO KEY COMPONENTS: A MONETARY POLICY DESIGNED TO BRING DOWN INFLATION AND A SUPPLY SIDE POLICY DESIGNED TO IMPROVE THE COMPETITIVE PERFORMANCE OF THE ECONOMY.

7. THE SUPPLY SIDE POLICY IS ROOTED IN A PROFOUND CONVICTION, ITSELF BORN OF PRACTICAL EXPERIENCE BOTH AT HOME AND OVERSEAS, THAT THE WAY TO IMPROVE ECONOMIC PERFORMANCE AND CREATE MORE JOBS IS TO ENCOURAGE ENTERPRISE, EFFICIENCY AND FLEXIBILITY; TO PROMOTE COMPETITION, DEREGULATION AND FREE MARKETS; TO PRESS AHEAD WITH PRIVATISATION AND TO IMPROVE INCENTIVES.

8. THE ARGUMENT OVER WHICH WILL HAVE A BIGGER IMPACT ON DEMAND, INCREASED PUBLIC EXPENDITURE OR LOWER TAXATION, COMPLETELY MISSES THE POINT. THE CASE FOR LOWER TAXATION RESTS ON SUPPLY SIDE POLICY: LOWER TAXES WILL HELP TO ENHANCE INCENTIVES, ELIMINATE DISTORTIONS, IMPROVE THE USE OF RESOURCES AND HEIGHTEN THE SPIRIT OF ENTERPRISE.

9. THE GREAT MISTAKE OF POSTWAR DEMAND MANAGEMENT, WHICH STILL HAS SOME DEVOTEES TODAY, WAS TO REACT TO RISING UNEMPLOYMENT BY INJECTING MORE MONEY INTO THE

SYSTEM, WHETHER THROUGH THE BUDGET OR THROUGH THE BANKS. SO FAR FROM HALTING THE UPWARD TREND OF UNEMPLOYMENT, THIS SIMPLY GENERATED RUNAWAY INFLATION.

10. THAT COURSE WE WILL NOT FOLLOW.

11. A POLICY FOR DEMAND EXPRESSED UNAMBIGUOUSLY IN TERMS OF MONEY PROVIDES A FURTHER IMPORTANT ADVANTAGE. FOR IT ENSURES THAT WAGE RESTRAINT REALLY WILL PROVIDE MORE JOBS. I REPEAT TODAY THE UNDERTAKING I GAVE THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL LAST MONTH: THE MEDIUM-TERM FINANCIAL STRATEGY IS AS FIRM A GUARANTEE AGAINST INADEQUATE MONEY DEMAND AS IT IS AGAINST EXCESSIVE MONEY DEMAND.

## F. PUBLIC EXPENDITURE

GIVEN THE NEED TO ENSURE THAT THE BUDGET DEFICIT IS OF A SIZE THAT CAN AND WILL BE SOUNDLY FINANCED, LOWER TAXES CAN ONLY BE ACHIEVED BY MAINTAINING THE FIRMEST POSSIBLE CONTROL OF PUBLIC EXPENDITURE.

2. CONTROLLING PUBLIC EXPENDITURE IS ONE OF THE MOST DIFFICULT TASKS FACING ANY DEMOCRATIC GOVERNMENT IN THE MODERN WORLD. PUBLIC EXPENDITURE ACQUIRES ITS OWN MOMENTUM AND CREATES ITS OWN VESTED INTERESTS. TO CONTROL IT REQUIRES CONSTANT VIGILANCE, AND A DETERMINATION TO SUCCEED DESPITE THE INEVITABLE SETBACKS. WE HAVE THAT DETERMINATION, AND HAVE SUCCEEDED IN BRINGING THE GROWTH OF PUBLIC SPENDING BELOW THAT OF THE ECONOMY AS A WHOLE. THIS ACHIEVEMENT HAS REQUIRED DIFFICULT DECISIONS IN SUCCESSIVE PUBLIC EXPENDITURE REVIEWS.

3. BUT THERE IS NO BENEFIT TO SOUND ECONOMIC MANAGEMENT OR EFFECTIVE CONTROL FROM STICKING TO PUBLIC EXPENDITURE FIGURES WHICH SUBSEQUENT EVENTS HAVE MADE UNATTAINABLE.

4. AS MY RT. HON. AND LEARNED FRIEND THE CHIEF SECRETARY MADE PLAIN IN THE RECENT DEBATE ON THE PUBLIC EXPENDITURE WHITE PAPER THE NORMAL (PRE-BUDGET) REVIEW OF THE FISCAL PROSPECT HAS HAD TO TAKE ACCOUNT OF CHANGES IN THE ECONOMIC SCENE SINCE THE PUBLIC EXPENDITURE REVIEW IN

THE AUTUMN. OF THESE, THE MOST IMPORTANT HAS BEEN THE COAL STRIKE, WHOSE PUBLIC EXPENDITURE COST IN 1984-85 IS ESTIMATED AT SOME £2½ BILLION - ABOUT £1 BILLION MORE THAN ALLOWED FOR IN THE AUTUMN STATEMENT AND IN THE PUBLIC EXPENDITURE WHITE PAPER WHICH EXPLICITLY ASSUMED THAT THE STRIKE WOULD END AT CHRISTMAS. THERE WILL ALSO BE SOME FURTHER COST IN 1985-86.

5. I NOW ESTIMATE THAT THIS YEAR'S PUBLIC EXPENDITURE PLANNING TOTAL WILL BE EXCEEDED BY NEARLY £3½ BILLION, OF WHICH OVER TWO-THIRDS IS ATTRIBUTABLE TO THE COAL STRIKE. BUT QUITE APART FROM THE COAL STRIKE, THE UPWARD PRESSURES ON PUBLIC SPENDING REMAIN INTENSE, NOT LEAST FROM INCREASED TAKE-UP OF SOCIAL SECURITY BENEFITS AND FURTHER LOCAL AUTHORITY OVERSPENDING. IN ADDITION, SINCE THE WHITE PAPER WAS PREPARED, WE HAVE HAD TO ACCOMMODATE THE EFFECTS OF HIGHER INTEREST RATES AND A LOWER EXCHANGE RATE.

6. I HAVE REASSESSED THE ADEQUACY OF THE RESERVES FOR 1985-86, 1986-87 AND 1987-88 PROVIDED IN THE JANUARY WHITE PAPER. IN ORDER TO PROVIDE A MORE REALISTIC BASIS ON WHICH TO PLAN AND CONTROL THE LEVEL OF PUBLIC SPENDING, I HAVE JUDGED IT PRUDENT TO ADD £2 BILLION TO THE RESERVE AND THUS TO THE WHITE PAPER PLANNING TOTALS FOR EACH OF THE THREE YEARS. AT THE SAME TIME, I HAVE FURTHER INCREASED THE ESTIMATE FOR DEBT INTEREST IN EACH YEAR.

7. THESE INCREASES IN THE SIZE OF THE RESERVE MEAN THAT THE PLANNING TOTALS FOR THE NEXT THREE YEARS ARE NOW HIGHER BY ABOUT  $1\frac{1}{2}$  PER CENT. BUT LET THERE BE NO MISUNDERSTANDING. THE NEW TOTALS STILL REPRESENT A TOUGH TARGET. NO EXTRA CASH HAS BEEN ALLOCATED TO INDIVIDUAL PROGRAMMES. CALLS ON THE RESERVE WILL STILL BE JUDGED ON THE STRICTEST CRITERIA. THERE IS NO SLACKENING IN OUR DETERMINATION TO CURB THE SIZE OF THE PUBLIC SECTOR.

8. PUBLIC EXPENDITURE WILL CONTINUE TO FALL AS A PROPORTION OF GDP, AS IT HAS, THE COAL STRIKE APART, SINCE 1981-82. EXPENDITURE IS PLANNED TO STAY BROADLY FLAT IN REAL TERMS AT ABOUT THIS YEAR'S LEVEL, EXCLUDING THE COSTS OF THE COAL STRIKE. TO ACHIEVE EVEN THESE NEW FIGURES, FUTURE PUBLIC EXPENDITURE SURVEYS WILL HAVE TO BE AT LEAST AS TOUGH AS THEIR PREDECESSORS; AND THERE CAN BE NO LET-UP IN THE TIGHT CONTROL OF INDIVIDUAL SPENDING PROGRAMMES WITHIN THE CASH LIMITS SET FOR THE COMING YEAR.

9. ON THE OTHER SIDE OF THE PUBLIC ACCOUNTS, TAX RECEIPTS, TOO, ARE NOW EXPECTED TO BE HIGHER OVER THE NEXT THREE YEARS, PARTLY FOR RELATED REASONS. BUT NOT BY AS MUCH. THE SCOPE I HAVE FOR TAX CUTS THIS YEAR IS THEREFORE ONLY HALF THE AMOUNT I INDICATED MIGHT BE AVAILABLE IN MY STATEMENT TO THE HOUSE IN NOVEMBER. IN OTHER WORDS, THE MEASURES I SHALL SHORTLY ANNOUNCE WILL, AFTER INDEXATION, CONTRIBUTE SOME  $\pounds\frac{3}{4}$  BILLION NET TO THE  $\pounds 7$  BILLION BORROWING REQUIREMENT I HAVE SET FOR 1985-86.

## G2: EMPLOYMENT AND TRAINING MEASURES

1. ONE OF THE MOST LONG-STANDING PROBLEMS IN THIS COUNTRY IS OUR FAILURE TO PREPARE OUR SCHOOL-LEAVERS ADEQUATELY FOR WORK. SINCE IT WAS FIRST LAUNCHED IN 1983, THE YOUTH TRAINING SCHEME HAS PROVED TO BE A VERY SUCCESSFUL BRIDGE BETWEEN SCHOOL AND WORK. IT HAS ALSO HELPED TO MAKE YOUNG PEOPLE'S PAY EXPECTATIONS MORE REALISTIC. BUT TOO MANY TRAINEES ARE STILL RELUCTANT TO ACCEPT RATES OF PAY WHICH REFLECT THEIR INEXPERIENCE. AND TOO MANY EMPLOYERS STILL FAIL TO RECOGNISE THAT TRAINING IS AN INVESTMENT IN THEIR OWN COMMERCIAL INTEREST. THIS IS IN MARKED CONTRAST TO OUR MAJOR COMPETITORS OVERSEAS.

2. THE GOVERNMENT HAS THEREFORE DECIDED TO PROMOTE A MAJOR EXPANSION OF THE YOUTH TRAINING SCHEME. PROVIDED EMPLOYERS CONTRIBUTE A MAJOR SHARE OF THE COST, THE GOVERNMENT IS PREPARED TO PROVIDE FURTHER FUNDS TO LAUNCH THIS EXPANSION, OVER AND ABOVE THE EXISTING £800 MILLION A YEAR OF PUBLIC EXPENDITURE ON THE YTS. THE OBJECT IS EVENTUALLY TO PROVIDE ALL 16 OR 17 YEAR OLDS WHO DO NOT CONTINUE IN FULL-TIME EDUCATION WITH THE OFFER OF JOB-RELATED TRAINING LEADING TO A RECOGNISED QUALIFICATION. THE SCHEME WOULD OFFER PLACES LASTING TWO YEARS FOR 16 YEAR OLDS AND ONE YEAR FOR 17 YEAR OLD SCHOOL-LEAVERS.

3. THE MAIN AIM OF THE SCHEME IS A BETTER QUALIFIED WORKFORCE. BUT IT WOULD ALSO BE A MAJOR STEP TOWARDS OUR OBJECTIVE OF ENSURING THAT EVERY YOUNGSTER UNDER THE AGE OF 18 WILL EITHER BE IN FULL-TIME EDUCATION, IN A JOB OR RECEIVING TRAINING, WITH UNEMPLOYMENT NO LONGER AN OPTION. BUT FIRST WE HAVE TO GET THIS AMBITIOUS NEW SCHEME IN PLACE. IT WILL REQUIRE THE ACTIVE CO-OPERATION OF EMPLOYERS, TRADE UNIONS AND SCHOOL LEAVERS, WHICH I AM CONFIDENT WILL BE FORTHCOMING.

4. THE EXISTING YTS PROVIDES FOUNDATION TRAINING AND PREPARATION FOR WORK. THE EXPANDED SCHEME WILL ALSO INVOLVE OCCUPATIONAL TRAINING FOR BOTH THE EMPLOYED AND THE UNEMPLOYED GEARED TO THE NEEDS OF BUSINESS AND INDUSTRY. IN THE LONG RUN, WE EXPECT EMPLOYERS TO MEET THE FULL COST, AS THOSE IN OTHER COUNTRIES DO. BUT I RECOGNISE THAT SUCH A MAJOR CHANGE IN ATTITUDES MAY TAKE TIME. I AM THEREFORE PREPARED TO SET ASIDE A FIXED SUM IN PUBLIC FUNDS TO LAUNCH THE NEW SCHEME AND GET IT MOVING IN THE RIGHT DIRECTION.

5. MY RT HON FRIEND THE SECRETARY OF STATE FOR EMPLOYMENT WILL BE ARRANGING CONSULTATIONS THROUGH THE MANPOWER SERVICES COMMISSION ABOUT THE QUALITY OF THE TRAINING, THE SHARE OF THE COST TO BE BORNE BY EMPLOYERS, AND THE LEVEL OF TRAINEE ALLOWANCES. WE AIM TO COMPLETE THESE CONSULTATIONS BY THE END OF JUNE SO THAT THE TWO-YEAR SCHEME WILL BE IN PLACE FOR 16 YEAR OLDS LEAVING SCHOOL THIS YEAR. PROVIDED THE OUTCOME IS SATISFACTORY,



I HAVE UNDERTAKEN TO INCREASE THE DEPARTMENT OF EMPLOYMENT'S PROGRAMME BY £125 MILLION IN 1986-87 AND £300 MILLION IN 1987-88. THIS EXPENDITURE WILL BE PARTLY OFFSET BY SAVINGS IN SOCIAL SECURITY PAYMENTS AND THE ENDING OF THE YOUNG WORKERS SCHEME WHICH WILL CLOSE FOR APPLICATIONS AT THE END OF MARCH 1986.

6. I AM ALSO PROVIDING THE MSC WITH AN ADDITIONAL £20 MILLION IN 1986-87 TO FINANCE A PROGRAMME OF APPROPRIATE IN-SERVICE TEACHER TRAINING COURSES.

7. IT HAS BECOME INCREASINGLY EVIDENT THAT OUR OUTPUT OF GRADUATES IN HIGH TECHNOLOGY DISCIPLINES IS NOT KEEPING PACE WITH THE EXPANDING NEEDS OF INDUSTRY. MY RT HON FRIEND THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE WILL THEREFORE BE ANNOUNCING LATER TODAY A SPECIAL PROGRAMME, COSTING AROUND £40 MILLION OVER THE NEXT THREE YEARS, TO PROVIDE ADDITIONAL PLACES IN ENGINEERING AND TECHNOLOGY AT SELECTED HIGHER EDUCATION INSTITUTIONS. IN THIS CASE THE COST WILL BE MET FROM WITHIN EXISTING PUBLIC EXPENDITURE PROGRAMMES.

8. WHILE SCHOOL-LEAVERS ARE CATERED FOR BY THE YOUTH TRAINING SCHEME, THERE REMAINS THE PROBLEM OF THE LONG-TERM UNEMPLOYED GENUINELY SEEKING WORK. UNDER THE COMMUNITY PROGRAMME, LOCAL AUTHORITIES AND VOLUNTARY BODIES PROVIDE TEMPORARY WORK FOR THE LONG-TERM UNEMPLOYED ON PROJECTS OF COMMUNITY BENEFIT. THIS SCHEME, WHICH AT PRESENT PROVIDES 130,000 PLACES, HAS

PROVED ITS WORTH, WITH A SIGNIFICANT PROPORTION OF THOSE WHO LEAVE IT GOING ON TO OTHER JOBS.

9. I HAVE THEREFORE AGREED TO MAKE FUNDS AVAILABLE TO PROVIDE AN ADDITIONAL 100,000 COMMUNITY PROGRAMME PLACES BY JUNE 1986. THESE PLACES WILL BE FOR 18 TO 24 YEAR OLDS WHO HAVE BEEN UNEMPLOYED FOR SIX MONTHS OR MORE, AND OTHERS WHO HAVE BEEN UNEMPLOYED FOR OVER A YEAR. TO ACCOMMODATE THIS, THE DEPARTMENT OF EMPLOYMENT'S PROGRAMME WILL BE FURTHER INCREASED BY £140 MILLION IN 1985-86 AND £460 MILLION IN 1986-87 TO ACCOMMODATE THIS.

10. TO AN EVEN GREATER EXTENT THAN WITH THE YOUTH TRAINING SCHEME, THE NET PUBLIC EXPENDITURE COST WILL BE SUBSTANTIALLY LESS THAN THE GROSS COST BECAUSE OF SAVINGS ON SOCIAL SECURITY BENEFITS. THE NET ADDITION TO PUBLIC EXPENDITURE AS A RESULT OF ALL THE PROPOSALS I HAVE ANNOUNCED TODAY WILL BE £75 MILLION IN 1985-86, £300 MILLION IN 1986-87, AND £400 MILLION IN 1987-88.

11. WE ALSO NEED TO DO MORE TO REMOVE LEGISLATIVE IMPEDIMENTS TO THE EFFECTIVE FUNCTIONING OF THE LABOUR MARKET. HOWEVER WELL INTENTIONED, THEY CAN ONLY LEAD TO FEWER JOBS. ACCORDINGLY, MY RT HON FRIEND THE SECRETARY OF STATE FOR EMPLOYMENT WILL BE EXTENDING TO ALL EMPLOYERS THE PROVISIONS ON UNFAIR DISMISSAL WHICH CURRENTLY APPLY TO SMALL FIRMS. THE QUALIFYING PERIOD FOR UNFAIR DISMISSAL CLAIMS WILL THUS BECOME TWO YEARS FOR ALL NEW EMPLOYEES. THIS IS A REASONABLE PERIOD OF

TIME AND SHOULD LESSEN THE RELUCTANCE OF SOME EMPLOYERS TO TAKE ON NEW PEOPLE.

12. IN ADDITION, MY RT HON FRIEND WILL BE ISSUING A CONSULTATIVE DOCUMENT ABOUT THE FUTURE OF THE WAGES COUNCILS LATER THIS WEEK. THE MAIN EFFECT OF WAGES COUNCILS IS TO DESTROY JOBS BY MAKING IT ILLEGAL FOR EMPLOYERS TO OFFER WORK AT WAGES THEY CAN AFFORD AND THE UNEMPLOYED ARE PREPARED TO ACCEPT. THIS APPLIES IN PARTICULAR TO SMALL EMPLOYERS AND TO YOUNGSTERS LOOKING FOR THEIR FIRST JOB. THE DOCUMENT WILL COVER A NUMBER OF PROPOSALS FOR RADICAL CHANGE, INCLUDING COMPLETE ABOLITION.

13. MY RT. HON. FRIENDS THE SECRETARIES OF STATE FOR EMPLOYMENT AND FOR EDUCATION AND SCIENCE WILL BE ISSUING PRESS NOTICES LATER TODAY GIVING FURTHER DETAILS OF THESE MEASURES.

## H TAX REFORM

I NOW TURN TO TAXATION.

2. THIS BUDGET CARRIES FORWARD THE THEME OF TAX REFORM I SET OUT LAST YEAR. REFORM DESIGNED TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER. AND ABOVE ALL REFORM DESIGNED TO IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM, ON WHICH THE JOBS OF THE FUTURE WILL DEPEND.

3. IN MY BUDGET LAST YEAR I ANNOUNCED A RADICAL REFORM OF THE CORPORATION TAX SYSTEM. THIS HAD BEEN PRECEDED BY THE GREEN PAPER ON CORPORATION TAX ISSUED BY MY PREDECESSOR IN 1982.

4. I AM SATISFIED THAT THE RIGHT WAY TO PROCEED WITH MAJOR TAX REFORM IS TO ISSUE A GREEN PAPER FIRST, AS A BASIS FOR FULL AND INFORMED DISCUSSION, FOLLOWED BY LEGISLATION WHEN THE RESULTS OF THAT DISCUSSION HAVE BEEN FULLY DIGESTED.

5. I THEREFORE PROPOSE TO ISSUE A GREEN PAPER LATER THIS YEAR ON THE REFORM OF PERSONAL INCOME TAX.

6. THE COMPUTERISATION OF PAYE MAKES THIS THE RIGHT TIME TO REVIEW THE SYSTEM OF PERSONAL TAXATION. THE WORK IS WELL UNDER WAY AND SHOULD BE COMPLETE BY

1989. THE GREEN PAPER WILL THEREFORE DISCUSS A RANGE OF OPTIONS OPENED UP BY COMPUTERISATION, FROM NON-CUMULATION TO CLOSER ALIGNMENT BETWEEN THE TAX AND BENEFIT SYSTEMS, AND INCLUDING IN PARTICULAR A REFORM OF THE PRESENT SYSTEM OF PERSONAL ALLOWANCES.

7. IT IS THE GOVERNMENT'S FIRM POLICY TO REDUCE THE BURDEN OF INCOME TAX. BUT WE NEED TO MAKE SURE THAT THE RELIEFS WE CAN AFFORD ARE CONCENTRATED WHERE THEY WILL DO MOST GOOD.

8. THE PRESENT STRUCTURE OF PERSONAL INCOME TAX IS FAR FROM SATISFACTORY. TOO MANY YOUNG PEOPLE START PAYING TAX AT TOO LOW A LEVEL. AND TOO MANY FAMILIES FIND THEMSELVES IN THE POVERTY AND UNEMPLOYMENT TRAPS. THE SYSTEM DISCRIMINATES AGAINST THE FAMILY IN WHICH THE WIFE STAYS AT HOME TO LOOK AFTER THE CHILDREN. IT DENIES TO THE PARTNERS IN A MARRIAGE THE INDEPENDENCE AND PRIVACY IN THEIR TAX AFFAIRS WHICH THEY HAVE A RIGHT TO EXPECT.

9. THERE IS THEREFORE A STRONG CASE FOR CHANGING TO A NEW SYSTEM OF PERSONAL ALLOWANCES MORE SUITED TO TODAY'S ECONOMIC AND SOCIAL NEEDS. UNDER THIS, EVERYONE, MAN OR WOMAN, MARRIED OR SINGLE, WOULD HAVE THE SAME STANDARD ALLOWANCE. BUT IF EITHER HALF OF A MARRIED COUPLE WERE UNABLE TO MAKE FULL USE OF THEIR ALLOWANCE, THE UNUSED PORTION COULD BE TRANSFERRED, IF THEY SO WISHED, TO THEIR PARTNER.

10. THIS REFORM WOULD PRODUCE A MORE LOGICAL AND STRAIGHTFORWARD SYSTEM. IT WOULD OPEN THE WAY FOR A SIGNIFICANT RISE IN TAX THRESHOLDS FOR FAMILIES WHERE THE WIFE WORKS IN THE HOME, WHERE THE PROBLEMS OF THE POVERTY AND UNEMPLOYMENT TRAPS ARE MOST PRONOUNCED.

11. UNDER THIS SYSTEM, FAR MORE PEOPLE COULD BE TAKEN OUT OF THE POVERTY AND UNEMPLOYMENT TRAPS, AND INDEED TAKEN OUT OF TAX ALTOGETHER, FOR A GIVEN SUM OF OVERALL TAX RELIEF THAN IS POSSIBLE UNDER THE PRESENT SYSTEM. IT WOULD END THE PRESENT DISCRIMINATION AGAINST THE FAMILY WHERE THE WIFE FEELS IT RIGHT TO STAY AT HOME, WHICH INCREASINGLY NOWADAYS MEANS DISCRIMINATION AGAINST THE FAMILY WITH YOUNG CHILDREN.

12. HUSBANDS AND WIVES WOULD EACH BE TAXED SEPARATELY ON THEIR OWN INCOME IRRESPECTIVE OF THE INCOME OF THE OTHER. THE AGGREGATION FOR TAX PURPOSES OF A WIFE'S EARNED INCOME AND INVESTMENT INCOME WITH HER HUSBAND'S WOULD END, THUS REMOVING WHAT HAS BECOME AN INCREASING SOURCE OF RESENTMENT AMONG WOMEN.

13. THE GREEN PAPER WILL SET OUT FULL DETAILS OF THE PROPOSALS I HAVE JUST OUTLINED, AS A BASIS FOR PUBLIC DISCUSSION. AFTER AN APPROPRIATE PERIOD FOR CONSULTATION, IT WOULD BE POSSIBLE TO LEGISLATE IN 1987 AND HAVE A SYSTEM ON THESE LINES FULLY IN PLACE BY APRIL 1990.

14. THERE IS ALSO A CASE FOR CHANGING THE TAX TREATMENT OF PENSION FUNDS, AS PART OF A THOROUGH-GOING REFORM OF THE TAX TREATMENT OF PERSONAL SAVINGS GENERALLY. ANY FUNDAMENTAL REFORM OF THIS KIND WOULD ALSO, IN THE SAME WAY, NEED TO BE PRECEDED BY THE PUBLICATION OF A GREEN PAPER.

15. THE HOUSE WILL, I AM SURE, BE INTERESTED TO LEARN THAT I HAVE NO SUCH GREEN PAPER IN MIND.

16. NOR, INDEED, DESPITE THE UNPARALLELLED PRE-BUDGET AGITATION DO ANY OF THE DETAILED PROPOSALS IN MY BUDGET AFFECT THE TAX-DEDUCTIBILITY OF PENSION FUND CONTRIBUTIONS, THE TAX-FREE NATURE OF PENSION FUND INCOME AND CAPITAL GAINS, OR THE ANOMALOUS BUT MUCH-LOVED TAX-FREE LUMP SUM.

17. MEANWHILE, I HAVE A NUMBER OF OTHER IMPORTANT PROPOSALS FOR TAX REFORM TO ANNOUNCE TODAY, WHICH WILL BOTH SIMPLIFY THE SYSTEM AND ENCOURAGE ENTERPRISE.

18. FIRST, CAPITAL GAINS TAX. LAST YEAR I WAS UNABLE TO DO ANYTHING ABOUT THE ACKNOWLEDGED DEFECTS OF THIS TAX, NOTABLY ITS COMBINATION OF UNFAIRNESS AND COMPLEXITY, AND UNDERTOOK TO COME BACK TO IT THIS YEAR.

19. THIS I NOW DO.

20. I HAVE DECIDED THAT THE RIGHT WAY TO REFORM CAPITAL GAINS TAX IS TO BUILD ON THE IMPORTANT CHANGE MADE BY MY PREDECESSOR THREE YEARS AGO, WHEN HE INTRODUCED THE 1982 INDEXATION RELIEF.

21. THAT RELIEF, VALUABLE THOUGH IT IS, AND INCREASINGLY VALUABLE AS IT WILL BECOME, SUFFERS FROM THREE SERIOUS LIMITATIONS.

22. FIRST, INDEXATION DOES NOT COVER THE FIRST 12 MONTHS OF THE OWNERSHIP OF AN ASSET. THIS PROVISION WAS INTRODUCED TO DISCOURAGE THE SHORT TERM CONVERSION OF INCOME INTO CAPITAL. BUT IT HAS MADE THE TAX VERY MUCH MORE COMPLICATED FOR THE TAXPAYER. I AM NOW IN A POSITION TO REMEDY THIS DEFECT. HON MEMBERS WILL RECALL THAT I ANNOUNCED LAST MONTH MEASURES TO PUT AN END TO THE PRACTICE KNOWN AS BONDWASHING, THE PRINCIPAL DEVICE FOR CONVERTING INCOME INTO LESS HEAVILY TAXED CAPITAL GAINS. HAVING DONE THAT, I PROPOSE TO ABOLISH THE 12 MONTH RULE. SO FAR AS MOST DISPOSALS ARE CONCERNED, THIS WILL TAKE EFFECT FROM 6 APRIL. IN THE CASE OF CERTAIN FIXED INTEREST SECURITIES, HOWEVER, THE RULE WILL NEED TO REMAIN IN BEING UNTIL THE ANTI-BONDWASHING PROVISIONS TAKE EFFECT ON 28 FEBRUARY 1986.

23. SECOND, THE INDEXATION DOES NOT AT PRESENT EXTEND TO LOSSES. I PROPOSE TO REMOVE THIS RESTRICTION.



24. THIRD, THE PRESENT INDEXATION PROVISION UNFAIRLY DISCRIMINATES AGAINST THOSE WHO ACQUIRED THEIR ASSETS PRIOR TO 1982. FOR THEM THE ALLOWANCE IS BASED NOT ON THE 1982 VALUE OF THE ASSET BUT ON ITS ORIGINAL COST. I NOW PROPOSE TO REMEDY THIS INJUSTICE. THE INDEXATION ALLOWANCE WILL HENCEFORTH BE BASED ON MARCH 1982 VALUES. CAPITAL GAINS MADE PRIOR TO 1982 WILL STILL NOT BE INDEXED, OF COURSE; BUT AT LEAST ALL PURELY INFLATIONARY GAINS MADE SINCE THAT DATE WILL NOW BE FREE OF TAX, IRRESPECTIVE OF WHEN THE ASSET WAS ACQUIRED.

25. THIS THREE-PRONGED REFORM OF CAPITAL GAINS TAX WILL PRODUCE A FAIRER TAX, MAKE LIFE SIMPLER FOR THE TAXPAYER, HELP THE EFFICIENT WORKING OF THE CAPITAL MARKETS, RELIEVE THE BURDEN ON FAMILY BUSINESSES AND ENCOURAGE RISK-TAKING AND ENTERPRISE. COMBINED WITH THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT, WHICH WILL RISE IN 1985-86 TO £5,900, THESE CHANGES WILL REMOVE SOME 15,000 TAXPAYERS FROM LIABILITY ALTOGETHER. INCREASINGLY THE TAX WILL BE LEVIED ON REAL AND NOT INFLATIONARY GAINS. WITH THESE REFORMS, I BELIEVE THE TAX IS NOW ON A BROADLY ACCEPTABLE AND SUSTAINABLE BASIS.

26. THE COMBINED COST OF THE THREEFOLD REFORM I HAVE ANNOUNCED IS £155 MILLION IN A FULL YEAR; BUT NONE OF IT FALLS IN 1985-86.

27. I TURN NEXT TO THE STAMP DUTIES.

28. FOLLOWING WIDESPREAD CONSULTATION, I HAVE DECIDED THAT THE TIME HAS COME TO SIMPLIFY AND MODERNISE THESE ANCIENT DUTIES. I PROPOSE IN THIS BUDGET TO SWEEP AWAY 15 SEPARATE DUTIES, INCLUDING THE CONTRACT NOTE DUTY AND THE 1 PER CENT DUTY ON GIFTS. ALTOGETHER, THE CHANGES I AM PROPOSING SHOULD REDUCE BY OVER 40 PER CENT THE NUMBER OF DOCUMENTS WHICH REQUIRE TO BE STAMPED.

29. MY FINAL PROPOSAL FOR REFORM CONCERNS DEVELOPMENT LAND TAX.

30. THIS IS A PARTICULARLY COMPLEX TAX, WHICH WAS INTRODUCED IN RESPONSE TO THE PROBLEM OF SOARING LAND VALUES AT A TIME OF HIGH INFLATION. ITS CHIEF PRACTICAL EFFECT IS TO DISCOURAGE THE BRINGING FORWARD OF LAND FOR DEVELOPMENT. THIS DISINCENTIVE EFFECT WILL GROW AS THE GAP WIDENS BETWEEN THE 60 PER CENT RATE OF DLT AND A CORPORATION TAX RATE WHICH IS ON THE WAY DOWN TO 35 PER CENT.

31. I HAVE THEREFORE DECIDED TO ABOLISH DEVELOPMENT LAND TAX ALTOGETHER, WITH IMMEDIATE EFFECT. AT THE SAME TIME I PROPOSE TO CANCEL ALL DEFERRED CHARGES UNDER THE TAX. THE NET COST WILL BE SOME £20 MILLION IN 1985-86 AND £50 MILLION IN A FULL YEAR. THIS COMPARES, INCIDENTALLY, WITH A COLLECTION COST FOR DLT OF SOME £5 MILLION A YEAR. DEVELOPMENT GAINS WILL OF COURSE CONTINUE TO BE SUBJECT TO INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX, IN THE SAME WAY AS ANY OTHER INCOME OR CAPITAL GAINS.

32. THE ABOLITION OF DEVELOPMENT LAND TAX WILL, I AM SURE, BE ESPECIALLY WELCOMED BY THE BUILDING AND CONSTRUCTION INDUSTRY. IT WILL ALSO REMOVE NO FEWER THAN 200 PAGES OF HIGHLY COMPLEX LEGISLATION FROM THE STATUTE BOOK.

33. THIS FOLLOWS THE ABOLITION OF THE NATIONAL INSURANCE SURCHARGE AND THE INVESTMENT INCOME SURCHARGE IN LAST YEAR'S BUDGET. THREE UNWANTED TAXES SWEEP AWAY IN TWO YEARS.

## K. PERSONAL TAXATION: TAXES ON SPENDING

1. I TURN NOW TO THE TAXATION OF PERSONAL INCOME AND SPENDING. MY BUDGET LAST YEAR SHIFTED SOME OF THE BURDEN OF PERSONAL TAXATION FROM EARNINGS TO SPENDING. TODAY I PROPOSE TO MAKE A FURTHER MOVE IN THIS DIRECTION.

2. ACCORDINGLY, I PROPOSE TO INCREASE THE REVENUE FROM THE EXCISE DUTIES BY RATHER MORE THAN IS REQUIRED SIMPLY TO KEEP PACE WITH INFLATION - A LESS PAINFUL TASK NOW THAT INFLATION IS RELATIVELY LOW.

3. I PROPOSE TO INCREASE THE DUTY ON CIGARETTES AND HAND-ROLLING TOBACCO BY THE EQUIVALENT, INCLUDING VAT, OF SIXPENCE ON A PACKET OF 20 CIGARETTES. THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT ON THURSDAY. I DO NOT HOWEVER PROPOSE ANY INCREASE AT ALL IN THE DUTIES ON CIGARS AND PIPE TOBACCO.

4. I PROPOSE INCREASES WHICH, INCLUDING VAT, WILL PUT BETWEEN A PENNY AND TWOPENCE A PINT ON MOST BEER (DEPENDING ON ITS STRENGTH); A PENNY A PINT ON CIDER, SIXPENCE ON A BOTTLE OF TABLE WINE AND ABOUT TENPENCE A BOTTLE ON SPARKLING OR FORTIFIED WINE. IN RECOGNITION OF THE CURRENT DIFFICULTIES OF THE SCOTCH WHISKY INDUSTRY, HOWEVER, I PROPOSE TO INCREASE THE DUTY ON SPIRITS BY ONLY TENPENCE A BOTTLE, WELL BELOW THE AMOUNT NEEDED TO KEEP PACE WITH INFLATION. ALL THESE CHANGES TAKE EFFECT FROM MIDNIGHT TONIGHT.

5. I PROPOSE TO INCREASE THE DUTY ON PETROL AND DERV BY AMOUNTS WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY APPROXIMATELY FOURPENCE AND THREEPENCE-HALFPENNY A GALLON RESPECTIVELY. THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. THESE INCREASES WILL TAKE EFFECT FROM 6 O'CLOCK THIS EVENING. AS LAST YEAR, I DO NOT PROPOSE ANY CHANGE IN THE DUTY ON HEAVY FUEL OIL.

6. I DO PROPOSE THIS YEAR, HOWEVER, TO RAISE MORE REVENUE FROM THE VEHICLE EXCISE DUTY. FOR CARS AND LIGHT VANS THE DUTY WILL GO UP BY £10 TO £100. ON THE ADVICE OF MY RT HON FRIEND THE SECRETARY OF STATE FOR TRANSPORT, THE PATTERN OF DUTY ON LORRIES WILL BE CHANGED TO CORRESPOND MORE CLOSELY TO THE AMOUNT OF WEAR AND TEAR THEY CAUSE TO THE ROADS. WHILE THERE WILL BE SUBSTANTIAL INCREASES IN DUTY FOR SOME OF THE HEAVIEST RIGID LORRIES, FOR MOST LORRIES THE RATES WILL REMAIN UNCHANGED.

7. THESE CHANGES IN THE EXCISE DUTIES WILL, ALL TOLD, RAISE AN EXTRA £820 MILLION IN 1985-86, SOME £235 MILLION MORE THAN IS REQUIRED TO KEEP PACE WITH INFLATION. THE OVERALL IMPACT EFFECT ON THE RPI OF THESE CHANGES WILL BE ONE HALF OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST I HAVE GIVEN THE HOUSE OF 5 PER CENT INFLATION BY THE END OF THE YEAR.

8. I NOW TURN TO VAT.

9. I HAVE FOLLOWED WITH INTEREST THE SPECULATION THAT HAS BUILT UP OVER RECENT MONTHS ABOUT MY ALLEGED INTENTIONS FOR VAT. MOST OF IT - SUCH AS THE SO-CALLED PROPOSAL TO LEVY VAT ON BOOKS - HAS CONCERNED MATTERS WHICH HAVE NOT EVEN BEEN UNDER CONSIDERATION. BUT TO HAVE REVEALED THIS PREMATURELY WOULD NOT HAVE STILLED SPECULATION; IT WOULD MERELY HAVE CONCENTRATED IT ON THOSE MATTERS THAT WERE UNDER CONSIDERATION - A PRACTICE THAT NO CHANCELLOR, RIGHTLY, HAS SOUGHT TO ENCOURAGE.

10. I CAN NOW INFORM THE HOUSE THAT, APART FROM ONE CHANGE I SHALL BE PROPOSING TODAY, I DO NOT INTEND TO MAKE ANY FURTHER EXTENSIONS OF THE VAT BASE DURING THE LIFETIME OF THIS PARLIAMENT. THIS IS, OF COURSE, A FIELD IN WHICH EUROPEAN COMMUNITY LAW HAS TO BE RECKONED WITH. BUT AS THE HOUSE WILL BE AWARE, WHERE WE ARE CURRENTLY UNDER CHALLENGE, WE ARE VIGOROUSLY FIGHTING OUR CASE.

11. THE CHANGE I PROPOSE TO MAKE CONCERNS NEWSPAPERS AND MAGAZINES. AT PRESENT, WHILE ALL OTHER ADVERTISING IS TAXED, NEWSPAPER AND MAGAZINE ADVERTISING IS NOT. THERE IS NO JUSTIFICATION FOR THIS ANOMALY. IT IS ONE THING TO MAINTAIN THAT NEWSPAPERS AND MAGAZINES SHOULD NOT BE LIABLE TO VAT: QUITE ANOTHER TO ARGUE THAT THOSE WHO ADVERTISE IN THEM SHOULD ENJOY A SIMILAR IMMUNITY. ACCORDINGLY, I PROPOSE THAT FROM 1 MAY NEWSPAPER AND MAGAZINE ADVERTISING SHOULD BE SUBJECT TO VAT. THIS WILL RAISE £30 MILLION IN 1985-86 AND £50 MILLION IN A FULL YEAR.

12. I ALSO PROPOSE TO CHANGE THE VAT TREATMENT OF CREDIT CARDS AND SIMILAR PAYMENT CARDS - A PART OF THE FINANCIAL SECTOR WHICH HAS ENJOYED EXCEPTIONAL GROWTH OVER THE PAST FEW YEARS. I PROPOSE THAT FROM 1 MAY TRANSACTIONS BETWEEN THE COMPANIES PROVIDING THE CARDS AND THE OUTLETS WHICH ACCEPT THEM SHOULD BE CLASSIFIED AS EXEMPT. THIS MEANS THAT THE COMPANIES WILL NOT BE ABLE TO RECOVER VAT IN RESPECT OF SUCH TRANSACTIONS. THIS WILL RAISE £15 MILLION IN 1985-86 AND £20 MILLION IN A FULL YEAR. IT SHOULD NOT DIRECTLY AFFECT THE CHARGES MADE TO CARD HOLDERS.

13. I ALSO HAVE A MODEST VAT CONCESSION TO MAKE. I HAVE DECIDED TO EXTEND THE EXISTING VAT RELIEF FOR MEDICAL OR SCIENTIFIC EQUIPMENT BOUGHT WITH DONATED FUNDS FOR USE IN HOSPITALS AND THE LIKE TO COVER COMPUTER EQUIPMENT FOR CERTAIN MEDICAL USES. CUSTOMS AND EXCISE WILL BE ANNOUNCING THE PRECISE DETAILS OF THE RELIEFS, WHICH WILL TAKE EFFECT FROM 1 MAY.

14. FOLLOWING EXTENSIVE CONSULTATIONS, I PROPOSE TO INCLUDE IN THIS YEAR'S FINANCE BILL LEGISLATION TO IMPLEMENT MOST OF THE RECOMMENDATIONS OF THE KEITH REPORT ON THE ENFORCEMENT POWERS OF THE REVENUE DEPARTMENTS, INCLUDING MEASURES TO DEAL WITH THE PROBLEM OF THE LATE PAYMENT OF VAT. THIS IS EXPECTED TO BRING IN EXTRA REVENUE OF ABOUT £50 MILLION IN 1985-86. BY 1988-89 THERE WILL HAVE BEEN A CUMULATIVE ONCE-FOR-ALL REVENUE

GAIN OF ABOUT £600 MILLION. PROPOSALS ON THE INLAND REVENUE ASPECTS OF THE KEITH REPORT WILL FOLLOW IN NEXT YEAR'S FINANCE BILL.

15. THE VAT CHANGES I HAVE JUST PROPOSED WILL BRING IN £90 MILLION IN 1985-86, RISING EVENTUALLY TO £215 MILLION IN A FULL YEAR. THEY WILL HAVE NO IMPACT ON THE RPI. THE ADDITIONAL REVENUE RAISED FROM THE EXCISE DUTIES AND VAT TAKEN TOGETHER WILL HELP ME TO LIGHTEN THE BURDEN OF INCOME TAX.