

PO-CH/NL/0493
PART A

PO CH/NL/0493
PART. A

PO CH/NL/0493
PART. A.

1989 BUDGET
SCORECARD

THIS FOLDER HAS BEEN
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FROM: ROBERT CULPIN
DATE: 12 January 1989

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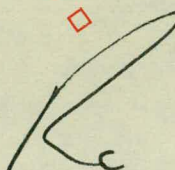
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Sir Anthony Battishill)
Mr Beighton)
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Mr Painter)

Mr Unwin)
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BUDGET SCORECARD

I attach the first shot at this year's Scorecard.



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SD: 1/11/89, Para 300
 Mr: also Annual Notes of 150
 Effect on LFR assume, as calculated
 SW ITs & similar
 & Equibr, w/ & UTs?
 in the RFB
 LA package RFB
 as Resolution
 +200 - w/ +250
 UT/IT on RFB
 +200
 +250
 (one thing)

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SCORECARD OF 12 JANUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million 1989-90	yield (+)/cost (-) 1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	Freeze excise duties	nil	-1180	-1280
2.	Reduce duty on unleaded petrol	- 20	- 40	- 45
3.	VED: coaches and lorries	+ 40	+ 40	+ 40
4.	VAT: non-domestic construction etc	+ 340	+ 340	+ 645
5.	Index IT thresholds	-1450	nil	nil
6.	Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7.	CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>				
8.	Abolish stamp duty on shares from 1/1/90	- 150	- 150	- 970
9.	Life assurance	- 20	- 20	+ 250
10.	Pensions, PEPs, Share Schemes, Unit Trusts	- neg	- neg	- 25
<u>Other</u>				
11.	Schedule E: receipts basis	- 60	- 60	- 80
12.	PRT: incremental investment relief	- 40	- 40	- 40
13.	VAT: bad debts, registration, etc	- 95	- 95	- 270
14.	Other starters	- 20	+ 15	+ 135
15.	TOTAL	-1385	-1100	-1565

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NOT TO BE COPIEDNOTES TO TABLE 1

All figures provisional. Show cost (-) or yield (+) in £ million unless otherwise indicated.

1. Excise duties

Costs from indexed base assume 6.7 per cent increase in RPI over year to December 1988. Actual published 20 January.

Detailed costs:

	1989-90	1990-91
Oils	- 510	- 555
VED	- 190	- 205
Tobacco products	- 230	- 250
Alcoholic drinks	- 250	- 270
Total	-1180	-1280

Freezing excise duties would reduce RPI by 0.47 percentage points compared with the base forecast.

If duty on leaded petrol were increased enough to raise pump price by 5p a gallon, yield would be +250 in 1989-90 and +290 in 1990-91. This would add 0.08 per cent, in impact, to the RPI.

2. Unleaded petrol

Present differential between (4-star) leaded and unleaded petrol is:

- 10.6p a gallon, 2.3p a litre, in excise duties and VAT
- 6p a gallon, 1.3p a litre, in pump prices.

Proposal is to reduce duty on unleaded by enough to take 5p a gallon (1.1p a litre) off pump price, if reduction fully passed on to consumers. No significant RPI effect.

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3. VED: coaches and lorries

+20 for buses and coaches firm. Accompanied by simplification of "hackney classes" - buses, coaches, taxis etc.

+20 for rigid heavy goods vehicles provisional. FP submission forthcoming.

No direct RPI effect.

4. VAT: non-domestic construction etc

	1989-90			1990-91		
	Private sector	Public sector	Total	Private sector	Public sector	Total
Construction						
- new (1)	20	270	290	25	350	375
- option to tax (2)	30	10	40	100	35	135
Fuel and power (3)	nil	nil	nil	25	80	105
Sewerage/water (3)	nil	nil	nil	5	neg	5
News services (1)	5	neg	5	5	neg	5
Protective boots and helmets (1)	neg	neg	neg	neg	neg	neg
Minor property changes (1)	5	neg	5	20	neg	20
TOTAL	60	280	340	180	465	645

Assuming implementation dates of (1) 1 April 1989
 (2) 1 August 1989
 (3) 1 April 1990

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No impact effect on RPI, because no direct effect on prices to final consumers.

114 charities surveyed by Charities VAT and Tax Reform Group estimated they would pay £15 million a year extra.

5. Index income tax thresholds

Assumes indexation of 6.7 per cent, as for excise duties.

The cost of illustrative alternatives (in place of line 5) would be:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by 10 per cent	-2,100	- 650	- 900
Reduce basic rate by 1p (with indexation)	-2,850	-1,400	-1,725

6. Increase car scales by 20 per cent

Assumes no change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

Assumes 50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

A 1 per cent cut in the main CT rate would cost 10 in 1989-90 and 400 in 1990-91, building up to 570 a year.

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NOT TO BE COPIED**8. Abolish stamp duty on shares from 1/1/90**

Cost depends on Stock Exchange turn-over. Figures may change when forecast revised. NB

Abolition from 1/11/89 would cost 290 in 1989-90 (in place of 150 in line 8).

Cost for 1990-91 is net of extra yield on CGT, CT, VAT and Income Tax, as result of increase in transactions. (Total extra yield 50.)

9. Life assurance

Cost for 1989-90 assumes abolition of Life Assurance Policy Duty, with Stamp Duty, from 1/1/90.

Cost for 1990-91 is notional; represents approximate extra yield deemed reasonable. Submission on costed options forthcoming.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	+ neg	+ neg	+ neg
PEPs	- neg	- neg	- 5
Employee Share Schemes	- neg	- neg	- neg
ESOPs	- neg	- neg	- neg
Unit Trusts	- neg	- neg	- 20
Total	-neg	-neg	+ 25

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For pensions, costing assumes:

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: gives maximum privileged pension of £40,000, maximum tax free lump sum of £90,000;
- limits apply only to new pension scheme members, and indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit;
- minor simplifications for free-standing AVCs;
- minor changes to rules for controlling directors' schemes.

For PEPs, costing assumes increase from £3,000 to £3,600 in limit on annual investment. Annual cost expected to build up to 20. Costs of alternative limits (in place of figures above):

<u>Limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>Maximum per year</u>
£4,800	- 5	- 10	- 30
* £6,000	- 5	- 10	- 50

For option of front-end relief, see Mr Walker's submission of 12 January.

For employee share schemes, costing assumes increase in the FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent; increase in FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month; and increase in statutory limit on share price discount for FA 1980 schemes. Annual cost expected to build up to between 5 and 10.

Cost of ESOPs package depends on options chosen.

For Unit Trusts, costings assume reduction in CT rate on unfranked income to 25 per cent.

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11. Schedule E: receipts basis

Cost is transitional. Yields 10 in 1991-92 and 50 in 1992-93.

12. PRT: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Expected to have yield after 1990-91.

13. VAT bad debts, registration etc

Costs against indexed base:

	1989-90	1990-91
(i) bad debt relief	- 50	-150
(ii) simplification of registration rules	- 35	-100
(iii) revision of default surcharge	- 10	- 20

14. Other Starters: see Table 2

15. Total direct effects: not same as PSDR effect, which will be estimated later.

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TABLE 2: OTHER STARTERS

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(I.E. LINE 14 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>				
40	VAT: r + d cars	- 5	- 5	- 5
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- reduce marginal withdrawal rate	- 5	- 5	- 5
	- Over 80's	- 10	- 10	- 10
116	PRP	- 10	- 10	- 15
154	Over 60s private medical insurance	nil	nil	- 50
206	Close company legislation	- neg	- neg	- 5
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
261	IHT: instruments of variation	+ neg	+ neg	+ 10
633	Sale of numberplates	+ neg	+ neg	+ 30
650	ITV levy	nil	nil	+ 60
<u>Decisions needed</u>				
32	VAT: charities	- 5	- 5	- 5
106	Benefits in kind: provided accommo- dation	nil	nil	+ 10
110	Schedule E: lump sum payments	+ 45	+ 45	+ 50
258	Lloyd's CG treatment	nil	nil	+ 5
259	IHT: index threshold	- 35	nil	nil
TOTAL		- 20	+ 15	+ 135

*Why so
much?***BUDGET SECRET**
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Notes to Table 2

1. Details of starters in Table 2 can be found on the starter reference sheets under the Finance Bill Starter number in the first column.

2. The table omits the following starters which protect existing revenue:

- 119 Mixed resident and non-resident trusts
- 259 CGT: non-resident companies trading in the UK
- 400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.

3. The costing for close company legislation (starter 206) assumes that the close company apportionment rules would be radically simplified, and that close investment companies would then pay corporation tax at a special higher rate of 40 per cent, unless they distribute at least 85 per cent of their profits.

4. The following starters still in play are expected to have nil or negligible cost or yield:

- 2 Excise: power to estimate revenue duties payable
- 3 Excise: restriction of duty-paid blending of made-wine
- 4 Excise: measurement and declaration of original gravity of beer
- 5 Excise: misdescription of substances as beer
- 6 Excise: oil duties relief
- 33 VAT: input tax on capital goods
- 34 Raise VAT threshold from £22,100 to £23,500
- 36 Right to repayment of VAT/excise duties and consequential changes
- 39 Duty and tax relief for diplomats and visiting forces
- 60 Prosecution time limits
- 61 Seizure at export of probable cash proceeds of drug trafficking
- 62 London Port banking: amendment to CEMA Section 17
- 63 Unauthorised disclosure of confidential information (C & E)
- 114 Taxation of employee priority in company flotations

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- 1990*
- 115 Employees' material interest
 - 118 Trusts
 - 155 Friendly Societies Protection Scheme
 - 207 Capital allowances at sports grounds
 - 209 Capital allowances: pre-consolidated amendments
 - 212 Reopening of claims etc
 - 213 Extension of pre-trading expenditure relief
 - 255 CGT: technical changes associated with rebasing
 - 256 CGT: chattels exemption
 - 262 CGT: sterling non-qualifying corporate bonds
 - 402 Individuals' residence
 - 450 Keith committee: administrative improvements
 - 451 Sub-contractor tax scheme
 - 452 Unauthorised disclosure of confidential information (IR)
 - 453 Deep discounted government and para-statal bonds
 - 454 Electronic payment of dividends
 - 455 Electricity privatisation: miscellaneous taxation provisions
 - 601 VED: trade licensing
 - 602 VED: special types
 - 605 VED: recovery vehicles
 - 606 VED: dishonoured cheques
 - 631 VED: update reference to "registration book"
 - 632 VED: grass cutting vehicles
 - 651 Government stock: small estates
 - 652 Gilts redemption monies: new procedures
 - 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
 - 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
 - 656 National Savings: abolition of minimum interest rate provision
 - 657 National Savings: restriction of investment and ordinary accounts to personal holders

5. In the case of **starter 402 - Individuals' residence**, relatively large costs from relaxing the definition of residence are expected to be cancelled by the yield from new anti-avoidance measures. But the balance could shift. Revenue are working on costings, which are highly speculative.

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SCORECARD OF 12 JANUARY 1989

TABLE 3: STAFFING EFFECTS

		<u>Effect in man-year</u> <u>1989-90</u>	<u>terms in</u> <u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/1/90	- neg	- 50
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 50	+ 45
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15.	TOTAL	+ 115	+ 215
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Notes to Table 3

These are the Revenue Departments' preliminary estimate.

The table does not include the manpower effects of Starters 106 (Benefits-in-kind: provided accommodation) and 100 (Schedule E: lump sum payments) on which submissions are being prepared.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 14 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 15 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Over 60's medical insurance (includes setting-up costs in 1989-90)	+ 35	+ 10
Index IHT threshold	+ 5	+ 15
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing	<u>+ 10</u>	<u>+ 10</u>
Total	+ 50	+ 45

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- Dame Anne Mueller
- Mr Wicks
- Mr Hardcastle
- Mr Byatt
- Mr Scholar
- Mr Riley
- Mr Sedgwick
- Mr A C S Allan
- Mr Macpherson
- Miss Simpson
- Mrs Chaplin
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- Sir Anthony Battishill)
- Mr Beighton)
- Mr Isaac) IR
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SCORECARD OF 19 JANUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

	£ million		yield (+)/cost (-)
	1989-90	Changes from a non-indexed base	1990-91 Changes from an indexed base
1. Freeze excise duties	nil	-1200	-1305
2. Reduce duty on unleaded petrol	- 55	- 55	- 55
3. VED: coaches and lorries	+ 40	+ 40	+ 40
4. VAT: non-domestic construction etc	+ 340	+ 340	+ 645
5. Index IT thresholds	-1450	nil	nil
6. Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7. CT: raise small companies thresholds	- neg	- neg	- 35
Savings			
8. Abolish stamp duty on shares from 1/1/90	- 150	- 150	- 970
9. Life assurance	- 20	- 20	+ 200
10. Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 30
Other			
11. Schedule E: receipts basis	- 60	- 60	- 80
12. PRT: incremental investment relief	- 40	- 40	- 40
13. VAT: bad debts, registration, etc	- 95	- 95	- 270
14. Miscellaneous starters	- 20	+ 15	+ 150
15. TOTAL	-1425	-1140	-1640

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NOTES TO TABLE 1

All figures provisional. Show cost (-) or yield (+) in £ million from indexed base unless otherwise indicated.

1. Excise duties

Still assumes 6.7 per cent increase in RPI over year to December, as for Dorneywood. Outturn of 6.8 per cent, published 20 January, will be taken into account in next Scorecard. Likely to add around 15 to cost of freezing duties.

Detailed costs:

	1989-90	1990-91
Petrol and Derv	- 530	- 580
VED	- 190	- 205
Tobacco	- 230	- 250
Alcohol	- 250	- 270
Total	-1200	-1305

Freeze reduces RPI by 0.47 percentage points compared with base forecast.

If tax on leaded petrol increased by 5p a gallon (4.7%), with all other duties frozen, line 1 would be +245 in 1989-90 from a non-indexed base, and -955 in 1989-90 and -1050 in 1990-91 from an indexed base.

2. Unleaded petrol

Depends on take-up. Estimate higher than last Scorecard.

Present differential between 4-star leaded and unleaded petrol is:

- 10.6p a gallon, 2.3p a litre, in excise duties and VAT
- 6p a gallon, 1.3p a litre, in pump prices.

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Proposal is to reduce duty on unleaded by enough to take 5p a gallon, 1.1p a litre, off pump price, if reduction fully passed on to consumers.

Costing at present assumes that switch into unleaded petrol is immediate. No further behavioural response in second year.

Cost of illustrative alternatives, in place of line 2:

	1989-90		1990-91 indexed base
	non-indexed base	indexed base	
2p a litre price differential	- 35	- 35	- 35
2.4 a litre price differential	- 65	- 65	- 65
plus surcharge on 2 star *			

(*) Surcharge on 2 Star to bring price up to that of 4 Star. Assumes all tax increase passed on to consumers and significant switch from leaded - especially from 2-Star to unleaded.

3. VED: coaches and lorries

+20 for buses and coaches firm. Accompanied by simplification of "hackney classes" - buses, coaches, taxis etc.

+20 for rigid heavy goods vehicles provisional. Culpin to EST 18 January.

No direct RPI effect.

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4. VAT: non-domestic construction etc

		1989-90			1990-91		
		Private sector	Public sector	Total	Private sector	Public sector	Total
Construction							
- new	(1)	20	270	290	25	350	375
- option to tax	(2)	30	10	40	100	35	135
Fuel and power	(3)	nil	nil	nil	25	80	105
Sewerage/water	(3)	nil	nil	nil	5	neg	5
News services	(1)	5	neg	5	5	neg	5
Protective boots and helmets	(1)	neg	neg	neg	neg	neg	neg
Minor property changes	(1)	5	neg	5	20	neg	20
TOTAL		60	280	340	180	465	645

Assuming implementation dates of (1) 1 April 1989
(2) 1 August 1989
(3) 1 April 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

See Culpin of 19 January.

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5. Index income tax thresholds

Assumes indexation of 6.7 per cent, as for excise duties.

Cost of illustrative alternatives (in place of line 5):

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by			
10 per cent	-2,100	- 650	- 900
Reduce basic rate by 1p (with indexation)	-2,850	-1,400	-1,725

6. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

A 1 per cent cut in the main CT rate would cost 10 in 1989-90 and 400 in 1990-91, building up to 570 a year.

8. Abolish stamp duty on shares from 1/1/90

Cost depends on Stock Exchange turn-over.

Abolition from 1/11/89 would cost 280 in 1989-90 (in place of 150 in line 8).

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Cost is net of extra yield on CGT, CT, VAT and Income Tax, as result of increase in transactions. (Total extra yield 50 in 1990-91.)

9. Life assurance

-20 in 1989-90 for abolition of Life Assurance Policy Duty, with Stamp Duty, from 1/1/90.

+200 in 1990-91 is still only notional. Estimates for yields still being produced.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	depends on decisions, but likely to be neg		
Unit Trusts	- neg	- neg	- 20
Total	- 5	- 5	- 30

Pensions:

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;

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increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs:

- increase in limit on total annual investment from £3,000, and on investment in unit and investment trusts from £750. Options:

<u>Limit</u>	<u>Unit trust limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>long term cost per year</u>
£3,600	£2,400	-neg	- 5	- 20
£4,500	£3,000	- 5	- 10	- 30
£4,800	£2,400	- 5	- 10	- 30
£4,800	£3,000	- 5	- 10	- 30
£6,000	£3,000	- 5	- 10	- 50

If limit related to cumulative total investment, rather than annual investment, cost of alternative limits:

<u>Limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>long term cost per year</u>
£25,000	- 10	- 20	- 75
£50,000	- 15	- 25	-100

Employee share schemes:

- increase in the FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase in FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase in statutory limit on share price discount for FA 1980 schemes.

Annual cost expected to build up to between 5 and 10.

ESOPS:

See Financial Secretary to Chancellor 12 December. Action with Revenue.

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Unit Trusts: reduction in CT rate on unfranked income from 35 to 25 per cent.

11. Schedule E: receipts basis

Cost is transitional. Yields 10 in 1991-92 and 50 in 1992-93.

12. PRT: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Expected to have yield after 1990-91.

13. VAT bad debts, registration etc

	1989-90	1990-91
(i) bad debt relief	- 50	-150
(ii) simplification of registration rules	- 35	-100
(iii) revision of default surcharge	- 10	- 20

14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate that total call of Budget measures on fiscal adjustment would be 975 in 1989-90 and 1,000 in 1990-91.

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TABLE 2: MISCELLANEOUS STARTERS

(I.E. LINE 14 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>				
40	VAT: r + d cars	- 5	- 5	- 5
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- over 80s	- 10	- 10	- 10
	- reduce marginal withdrawal rate	- 5	- 5	- 5
116	PRP	- 10	- 10	- 15
154	Over 60s private medical insurance	nil	nil	- 35
206	Close company legislation	- neg	- neg	- neg
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
261	IHT: instruments of variation	+ neg	+ neg	+ 10
633	Sale of numberplates	+ neg	+ neg	+ 30
650	ITV levy	nil	nil	+ 60
<u>Decisions needed</u>				
32	VAT: charities	- 5	- 5	- 5
106	Benefits-in-kind: provided accommo- dation	nil	nil	+ 10
110	Schedule E: lump sum payments	+ 45	+ 45	+ 50
259	IHT: index threshold	- 35	nil	nil
TOTAL		- 20	+ 15	+ 150

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NOTES TO TABLE 2

1. Details can be found on starter reference sheets, under Finance Bill Starter number in first column.

2. Table omits following starters which protect existing revenue:

119 Mixed resident and non-resident trusts

254 CGT: non-resident companies trading in the UK

400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.

3. Starter 154, private medical insurance: costing now excludes benefits-in-kind exemption for over 60s.

4. Starter 206, close company legislation: costing assumes close investment companies would pay corporation tax at a special higher rate of 40 per cent, unless they distribute at least 85 per cent of their profits. If special higher rate were 35 per cent, 1990-91 cost would be 5.

5. Starter 259, inheritance tax: if threshold frozen for a year, yield from indexed base would be +35 in 1989-90 and +70 in 1990-91.

6. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:

- 2 Excise: power to estimate revenue duties payable
- 3 Excise: restriction of duty-paid blending of made-wine
- 4 Excise: measurement and declaration of original gravity of beer
- 5 Excise: misdescription of substances as beer
- 6 Excise: oil duties relief
- 33 VAT: input tax on capital goods
- 34 Raise VAT threshold from £22,100 to £23,500

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- 36 Right to repayment of VAT/excise duties and consequential changes
- 39 Duty and tax relief for diplomats and visiting forces
- 60 Prosecution time limits
- 61 Seizure at export of probable cash proceeds of drug trafficking
- 62 London Port banking: amendment to CEMA Section 17
- 63 Unauthorised disclosure of confidential information (C & E)
- 114 Taxation of employee priority in company flotations
- 115 Employees' material interest
- 118 Trusts
- 155 Friendly Societies Protection Scheme
- 158 Charities: Payroll giving limit
- 207 Capital allowances at sports grounds
- 209 Capital allowances: pre-consolidated amendments
- 212 Reopening of claims etc
- 213 Extension of pre-trading expenditure relief
- 255 CGT: technical changes associated with rebasing
- 256 CGT: chattels exemption
- 258 Lloyd's CG treatment
- 262 CGT: sterling non-qualifying corporate bonds
- 402 Individuals' residence
- 404 Tax charge on switching investments in offshore funds (Umbrella funds)
- 450 Keith committee: administrative improvements
- 451 Sub-contractor tax scheme
- 452 Unauthorised disclosure of confidential information (IR)
- 453 Deep discounted government and para-statal bonds
- 454 Electronic payment of dividends
- 455 Electricity privatisation: miscellaneous taxation provisions
- 601 VED: trade licensing
- 602 VED: special types
- 605 VED: recovery vehicles
- 606 VED: dishonoured cheques
- 631 VED: update reference to "registration book"
- 632 VED: grass cutting vehicles
- 651 Government stock: small estates
- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
- 656 National Savings: abolition of minimum interest rate provision

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657 National Savings: restriction of investment and ordinary accounts to personal holders

7. Starter 402, residence: likely to be large costs from relaxing definition of residence. Expected to be cancelled by yield from new anti-avoidance measures. Revenue still working on costings.

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TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/1/90	- neg	- 40
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 25	+ 60
<hr/>			
15.	TOTAL	+ 90	+ 240
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Notes to Table 3

These are the Revenue Departments' preliminary estimate.

The table does not include the manpower effects of Starters 106 (Benefits-in-kind: provided accommodation) and 100 (Schedule E: lump sum payments) on which submissions are being prepared.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Over 60s medical insurance (includes setting-up costs in 1989-90)	+ 10	+ 25
Index IHT threshold	+ 5	+ 15
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing	+ 10	+ 10
Total	+ 25	+ 60

*What
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close
companies:
ways to
save?*

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FROM: ROBERT CULPIN
DATE: 26 January 1989

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr Anson
- Dame Anne Mueller
- Mr Wicks
- Mr Hardcastle
- Mr Byatt
- Mr Scholar
- Mr Riley
- Mr Sedgwick
- Mr A C S Allan
- Mr Macpherson
- Miss Simpson
- Mrs Chaplin
- Mr Tyrie
- Mr Call

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*I have been
impressed
John I.*

- Sir Anthony Battishill)
- Mr Beighton)
- Mr Isaac) IR
- Mr Painter)
- Mr Unwin)
- Mr Jefferson Smith) C&E

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BUDGET SCORECARD

I attach the Scorecard for the Overview on 30 January.

Rc

ROBERT CULPIN

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Additional copies for Scorecard work:

Mr Gilhooly)
Mr Flanagan) FP
Mr O'Donnell)
Mr Matthews) ETS

Mr Davies)
Dr Courtney) MP

Mr Bush)
Mr Calder)
Mr McManus) IR
Mr McNicol)
Mr Ko)

Mr P R H Allen)
Ms French) C&E

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SCORECARD OF 26 JANUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million		yield (+)/cost (-)
		1989-90	1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	Freeze excise duties	nil	-1225	-1325
2.	Reduce duty on unleaded petrol	- 55	- 55	- 90
3.	VED: coaches and lorries	+ 40	+ 40	+ 40
4.	VAT: non-domestic construction etc	+ 340	+ 340	+ 645
5.	Index IT thresholds	-1455	nil	nil
6.	Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7.	CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>				
8.	Abolish stamp duty on shares from 1/1/90	- 150	- 150	- 970
9.	Life assurance	- 20	- 20	+ 200
10.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 30
<u>Other</u>				
11.	Schedule E: receipts basis	- 60	- 60	- 80
12.	PRT: incremental investment relief	- 40	- 40	- 40
13.	VAT: bad debts, registration, etc	- 95	- 95	- 270
14.	Miscellaneous starters	- 20	+ 15	+ 150
15.	TOTAL	-1430	-1165	-1695

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NOTES TO TABLE 1

Provisional cost (-) or yield (+) in £ million from indexed base unless otherwise indicated. Indexation 6.8 per cent.

1. Excise duties

	1989-90	1990-91
Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 255
Alcohol	- 255	- 280
Total	-1225	-1325

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

If tax on leaded petrol increased by 5p a gallon (4.7%), with all other duties frozen, line 1 becomes: +250, -975, -1085. RPI effect +0.08 per cent in impact.

2. Unleaded petrol

Reduce duty on unleaded by enough to take 5p a gallon, 1.1p a litre, off pump prices, if reduction fully passed on to consumers.

Cost depends on take-up. If no extra take-up, line 2 becomes: -10, -10, -15.

Present differentials between 4 star leaded and unleaded are:

- 10.6p a gallon, 2.3p a litre, in excise duty and VAT
- 6p a gallon, 1.3p a litre, in pump prices.

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Alternative 1:

Pump price differential of 2p a litre (about 9p a gallon), achieved by reducing tax on unleaded by 0.7p a litre (3.2p a gallon).

Alternative 2:

Combine main option with surcharge on 2 star petrol sufficient to bring price of 2 star at least into line with 4 star (about 5p a gallon, 1.1p a litre). Surcharge on leaded accelerates switch into unleaded: hence cost.

If alternative 1 or 2 adopted, line 2 becomes:

	1989-90		1990-91 indexed base
	non-indexed base	indexed base	
Alternative 1	- 35	- 35	- 60
Alternative 2	- 65	- 65	-105

No significant RPI effect from any of these options.

3. VED: coaches and lorries

+20 for buses and coaches agreed, together with simplification of rate structure for buses, coaches and taxis.

+20 for rigid heavy goods vehicles still under discussion. Culpin to EST 26 January.

No direct RPI effect.

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4. VAT: non-domestic construction etc

	1989-90			1990-91		
	Private sector	Public sector	Total	Private sector	Public sector	Total
Construction						
- new (1)	20	270	290	25	350	375
- option to tax (2)	30	10	40	100	35	135
Fuel and power (3)	nil	nil	nil	25	80	105
Sewerage/water (3)	nil	nil	nil	5	neg	5
News services (1)	5	neg	5	5	neg	5
Protective boots and helmets (1)	neg	neg	neg	neg	neg	neg
Minor property changes (1)	5	neg	5	20	neg	20
TOTAL	60	280	340	180	465	645

Assuming implementation dates of (1) 1 April 1989
(2) 1 August 1989
(3) 1 April 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

Draft clauses to be published 2 February.

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5. Index income tax thresholds

Figures subject to revision in mid-February.

Cost of illustrative alternatives, in place of line 5:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by 10 per cent	-2,100	- 645	- 900
Reduce basic rate by 1p (with indexation)	-2,855	-1,400	-1,725

6. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

A 1 per cent cut in the main CT rate would cost 10 in 1989-90 and 400 in 1990-91, building up to 570 a year.

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8. Abolish stamp duty on shares from 1/1/89

Cost depends on Stock Exchange turn-over.

Abolition from 1/11/89 would cost 280 in 1989-90 (in place of 150 in line 8).

Cost is net of extra yield on CGT, CT, VAT and Income Tax, as result of increase in transactions. (Total extra yield +50 in 1990-91.)

9. Life assurance

-20 in 1989-90 for abolition of Life Assurance Policy Duty, with Stamp Duty, from 1/1/90.

+200 in 1990-91 still only notional. Estimates for yields forthcoming.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	depends on decisions, but likely to be neg		
Unit Trusts	- neg	- neg	- 20
Total	- 5	- 5	- 30

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SCORECARD OF 26 JANUARY 1989
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NOT TO BE COPIEDPensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed (Kuczys 26 January);
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000, and on investment in unit and investment trusts from £750. Options:

<u>Limit</u>	<u>Unit trust limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>long term cost per year</u>
£3,600	£2,400	-neg	- 5	- 20
£4,500	£3,000	- 5	- 10	- 30
£4,800	£2,400	- 5	- 10	- 30
£4,800	£3,000	- 5	- 10	- 30
£6,000	£3,000	- 5	- 10	- 50

- if limit related to cumulative total investment, rather than annual investment, cost of alternative limits:

<u>Limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>long term cost per year</u>
£25,000	- 10	- 20	- 75
£50,000	- 15	- 25	-100

- Walker 25 January; Neilson 26 January

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Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

ESOPS

- awaiting Revenue submission.

Unit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent.

11. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93.

12. PRT: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Expected to have yield after 1990-91.

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13. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 10	- 20

14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment would be 1,000 in 1989-90 and 1,025 in 1990-91.

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TABLE 2: MISCELLANEOUS STARTERS

(I.E. LINE 14 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>				
32	VAT: charities	- 5	- 5	- 5
40	VAT: r + d cars	- 5	- 5	- 5
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- over 80s	- 10	- 10	- 10
	- reduce marginal withdrawal rate	- 5	- 5	- 5
116	PRP	- 10	- 10	- 15
154	Over 60s private medical insurance	nil	nil	- 35
206	Close company legislation	- neg	- neg	- neg
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
261	IHT: instruments of variation	+ neg	+ neg	+ 10
633	Sale of numberplates	+ neg	+ neg	+ 30
650	ITV levy	nil	nil	+ 60
<u>Decisions needed</u>				
106	Benefits-in-kind: provided accommo- dation	nil	nil	+ 10
110	Schedule E: lump sum payments	+ 45	+ 45	+ 50
259	IHT: index threshold	- 35	nil	nil
TOTAL		- 20	+ 15	+ 150

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**BUDGET SECRET
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1. Details in starter reference sheets, under Finance Bill Starter number in first column.
 2. Table omits following starters which protect existing revenue:
 - 119 Mixed resident and non-resident trusts
 - 254 CGT: non-resident companies trading in the UK
 - 400 Tax deductible from tax credit payments to US companies
- These have a cost if not implemented.
3. Starter 106, provided accommodation: FST meeting 31 January.
 4. Starter 154, private medical insurance: to be announced 31 January.
 5. Starter 206, close company legislation: assumes close investment companies would pay corporation tax at special higher rate of 40 per cent, unless distribute at least 85 per cent of profits. If special higher rate 35 per cent, 1990-91 cost would be 5.
 6. Starter 259, inheritance tax: if threshold frozen for a year, yield +35, +70.
 7. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:
 - 2 Excise: power to estimate revenue duties payable
 - 3 Excise: restriction of duty-paid blending of made-wine
 - 4 Excise: measurement and declaration of original gravity of beer
 - 5 Excise: misdescription of substances as beer
 - 6 Excise: oil duties relief

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SCORECARD OF 26 JANUARY 1989

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- 33 VAT: input tax on capital goods
- 34 Raise VAT threshold from £22,100 to £23,500
- 36 Right to repayment of VAT/excise duties and consequential changes
- 39 Duty and tax relief for diplomats and visiting forces
- 60 Prosecution time limits
- 61 Seizure at export of probable cash proceeds of drug trafficking
- 62 London Port banking: amendment to CEMA Section 17
- 63 Unauthorised disclosure of confidential information (C & E)
- 114 Taxation of employee priority in company flotations
- 115 Employees' material interest
- 118 Trusts
- 155 Friendly Societies Protection Scheme
- 158 Charities: payroll giving limit
- 207 Capital allowances at sports grounds
- 209 Capital allowances: pre-consolidation amendments
- 212 Reopening of claims etc
- 213 Extension of pre-trading expenditure relief
- 255 CGT: technical changes associated with rebasing
- 256 CGT: chattels exemption
- 258 Lloyd's CG treatment
- 262 CGT: sterling non-qualifying corporate bonds
- 402 Individuals' residence
- 404 Tax charge on switching investments in offshore funds (Umbrella funds)
- 450 Keith committee: administrative improvements
- 451 Sub-contractor tax scheme
- 452 Unauthorised disclosure of confidential information (IR)
- 453 Deep discounted government and para-statal bonds
- 454 Electronic payment of dividends
- 455 Electricity privatisation: miscellaneous taxation provisions
- 601 VED: trade licensing
- 602 VED: special types
- 605 VED: recovery vehicles
- 606 VED: dishonoured cheques
- 631 VED: update reference to "registration book"
- 632 VED: grass cutting vehicles
- 651 Government stock: small estates
- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption

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- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders

8. Starter 402, residence: see Revenue note 26 January.

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SCORECARD OF 26 JANUARY 1989

TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/1/90	- neg	- 40
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 125	+ 160
15.	TOTAL	+ 190	+ 340

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These are the Revenue Departments' preliminary estimates.

Increase since last week entirely attributable to Starter 106, Benefits-in-kind: provided accommodation. Table includes this for first time.

Table does not include manpower effects of Starter 110, Schedule E: lump sum payments. Submission being prepared.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Benefits-in-kind: provided accommodation	+100	+100
Over 60s medical insurance (includes setting-up costs in 1989-90)	+ 10	+ 25
Index IHT threshold	+ 5	+ 15
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing	<u>+ 10</u>	<u>+ 10</u>
Total	+125	+160

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FROM: ROBERT CULPIN
DATE: 26 January 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Dame Anne Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Riley
Mr Sedgwick
Mr A C S Allan
Mr Macpherson
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir Anthony Battishill)
Mr Beighton)
Mr Isaac) IR
Mr Painter)
Mr Unwin)
Mr Jefferson Smith) C&E

Mrs Pugh. Consider?

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BUDGET SCORECARD

I attach the Scorecard for the Overview on 30 January.

Ch
Not covered here, but worth bringing in are
(1) NICs on subsidised mortgages
(2) Rent-a-room
[(3) exempt pensions & abhisk
age relief]
(papers tucked into back of
this folder).
AA

ROBERT CULPIN

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Unkaid mail
stat data

Staff notes u 103
(envelopes, files, etc)
Can't find one?

Phil's file a number
Is Phil's counter out
CG & Finance
Rat. - approx
Liquor, 6500's etc
State
IR
- 1000 - had name book

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Additional copies for Scorecard work:

Mr Gilhooly)
Mr Flanagan) FP
Mr O'Donnell)
Mr Matthews ETS

Mr Davies)
Dr Courtney) MP

Mr Bush)
Mr Calder)
Mr McManus) IR
Mr McNicol)
Mr Ko)

Mr P R H Allen)
Ms French) C&E

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SCORECARD OF 26 JANUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million	yield (+)/cost (-)	
		1989-90	1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	Freeze excise duties	nil	-1225	-1325
2.	Reduce duty on unleaded petrol	- 55	- 55	- 90
3.	VED: coaches and lorries	+ 40	+ 40	+ 40
4.	VAT: non-domestic construction etc	+ 340	+ 340	+ 645
5.	Index IT thresholds	-1455	nil	nil
6.	Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7.	CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>				
8.	Abolish stamp duty on shares from 1/1/90	- 150	- 150	- 970
9.	Life assurance	- 20	- 20	+ 200
10.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 30
<u>Other</u>				
11.	Schedule E: receipts basis	- 60	- 60	- 80
12.	PRT: incremental investment relief	- 40	- 40	- 40
13.	VAT: bad debts, registration, etc	- 95	- 95	- 270
14.	Miscellaneous starters	- 20	+ 15	+ 150
15.	TOTAL	-1430	-1165	-1695

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NOTES TO TABLE 1

Provisional cost (-) or yield (+) in £ million from indexed base unless otherwise indicated. Indexation 6.8 per cent.

1. Excise duties

	1989-90	1990-91
Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 255
Alcohol	- 255	- 280
Total	-1225	-1325

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

If tax on leaded petrol increased by 5p a gallon (4.7%), with all other duties frozen, line 1 becomes: +250, -975, -1085. RPI effect +0.08 per cent in impact.

2. Unleaded petrol

Reduce duty on unleaded by enough to take 5p a gallon, 1.1p a litre, off pump prices, if reduction fully passed on to consumers.

Cost depends on take-up. If no extra take-up, line 2 becomes: -10, -10, -15.

Present differentials between 4 star leaded and unleaded are:

- 10.6p a gallon, 2.3p a litre, in excise duty and VAT
- 6p a gallon, 1.3p a litre, in pump prices.

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Alternative 1:

Pump price differential of 2p a litre (about 9p a gallon), achieved by reducing tax on unleaded by 0.7p a litre (3.2p a gallon).

Alternative 2:

Combine main option with surcharge on 2 star petrol sufficient to bring price of 2 star at least into line with 4 star (about 5p a gallon, 1.1p a litre). Surcharge on leaded accelerates switch into unleaded: hence cost.

If alternative 1 or 2 adopted, line 2 becomes:

	1989-90		1990-91 indexed base
	non-indexed base	indexed base	
Alternative 1	- 35	- 35	- 60
Alternative 2	- 65	- 65	-105

No significant RPI effect from any of these options.

3. VED: coaches and lorries

+20 for buses and coaches agreed, together with simplification of rate structure for buses, coaches and taxis.

+20 for rigid heavy goods vehicles still under discussion. Culpin to EST 26 January.

No direct RPI effect.

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4. VAT: non-domestic construction etc

		1989-90			1990-91		
		Private sector	Public sector	Total	Private sector	Public sector	Total
Construction							
- new	(1)	20	270	290	25	350	375
- option to tax	(2)	30	10	40	100	35	135
Fuel and power	(3)	nil	nil	nil	25	80	105
Sewerage/water	(3)	nil	nil	nil	5	neg	5
News services	(1)	5	neg	5	5	neg	5
Protective boots and helmets	(1)	neg	neg	neg	neg	neg	neg
Minor property changes	(1)	5	neg	5	20	neg	20
TOTAL		60	280	340	180	465	645

- Assuming implementation dates of
- (1) 1 April 1989
 - (2) 1 August 1989
 - (3) 1 April 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

Draft clauses to be published 2 February.

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5. Index income tax thresholds

Figures subject to revision in mid-February.

Cost of illustrative alternatives, in place of line 5:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by 10 per cent	-2,100	- 645	- 900
Reduce basic rate by 1p (with indexation)	-2,855	-1,400	-1,725

6. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

A 1 per cent cut in the main CT rate would cost 10 in 1989-90 and 400 in 1990-91, building up to 570 a year.

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Abolish stamp duty on shares from 1/1/90

Cost depends on Stock Exchange turn-over.

Abolition from 1/11/89 would cost 280 in 1989-90 (in place of 150 in line 8).

Cost is net of extra yield on CGT, CT, VAT and Income Tax, as result of increase in transactions. (Total extra yield +50 in 1990-91.)

9. Life assurance

-20 in 1989-90 for abolition of Life Assurance Policy Duty, with Stamp Duty, from 1/1/90.

+200 in 1990-91 still only notional. Estimates for yields forthcoming.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	depends on decisions, but likely to be neg		
Unit Trusts	- neg	- neg	- 20
Total	- 5	- 5	- 30

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Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed (Kuczys 26 January);
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000, and on investment in unit and investment trusts from £750. Options:

<u>Limit</u>	<u>Unit trust limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>long term cost per year</u>
£3,600	£2,400	-neg	- 5	- 20
£4,500	£3,000	- 5	- 10	- 30
£4,800	£2,400	- 5	- 10	- 30
£4,800	£3,000	- 5	- 10	- 30
£6,000	£3,000	- 5	- 10	- 50

- if limit related to cumulative total investment, rather than annual investment, cost of alternative limits:

<u>Limit</u>	<u>1989-90</u>	<u>1990-91</u>	<u>long term cost per year</u>
£25,000	- 10	- 20	- 75
£50,000	- 15	- 25	-100

- Walker 25 January; Neilson 26 January
(item (iv) on agenda)

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Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

ESOPS

- awaiting Revenue submission.

*Must get this soon - for
overview next week.
Especially CGT rollover on
gifts by owners to ESOPs,
where there may be substantive
issues of comparison with
other disposals by
owner.*

Unit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent.

11. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93.

12. PRI: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Expected to have yield after 1990-91.

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13. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 10	- 20

14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment would be 1,000 in 1989-90 and 1,025 in 1990-91.

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TABLE 2: MISCELLANEOUS STARTERS

(I.E. LINE 14 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>				
32	VAT: charities	- 5	- 5	- 5
40	VAT: r + d cars	- 5	- 5	- 5
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- over 80s	- 10	- 10	- 10
	- reduce marginal withdrawal rate	- 5	- 5	- 5
116	PRP	- 10	- 10	- 15
154	Over 60s private medical insurance	nil	nil	- 35
206	Close company legislation	- neg	- neg	- neg
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
261	IHT: instruments of variation	+ neg	+ neg	+ 10
633	Sale of numberplates	+ neg	+ neg	+ 30
650	ITV levy	nil	nil	+ 60
<u>Decisions needed</u>				
106	Benefits-in-kind: provided accom- modation	nil	nil	+ 10
110	Schedule E: lump sum payments	+ 45	+ 45	+ 50
259	IHT: index threshold	- 35	nil	nil
TOTAL		- 20	+ 15	+ 150

(awaiting
note on
hard cases,
agricultural
land etc)

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NOTES TO TABLE 2

1. Details in starter reference sheets, under Finance Bill Starter number in first column.

2. Table omits following starters which protect existing revenue:

119 Mixed resident and non-resident trusts

254 CGT: non-resident companies trading in the UK

400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.

3. Starter 106, provided accommodation: FST meeting 31 January.

4. Starter 154, private medical insurance: to be announced 31 January.

5. Starter 206, close company legislation: assumes close investment companies would pay corporation tax at special higher rate of 40 per cent, unless distribute at least 85 per cent of profits. If special higher rate 35 per cent, 1990-91 cost would be 5.

6. Starter 259, inheritance tax: if threshold frozen for a year, yield +35, +70.

7. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:

2 Excise: power to estimate revenue duties payable

3 Excise: restriction of duty-paid blending of made-wine

4 Excise: measurement and declaration of original gravity of beer

5 Excise: misdescription of substances as beer

6 Excise: oil duties relief

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SCORECARD OF 26 JANUARY 1989

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- 33 VAT: input tax on capital goods
- 34 Raise VAT threshold from £22,100 to £23,500
- 36 Right to repayment of VAT/excise duties and consequential changes
- 39 Duty and tax relief for diplomats and visiting forces
- 60 Prosecution time limits
- 61 Seizure at export of probable cash proceeds of drug trafficking
- 62 London Port banking: amendment to CEMA Section 17
- 63 Unauthorised disclosure of confidential information (C & E)
- 114 Taxation of employee priority in company flotations
- 115 Employees' material interest
- 118 Trusts
- 155 Friendly Societies Protection Scheme
- 158 Charities: payroll giving limit
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- 256 CGT: chattels exemption
- 258 Lloyd's CG treatment
- 262 CGT: sterling non-qualifying corporate bonds
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- 450 Keith committee: administrative improvements
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- 453 Deep discounted government and para-statal bonds
- 454 Electronic payment of dividends
- 455 Electricity privatisation: miscellaneous taxation provisions
- 601 VED: trade licensing
- 602 VED: special types
- 605 VED: recovery vehicles
- 606 VED: dishonoured cheques
- 631 VED: update reference to "registration book"
- 632 VED: grass cutting vehicles
- 651 Government stock: small estates
- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption

*This is making
slow progress. Push
for next week's
overview?*

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- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders

8. Starter 402, residence: see Revenue note 26 January.

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TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/1/90	- neg	- 40
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 125	+ 160
15.	TOTAL	+ 190	+ 340

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NOTES TO TABLE 3

These are the Revenue Departments' preliminary estimates.

Increase since last week entirely attributable to Starter 106, Benefits-in-kind: provided accommodation. Table includes this for first time.

Table does not include manpower effects of Starter 110, Schedule E: lump sum payments. Submission being prepared.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Benefits-in-kind: provided accommodation	+100	+100
Over 60s medical insurance (includes setting-up costs in 1989-90)	+ 10	+ 25
Index IHT threshold	+ 5	+ 15
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing	<u>+ 10</u>	<u>+ 10</u>
Total	+125	+160

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DATE: 2 February 1989

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr Anson
- Dame Anne Mueller
- Mr Wicks
- Mr Hardcastle
- Mr Byatt
- Mr Scholar
- Mr Riley
- Mr Sedgwick
- Mr A C S Allan
- Mr Macpherson
- Miss Simpson
- Mrs Chaplin
- Mr Tyrie
- Mr Call

SECRET

- Sir Anthony Battishill)
- Mr Beighton)
- Mr Isaac) IR
- Mr Painter)
- Mr Unwin)
- Mr Jefferson Smith) C&E

BUDGET SCORECARD

I attach the Scorecard for the Overview on 6 February.

ROBERT CULPIN

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Additional copies for Scorecard work:

Mr Gilhooly)
Mr Flanagan) FP
Mr O'Donnell)

Mr Matthews) ETS

Mr Davies)
Dr Courtney) MP

Mr Bush)
Mr Calder)
Mr McManus) IR
Mr McNicol)
Mr Ko)

Mr P R H Allen)
Ms French) C&E

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SCORECARD OF 2 FEBRUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million		yield (+)/cost (-)
		1989-90		1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	Freeze excise duties	nil	-1225	-1325
2.	Reduce duty on unleaded petrol; surcharge on 2 star	- 30	- 30	- 75
3.	VED: coaches and lorries	+ 40	+ 40	+ 40
4.	VAT: non-domestic construction etc	+ 305	+ 305	+ 560
5.	Index IT thresholds	-1455	nil	nil
6.	Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7.	CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>				
8.	Abolish stamp duty on shares from 1/1/90	- 150	- 150	- 970
9.	Life assurance	- 20	- 20	+ 200
10.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 30
<u>Other</u>				
11.	Schedule E: receipts basis	- 60	- 60	- 80
12.	PRT: incremental investment relief	- 40	- 40	- 40
13.	VAT: bad debts, registration, etc	- 95	- 95	- 270
14.	Miscellaneous starters	- 45	- 10	+ 80
15.	TOTAL	-1465	-1200	-1835

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Really? later?

also affects

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NOTES TO TABLE 1

Provisional cost (-) or yield (+) in £ million from indexed base unless otherwise indicated. Indexation 6.8 per cent.

1. Excise duties

	1989-90	1990-91
Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 255
Alcohol	- 255	- 280
Total	-1225	-1325

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

If tax on leaded petrol increased by 5p a gallon (4.7%), with all other duties frozen, line 1 becomes: +260, -965, -1110. RPI effect +0.08 per cent in impact.

2. Unleaded petrol

Present advantage of unleaded, in pence:

in average pump prices (approximate)

	relative to 2 star:	relative to 4 star:
per gallon	2.4	6.0
per litre	0.5	1.3
<u>in duty and VAT</u>		
per gallon	10.6	10.6
per litre	2.3	2.3

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Line 2 shows Option A:

- reduce tax on unleaded by enough (0.7p a litre) to make it 2p a litre (about 9p a gallon) cheaper than 4 star, if reduction passed on to consumers
- impose surcharge on 2 star sufficient to make it as expensive as 4 star at most pumps (not just on average), and so accelerate switch into unleaded.

Cost break-down:

	1989-90	1990-91
Lower duty on unleaded	- 30	- 60
Surcharge on 2-star	-neg*	- 15

* cost of extra unleaded take-up from surcharge balanced by extra yield from 2-star.

Option B:

Option A without 2 star surcharge.

Option C:

Reduce duty on unleaded by enough to take 5p a gallon (1.1p a litre) off pump prices, if reduction fully passed on to consumers.

Option D:

Option C plus 2 star surcharge.

If Option B, C or D adopted, line 2 becomes:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Option B	- 30	- 30	- 60
Option C	- 45	- 45	-110
Option D	- 60	- 60	-125

All options depend on take-up. No significant RPI effects.

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3. VED: coaches and lorries

+20 for buses and coaches, +20 for rigid heavy goods vehicles, accompanied by simplification of rate structure.

No direct RPI effect.

4. VAT: non-domestic construction etc

		1989-90			1990-91		
		Private sector	Public sector	Total	Private sector	Public sector	Total
Construction							
- new	(1)	15	250	265	20	325	345
- option to tax	(2)	20	10	30	60	35	95
Fuel and power	(3)	nil	nil	nil	15	80	95
Sewerage/water	(3)	nil	nil	nil	neg	neg	neg
News services	(1)	5	neg	5	5	neg	5
Protective boots and helmets	(1)	neg	neg	neg	neg	neg	neg
Minor property changes	(1)	5	neg	5	20	neg	20
TOTAL		45	260	305	120	440	560

Assuming implementation dates of (1) 1 April 1989
(2) 1 August 1989
(3) 1 July 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

Draft clauses to be published 6 February.

Yield reduced since last Scorecard because new transitional reliefs on construction, and later start date for fuel, power, sewerage, water. Yield increased because public sector estimates revised by GEP.

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5. Index income tax thresholds

Figures subject to revision in mid-February.

Cost of illustrative alternatives, in place of line 5:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by 10 per cent	-2,100	- 645	- 900
Reduce basic rate by 1p (with indexation)	-2,855	-1,400	-1,725

6. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

Reduces CT for about 23,000 companies.

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8. Abolish stamp duty on shares from 1/1/90

Cost depends on Stock Exchange turn-over. Net of extra yield on CGT, CT, VAT and Income Tax, as result of increase in transactions. (Total extra yield +50 in 1990-91.)

Cost from other abolition dates, in place of line 8:

	1989-90	1990-91
1/11/89	- 280	- 970
1/12/89	- 215	- 970
1/ 4/90	nil	- 930

9. Life assurance

-20 in 1989-90 for abolition of Life Assurance Policy Duty, with Stamp Duty, from 1/1/90.

+200 in 1990-91 purely notional. Options in Deacon of 30 January and Gilhooly of 31 January.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	depends on decisions, but likely to be neg		
Unit Trusts	- neg	- neg	- 20
Total	- 5	- 5	- 30

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Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit;
- if unlimited relief allowed for employee contributions to "top up" pensions, 1990-91 figure would be at least -10.

PEPs

- increase in limit on total annual investment from £3,000 to £4,800, and on investment in unit and investment trusts from £750 to £2,400. Full year cost in long term of -30.

Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

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ESOPS

- see Lewis of 2 February.

Unit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent.

11. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93.

12. PRT: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Expected to have yield after 1990-91.

13. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 10	- 20

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14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment would be 1,025 in 1989-90 and 1,100 in 1990-91.

*Breakdown
w/ B help.*

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SCORECARD OF 2 FEBRUARY 1989

**BUDGET SECRET
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Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>				
32	VAT: charities	- 5	- 5	- 5
40	VAT: r + d cars	- 5	- 5	- 5
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- over 80s	- 10	- 10	- 10
	- reduce marginal withdrawal rate	- 5	- 5	- 5
116	PRP	- 10	- 10	- 15
154	Over 60s private medical insurance	nil	nil	- 35
206	Close company legislation	- neg	- neg	- neg
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
259	IHT: index threshold	- 35	nil	nil
261	IHT: instruments of variation	+ neg	+ neg	+ 10
633	Sale of numberplates	+ neg	+ neg	+ 30
650	ITV levy	nil	◇ nil	+ 60
<u>Decisions needed</u>				
110	Schedule E: lump sum payments	+ 45	+ 45	+ 50
151	Covenanted membership subscriptions	- 5	- 5	- 5
216	CGT: unincorporated businesses trading losses	nil	nil	- 35
217	Rent-a-room	- 20	- 20	- 30
-	NICs: subsidised mortgages	nil	nil	+ 10
TOTAL		- 45	- 10	+ 80

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2. Table omits following starters which protect existing revenue:
 - 119 Mixed resident and non-resident trusts
 - 254 CGT: non-resident companies trading in the UK
 - 264 CGT: avoidance on sale of subsidiaries
 - 400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.
3. Starter 100, age allowances: instead of increasing over 80's allowance by 10 per cent, could index allowance and extend it to all over 75. Cost becomes -10, -15.
4. Starter 116, PRP: includes effects of changes announced 3 February.
5. Starter 154, private medical insurance: announced 31 January.
6. Starter 216, CGT: unincorporated businesses' trading losses: cost uncertain (range -25 to -50). Assumes change does not apply to gains realised before 1989-90. Full year effect could be -50 to -100.
7. Starter 217: Rent-a-room: costs in range -10 to -25 for 1989-90, -15 to -40 for 1990-91. Assumes relief applies per landlord rather than per resident.
8. NICs: subsidised mortgages: employers NICs only; end-year assessment; introduced October 1990. Full year effect +30.

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- 3 Excise: restriction of duty-paid blending of made-wine
- 4 Excise: measurement and declaration of original gravity of beer
- 5 Excise: misdescription of substances as beer
- 6 Excise: oil duties relief
- 33 VAT: input tax on capital goods
- 34 Raise VAT threshold from £22,100 to £23,600
- 36 Right to repayment of VAT/excise duties and consequential changes
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- 606 VED: dishonoured cheques

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- 631 VED: update reference to "registration book"
- 632 VED: grass cutting vehicles
- 651 Government stock: small estates
- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders

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SCORECARD OF 2 FEBRUARY 1989

TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/1/90	- neg	- 40
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 30	+ 65
15.	TOTAL	+ 95	+ 245

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NOTES TO TABLE 3

These are the Revenue Departments' preliminary estimates.

Table does not yet include manpower effects of Starter 217, rent-a-room, or NICs on subsidised mortgages.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Schedule E: lump sum payments	+ 5	+ 10
Over 60s medical insurance (includes setting-up costs in 1989-90)	+ 10	+ 25
Index IHT threshold	+ 5	+ 10
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing	<u>+ 10</u>	<u>+ 10</u>
Total	+ 30	+ 65

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FROM: ROBERT CULPIN
DATE: 9 February 1989

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- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr Anson
- Dame Anne Mueller
- Mr Wicks
- Mr Hardcastle
- Mr Byatt
- Mr Scholar
- Mr Riley
- Mr Sedgwick
- Mr A C S Allan
- Mr Macpherson
- Miss Simpson
- Miss Wallace
- Mrs Chaplin
- Mr Tyrie
- Mr Call

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- Sir Anthony Battishill)
- Mr Beighton)
- Mr Isaac) IR
- Mr Painter)
- Mr Unwin)
- Mr Jefferson Smith) C&E

BUDGET SCORECARD

I attach the Scorecard for the Overview on 13 February.

ROBERT CULPIN

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SCORECARD OF 9 FEBRUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

	<u>£ million</u>		<u>yield (+)/cost (-)</u>
	<u>1989-90</u>	<u>1990-91</u>	<u>1990-91</u>
	<u>Changes from</u>	<u>Changes from</u>	<u>Changes from</u>
	<u>a non-indexed</u>	<u>an indexed</u>	<u>an indexed</u>
	<u>base</u>	<u>base</u>	<u>base</u>
1. Freeze excise duties	nil	-1225	-1325
2. Reduce duty on ✓ unleaded petrol; surcharge on 2 star	- 30	- 30	- 75
3. ✓ VED: coaches and lorries	+ 40	+ 40	+ 40
4. VAT: non-domestic construction etc	+ 315	+ 315	+ 540
5. Index IT thresholds	-1455	nil	nil
6. Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7. CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>			
8. Abolish stamp duty on shares from 1/1/90	- 150	- 150	- 970
9. Life assurance	- 20	- 20	- 10
10. Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 20
<u>Other</u>			
11. Schedule E: receipts basis	- 60	- 60	- 80
12. PRT: incremental investment relief	- 40	- 40	- 40
13. VAT: bad debts, registration, etc	- 95	- 95	- 270
14. Miscellaneous starters	- 35	nil	+ 80
15. TOTAL	-1445	-1180	-2055

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NOT TO BE COPIEDNOTES TO TABLE 1

Estimated cost (-) or yield (+) in £ million from indexed base unless otherwise indicated. Indexation 6.8 per cent.

1. Excise duties

	1989-90	1990-91
Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 255
Alcohol	- 255	- 280
Total	-1225	-1325

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

2. Unleaded petrol

	1989-90	1990-91
Reduce tax by enough to make unleaded 2p a litre cheaper than 4 star, if reduction passed on to consumers	- 30	- 60
Surcharge 2 star to make it as expensive as 4 star	-neg*	- 15

* cost of extra unleaded take-up balanced by extra yield from 2-star.

Customs checking precise duty changes needed. Main problem is to establish how pump prices differ now between fuels.

Cost depends on take-up. No significant RPI effect.

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3. VED: coaches and lorries

+20 for buses and coaches, +20 for rigid heavy goods vehicles. Over 70 VED rates abolished. No direct RPI effect.

4. VAT: non-domestic construction etc

		1989-90			1990-91		
		Private sector	Public sector	Total	Private sector	Public sector	Total
Construction							
- new	(1)	15	250	265	20	325	345
- option to tax	(2)	20	10	30	40	35	75
Fuel and power	(3)	nil	nil	nil	15	80	95
Sewerage/water	(3)	nil	nil	nil	neg	neg	neg
News services	(1)	5	neg	5	5	neg	5
Protective boots and helmets	(1)	neg	neg	neg	neg	neg	neg
Minor property changes	(1)	15	neg	15	20	neg	20
TOTAL		55	260	315	100	440	540

Assuming implementation dates of

(1)	1 April 1989
(2)	1 August 1989
(3)	1 July 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

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5. Index income tax thresholds

Figures subject to revision in mid-February.

Cost of illustrative alternatives, in place of line 5:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by 10 per cent	-2,100	- 645	- 900
Reduce basic rate by 1p (with indexation)	-2,855	-1,400	-1,725

6. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

Reduces CT for about 23,000 companies.

Cost of 1 per cent off main CT rate: -10, -400, building up to -570.

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8. Abolish stamp duty on shares from 1/1/90

Cost depends on Stock Exchange turn-over. Net of extra yield on CGT, CT, VAT and Income Tax, as result of increase in transactions. (Total extra yield +50 in 1990-91.)

Cost from other abolition dates, in place of line 8:

	<u>1989-90</u>	<u>1990-91</u>
1/11/89	- 280	- 970
1/12/89	- 215	- 970
1/ 4/90	nil	- 930

9. Life assurance

1989-90 firm: -20 for abolition of Life Assurance Policy Duty, with Stamp Duty, from 1/1/90.

1990-91 provisional: -50 for reducing tax rates etc, +40 on expenses. Variants in Deacon 9 February.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	<u>1989-90</u>		<u>1990-91</u>
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	- neg	- neg	- neg
Unit Trusts	nil	nil	- 10
Total	- 5	- 5	- 20

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Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000 to £4,800, and on investment in unit and investment trusts from £750 to £2,400. Full year cost in long term of -30.

Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

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- corporation tax relief on company contributions to employee benefit trusts.
Could build up to -20.

Unit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent from January 1990.

11. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93.

12. PRI: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Expected to have yield after 1990-91.

13. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 10	- 20

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14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment -960, -1250: see Riley 9 February.

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TABLE 2: MISCELLANEOUS STARTERS (I.E. LINE 14 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>				
32	VAT: charities	- 5	- 5	- 5
40	VAT: r + d cars	- 5	- 5	- 5
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- over 75s	- 10	- 10	- 15
	- reduce marginal withdrawal rate	- 5	- 5	- 5
116	PRP	- 10	- 10	- 15
154	Over 60s private medical insurance	nil	nil	- 40
204	BES: withdraw relief on loans to buy shares	+ neg	+ neg	+ 5
206	Close company legislation	- neg	- neg	- neg
216	CGT: unincorporated businesses trading losses	nil	nil	- 35
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
259	IHT: index threshold	- 35	◇ nil	nil
261	IHT: instruments of variation	+ neg	+ neg	+ 10
633	Sale of numberplates	+ neg	+ neg	+ 30
650	ITV levy	nil	nil	+ 60
<u>Decisions needed</u>				
110	Schedule E: lump sum payments	+ 45	+ 45	+ 50
151	Covenanted membership subscriptions	- 5	- 5	- 5
217	Rent-a-room	- 10	- 10	- 15
TOTAL		- 35	nil	+ 80

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NOTES TO TABLE 2

1. Details in starter reference sheets, under Finance Bill Starter number in first column.
2. Table omits following starters which protect existing revenue:
 - 119 Mixed resident and non-resident trusts
 - 254 CGT: non-resident companies trading in the UK
 - 264 CGT: avoidance on sale of subsidiaries
 - 400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.

3. Starter 100, age allowances: Scorecard shows cost of indexing over 80s' allowance and extending it to all over 75. Alternatives:
 - increase allowance for over 80s by 10 per cent: cost becomes -10, -10
 - double index allowance for over 80s: cost becomes -15, -20.
4. Starter 116, PRP: includes effects of changes announced 3 February.
5. Starter 154, private medical insurance: announced 31 January. Cost revised to reflect decision on high rate relief.
6. Starter 216, CGT: unincorporated businesses' trading losses: cost uncertain (range -25 to -50). Assumes change does not apply to gains realised before 1989-90. Full year effect could be -50 to -100.
7. Starter 217: Rent-a-room: assumes annual exempt limit of £5,000 per landlord. Lower exemption of £3,000 would cost -10, -10. See Elliot of 8 February.
8. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:

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- 2 Excise: power to estimate revenue duties payable
 - 3 Excise: restriction of duty-paid blending of made-wine
 - 4 Excise: measurement and declaration of original gravity of beer
 - 5 Excise: misdescription of substances as beer
 - 6 Excise: oil duties relief
 - 34 Raise VAT threshold from £22,100 to £23,600
 - 36 Right to repayment of VAT/excise duties and consequential changes
 - 39 Duty and tax relief for diplomats and visiting forces
 - 60 Prosecution time limits
 - 61 Seizure at export of probable cash proceeds of drug trafficking
 - 62 London Port banking: amendment to CEMA Section 17
 - 63 Unauthorised disclosure of confidential information (C & E)
 - 114 Taxation of employee priority in company flotations
 - 115 Employees' material interest
 - 118 Trusts
 - 155 Friendly Societies Protection Scheme
 - 158 Charities: payroll giving limit
 - 207 Capital allowances at sports grounds
 - 209 Capital allowances: pre-consolidation amendments
 - 212 Reopening of claims etc
 - 213 Extension of pre-trading expenditure relief
 - 218 Lloyd's stock lending
 - 255 CGT: technical changes associated with rebasing
 - 256 CGT: chattels exemption
 - 262 CGT: sterling non-qualifying corporate bonds
 - 404 Tax charge on switching investments in offshore funds (Umbrella funds)
 - 450 Keith committee: administrative improvements
 - 451 Sub-contractor tax scheme
 - 452 Unauthorised disclosure of confidential information (IR)
 - 453 Deep discounted government and para-statal bonds
 - 454 Electronic payment of dividends
 - 455 Electricity privatisation: miscellaneous taxation provisions
 - 601 VED: trade licensing
 - 602 VED: special types
 - 605 VED: recovery vehicles
 - 606 VED: dishonoured cheques
 - 631 VED: update reference to "registration book"
 - 632 VED: grass cutting vehicles
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- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders
- NICs on subsidised loans

9. NICs on subsidised loans: +30 in 1991-92. See Macpherson 9 February.

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SCORECARD OF 9 FEBRUARY 1989

TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/1/90	- neg	- 40
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 30	+ 65
15.	TOTAL	+ 95	+ 245

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NOTES TO TABLE 3

These are the Revenue Departments' preliminary estimates.

Table does not yet include manpower effects of Starter 217, rent-a-room.

NICs on subsidised loans would have no manpower effects for the Revenue. Effects on DSS staffing not yet known.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Schedule E: lump sum payments	+ 5	+ 10
Over 60s medical insurance (includes setting-up costs in 1989-90)*	+ 10	+ 25
Index IHT threshold	+ 5	+ 10
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing	<u>+ 10</u>	<u>+ 10</u>
Total	+ 30	+ 65

* +45 in subsequent years, mainly due to higher rate relief being available to all payers whether they are paying for themselves or for others.

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DATE: 16 February 1989

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Economic Secretary
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Sir Terence Burns
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Dame Anne Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Riley
Mr Sedgwick
Mr A C S Allan
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

Sir Anthony Battishill)
Mr Beighton)
Mr Isaac)IR
Mr Painter)

Mr Unwin)
Mr Jefferson Smith)C&E

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BUDGET SCORECARD

I attach the Scorecard for the Overview on 20 February.

2. It does not include the abolition of the earnings rule.
3. I should also draw attention to a point on stamp duty. If you announce in advance that you are going to abolish it, there will be effects on revenue before you actually do so. On the one hand, share prices will rise, because the value of abolition will be capitalised, and this will tend to raise revenue. On the other hand, some people may defer transactions, and this will tend to reduce it.

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4. If, as in previous Scorecards, we assume that you abolish stamp duty during 1989-90, this does not matter terribly: it all gets lost in the net cost for the year. But in this Scorecard, we assume abolition in April 1990. So any assumption about the effects on revenue in 1989-90 is bound to be transparent.

5. For the time being, we have assumed no net effect on revenue in 1989-90. That at least is simple, and unpretentious. We do not know when the value of abolition will be capitalised, or by how much; how far it may already be discounted in the market; or how many people will defer how many transactions until after abolition. If we had to make a guess, we should expect a net revenue gain in 1989-90, but it is unlikely that we should put it at more than small tens of millions.

6. In next week's Scorecard, would you prefer to stick to "nil" or to show a small positive?


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Additional copies for Scorecard work:

Mr Gilhooly)
Mr Flanagan) FP
Mr C Donnell)

Mr Matthews) ETS

Mr Pickford) EB

Mr Gieve) IDT

Mr Davies)
Dr Courtney) MP

Mr Mowl) PSF

Mr Bush)
Mr Calder)
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Mr McNicol)
Mr Ko)

Mr P R H Allen)
Ms French) C&E

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SCORECARD OF 16 FEBRUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million 1989-90		yield (+)/cost (-) 1990-91
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	Freeze excise duties	nil	-1225	-1320
2.	Reduce duty on unleaded petrol; surcharge 2 star	- 30	- 30	- 75
3.	VED: coaches and lorries	+ 40	+ 40	+ 40
4.	VAT: non-domestic construction etc	+ 315	+ 315	+ 540
5.	Index IT thresholds	-1465	nil	nil
6.	Increase car scales by 20 per cent	+ 90	+ 90	+ 110
7.	CT: raise small companies thresholds	- neg	- neg	- 35
Savings				
8.	Abolish stamp duty on shares from 1/4/90	nil	nil	- 850
9.	Life assurance	- 20	- 20	+ 45
10.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 10
Other				
11.	Schedule E: receipts basis	- 60	- 60	- 80
12.	PRT: incremental investment relief	- 10	- 10	- 20
13.	VAT: bad debts, registration, etc	- 105	- 105	- 270
14.	Miscellaneous starters	- 65	- 30	+ 40
15.	TOTAL	-1315	-1040	-1885

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NOT TO BE COPIEDNOTES TO TABLE 1

Estimated cost (-) or yield (+) in £ million from indexed base unless otherwise indicated. Indexation 6.8 per cent.

Figures slightly revised this week in line with new forecast and new employment figures.

1. Excise duties

	1989-90	1990-91
Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 250
Alcohol	- 255	- 280
Total	-1225	-1320

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

2. Unleaded petrol

	1989-90	1990-91
Reduce tax by enough to make unleaded 2p a litre cheaper than 4 star, if reduction passed on to consumers	- 30	- 60
Surcharge 2 star (and 3 star) to make it as expensive as 4 star	-neg*	- 15

* cost of extra unleaded take-up balanced by extra yield from 2-star.

Customs checking precise duty changes needed. Main problem is to establish how pump prices differ now between fuels. Paper for Overview 27 February.

Cost depends on take-up. No significant RPI effect.

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3. VED: coaches and lorries

+20 for buses and coaches, +20 for rigid heavy goods vehicles. Over 70 VED rates abolished. No direct RPI effect.

4. VAT: non-domestic construction etc

		1989-90			1990-91		
		Private sector	Public sector	Total	Private sector	Public sector	Total
Construction							
- new	(1)	15	250	265	20	325	345
- option to tax	(2)	20	10	30	40	35	75
Fuel and power	(3)	nil	nil	nil	15	80	95
Sewerage/water	(3)	nil	nil	nil	neg	neg	neg
News services	(1)	5	neg	5	5	neg	5
Protective boots and helmets	(1)	neg	neg	neg	neg	neg	neg
Minor property changes	(1)	15	neg	15	20	neg	20
TOTAL		55	260	315	100	440	540

Assuming implementation dates of (1) 1 April 1989
 (2) 1 August 1989
 (3) 1 July 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

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5. Index income tax thresholds

Cost of illustrative alternatives, in place of line 5:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by			
10 per cent	-2,130	- 665	- 925
Reduce basic rate by 1p (with indexation)	-2,865	-1,400	-1,725

6. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

7. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

Reduces CT for about 23,000 companies.

Cost of 1 per cent off main CT rate: -10, -400, building up to -570.

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8. Abolish stamp duty on shares from 1/1/90

See cover note.

Cost depends on Stock Exchange turn-over and share prices. Net of extra yield from CGT, CT, VAT and Income Tax, as a result of increase in transactions: assumptions under examination, and subject to revision.

If abolition from 1/1/90, cost in place of line 8: -140, -900.

9. Life assurance

From 1/1/90:

- Life Assurance Policy Duty abolished
- rate on policy holders' income and gains cut to 25 per cent
- expenses from pensions business only deductible from pensions profit
- relief for acquisition expenses spread over 7 years, but change phased in 4 steps.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	- neg	- neg	- neg
Unit Trusts	nil	nil	- neg
Total	- 5	- 5	- 10

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Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000 to £4,800, and on investment in unit and investment trusts from £750 to £2,400. Full year cost in long term of -30.

Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

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ESOPS

- corporation tax relief on company contributions to employee benefit trusts. Could build up to -20.

Unit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent from January 1990.

11. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93.

12. PRI: incremental investment relief

Assumes behavioural effects - ie increased development expenditure. Cost reduced since last week because extra expenditure now expected to start later. Expected to have yield after 1990-91.

13. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 20	- 20

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14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment -810, -1070.

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TABLE 2: MISCELLANEOUS STARTERS (I.E. LINE 14 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter Proposal number	£ million		yield (+)/cost (-)
	1989-90	1990-91	1990-91
	Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<u>Decided</u>			
32	VAT: charities	- 5	- 5
40	VAT: r + d cars	- 5	- 5
107	Relocation costs	+ 5	+ 30
Part of 100	Age allowances:		
	- over 75s	- 10	- 15
	- reduce marginal withdrawal rate	- 5	- 5
115	Employees' material interest	- neg	- 5
116	PRP	- 10	- 15
154	Over 60s private medical insurance	nil	- 40
204	BES: withdraw relief on loans to buy shares	+ neg	+ 5
206	Close company legislation	- neg	- neg
216	CGT: unincorporated businesses trading losses	nil	- 35
251	CGT: freeze exemption limit	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ 25
259	IHT: index threshold	- 35	nil
261	IHT: instruments of variation	+ 5	+ 15
453	Deep discounted bonds (COBO)	nil	+ 15
633	Sale of numberplates	+ neg	+ 10
650	ITV levy	nil	+ 60
<u>Decisions needed</u>			
151	Covenanted membership subscriptions	- 5	- 5
TOTAL		- 65	30 + 40

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NOTES TO TABLE 2

1. Details in starter reference sheets, under Finance Bill Starter number in first column.
2. Table omits following starters which protect existing revenue:
 - 119 Mixed resident and non-resident trusts
 - 254 CGT: non-resident companies trading in the UK
 - 264 CGT: avoidance on sale of subsidiaries
 - 400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.

3. Starter 100, age allowances: Scorecard shows cost of indexing over 80s' allowance and extending it to all over 75. Alternatives:
 - increase allowance for over 80s by 10 per cent: cost becomes -10, -10
 - double index allowance for over 80s: cost becomes -15, -20.
4. Starter 116, PRP: includes effects of changes announced 3 February.
5. Starter 154, private medical insurance: announced 31 January. Cost revised to reflect decision on high rate relief.
6. Starter 216, CGT: unincorporated businesses' trading losses: cost uncertain (range -25 to -50). Assumes change does not apply to gains realised before 1989-90. Full year effect could be -50 to -100.
7. Starter 453, COBO: now includes index linked bonds with life of no more than 3 years.

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8. Starter 633, sale of ~~number~~ plates: cost revised on more cautious estimate of sales and prices.

9. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:

- 2 Excise: power to estimate revenue duties payable
- 3 Excise: restriction of duty-paid blending of made-wine
- 4 Excise: measurement and declaration of original gravity of beer
- 5 Excise: misdescription of substances as beer
- 6 Excise: oil duties relief
- 34 Raise VAT threshold from £22,100 to £23,600
- 36 Right to repayment of VAT/excise duties and consequential changes
- 39 Duty and tax relief for diplomats and visiting forces
- 60 Prosecution time limits
- 61 Seizure at export of probable cash proceeds of drug trafficking
- 62 London Port banking: amendment to CEMA Section 17
- 63 Unauthorised disclosure of confidential information (C & E)
- 103 Secure accommodation
- 114 Taxation of employee priority in company flotations
- 118 Trusts
- 158 Charities: payroll giving limit
- 205 ACT: change in ownership
- 207 Capital allowances at sports grounds
- 209 Capital allowances: pre-consolidation amendments
- 212 Reopening of claims etc
- 213 Extension of pre-trading expenditure relief
- 218 Lloyd's stock lending
- 255 CGT: technical changes associated with rebasing
- 256 CGT: chattels exemption
- 262 CGT: sterling non-qualifying corporate bonds
- 263 Gifts to housing associations
- 404 Tax charge on switching investments in offshore funds (Umbrella funds)
- 450 Keith committee: administrative improvements
- 451 Sub-contractor tax scheme
- 452 Unauthorised disclosure of confidential information (IR)

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- 453 Deep discounted government and para-statal bonds
- 455 Electricity privatisation: miscellaneous taxation provisions
- 601 VED: trade licensing
- 602 VED: special types
- 605 VED: recovery vehicles
- 606 VED: dishonoured cheques
- 631 VED: update reference to "registration book"
- 632 VED: grass cutting vehicles
- 651 Government stock: small estates
- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders

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TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Freeze excise duties	nil	nil
2.	Reduce duty on unleaded petrol	nil	nil
3.	VED: coaches and lorries	nil	nil
4.	VAT: non-domestic construction etc	+ 45	+ 130
5.	Index IT thresholds	+ neg	+ 20
6.	Increase car scales by 20 per cent	nil	+ 10
7.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
8.	Abolish stamp duty on shares from 1/4/90	- nil	- 30
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	PRT: incremental investment relief	nil	nil
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 15	+ 55
15.	TOTAL	+ 80	+ 245

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NOTES TO TABLE 3

These are the Revenue Departments' preliminary estimates.

On line 4, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Over 60s medical insurance (includes setting-up costs in 1989-90)*	+ 10	+ 25
Index IHT threshold	+ 5	+ 10
CGT: freeze exemption limit	nil	+ 10
CGT: set off trading losses**	+ neg	+ 5
No change in threshold for stamp duty on housing***	<u>nil</u>	<u>+ 5</u>
TOTAL	+ 15	+ 55

* +45 in subsequent years.

** up to +10 by 1991-92.

*** +10 in subsequent years.

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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

17 February 1989

Paul Gray Esq
10 Downing Street
LONDON SW1

Dear Paul

I attach an aide memoire on the Budget. You will have received a copy of the Budget Security Instructions and I should stress that the aide memoire should not be shown to anyone other than the Prime Minister and yourself.

B.L.
Yours
A.C.S.

A C S ALLAN
Principal Private Secretary

Ch
Only points PM has raised are
(i) some comment about Euro limits on small companies' CT, which don't exist
(ii) a comment on pensions that men who earn over £60,000.
You will also want to take her through NICs.
Do you want any other papers?

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AIDE MEMOIRE ON BUDGET

Income tax and NICs

For the purposes of the figuring in the attached table, it has been assumed that personal allowances and the basic rate limit are indexed; that there is no change in the basic rate; and that there are no changes to NICs. A NICs reform is still under consideration.

Excise duties

2. No change in any of the main excise duties. The duty on unleaded petrol reduced to produce a pump price differential of 2p a litre (approximately 9p a gallon) with 4 star leaded petrol; a surcharge on 2 star leaded petrol to bring it up to the same price as 4 star. Increased VED for coaches and rigid heavy goods vehicles (agreed with DTp).

VAT

3. Implement the changes resulting from the European Court of Justice decision, as already announced; the bulk of the additional yield comes from the public sector (the impact of this on public expenditure was taken into account in the Autumn Statement). No other changes in VAT coverage.

Company cars

4. Car scales (which determine amount of taxable benefit from company cars) to be increased by 20 per cent.

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Corporation tax

5. Thresholds for the small companies' rate increased by 50 per cent; rate itself assumed to remain at 25p.

Stamp duty on shares

6. Abolish stamp duty on share transactions, probably from 1 April 1990. Announcement and legislation needed now to enable the Stock Exchange's new paperless transactions system ('TAURUS') to be planned and implemented on this basis.

Life assurance

7. Maintain the existing structure of taxation. Reduce the tax rates on policyholder's income and gains to 25 per cent (from 35 per cent and 30 per cent respectively). Ring-fence life offices' pension business, so that expenses there cannot be set off against income on life business. Abolish life assurance premium duty. (Life offices will also gain about £100 million a year from the abolition of stamp duty on shares: this is included in the costings of that measure). Allow selling expenses to be deducted from taxable income and gains only over seven years, instead of being offset in full against income and gains in the first year; phase this change over four years.

Unit trusts

8. Reduce the Corporation Tax rate on unfranked income (principally dividends on gilts) from 35 per cent to 25 per cent from January 1990.

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Pensions

9. For final salary schemes, place a limit on tax privileged pensions. Deregulate, so that the Revenue no longer lay down how much pension someone can be paid, but only how much tax-privileged pension. Pensions will be payable from tax privileged funds on earnings of up to £60,000 a year. This translates into limits of £40,000 a year on the total pension and £90,000 on the tax-free lump sum. These limits will apply only to new pension scheme members, and will be indexed to prices. Employers will be free to pay additional amounts without tax privilege.

10. For personal pensions, increase the percentage of earnings which may be contributed with tax relief, subject to a cash limit.

PEPs

11. The limit on the total annual investment to be raised from £3,000 to £4,800; and within that the limits on investments in unit and investment trusts from £750 to £2,400. Rules greatly simplified.

Employee share schemes and ESOPs

12. Various increases in the limits for employee share schemes. And to enable the development of ESOPs, Corporation Tax relief on company contributions.

CGT

13. Abolition of the tax deferral on gifts (but not to charities, or on business assets, or between husband and wives). This was introduced in [1980] to avoid the double charge to CGT and CTT on lifetime gifts, but the CTT charge has since been abolished. The

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exemption limit for CGT to be frozen, pending the effective doubling (for married couples) when independent taxation comes in next year.

Pensioners' Earnings Rule

14. Pensioners' earnings rule to be abolished. Gross public expenditure cost of about $\frac{1}{4}$ billion to be met from the reserve. Retain the option to defer pensions in return for higher pension later.

Deregulation/Simplification

15. A number of measures of deregulation and simplification: additional VAT bad debt relief; simplification of VAT registration rules; changing Schedule E to be charged on a receipts basis; a radical simplification the rules on close investment companies: unincorporated businesses to be allowed to set capital gains against trading losses; the Control of Borrowing Order to be abolished.

Other proposals

16. Other proposals include:

- (i) converting the higher age allowance for the over-80s to one that covers all those over 75; and reducing the marginal withdrawal rate for age allowances to below 40 per cent;
- (ii) increasing the PRP limits to £4000, and other simplifications to the PRP rules;

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- (iii) increasing the Payroll Giving limit from £240 to £480;
- (iv) implementing the tax relief for private health insurance for the elderly.

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TABLE 1.1 THE BUDGET MEASURES¹
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	£ million 1988-90		yield (+)/cost (-) 1990-91
	Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
Income Tax			
personal allowances and basic rate limit indexed	-1465	-	-
car benefit scales increased	+ 90	+ 90	+ 110
Schedule E put on receipts basis	- 60	- 60	- 80
Excise duties			
petrol, derv etc	-	- 545	- 580
duty on unleaded petrol reduced, surcharge added to 2 star petrol	- 30	- 30	- 75
vehicle excise duty	+ 40	- 150	- 170
tobacco	-	- 235	- 250
alcohol	-	- 255	- 280
Value Added Tax			
non- domestic construction etc	+ 315	+ 315	+ 540
bad debt relief, reform of registration rules etc	- 105	- 105	- 270
Stamp duty on shares abolished	-	-	- 850
Life assurance businesses' tax regime reformed	- 20	- 20	+ 45
Reforms to pensions, personal equity plans, share schemes and unit trusts	- 5	5	- 10
Corporation Tax			
small companies' rate threshold increased	*	*	- 35
Petroleum revenue tax			
incremental investment relief introduced	- 10	- 10	- 20
Other tax changes	- 65	- 30	+ 40
Total	-1315	-1040	-1885

¹ These measures, and the basis of the costings shown, are described in detail in chapter 4.

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FROM: ROBERT CULPIN
DATE: 23 February 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Dame Anne Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Riley
Mr Sedgwick
Mr A C S Allan
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

Sir Anthony Battishill)
Mr Beighton)
Mr Isaac) IR
Mr Painter)

Mr Unwin)
Mr Jefferson Smith) C&E

BUDGET SCORECARD

I attach the Scorecard for the Overview on 27 February. I also attach two supplements (this week only).

2. Annex A is a timetable of implementation dates. I think Ministers have agreed them all individually. This simply gives you the opportunity to see the picture in the round, and to make sure you are content.

3. Annex B lists points which still need to be decided, on FP's reckoning. I cannot guarantee that it is complete, but it has been seen by the Revenue Departments.

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4. At the time of going to press, Parliamentary Counsel is waiting for instructions on:-

ESOPs up to 5 pages

life assurance 5 pages

CGT set-off of trading losses about 1¼ pages

income tax allowances $\frac{2}{3}$ page

All of these are promised this week.

5. In addition, I understand that Counsel is waiting for loose ends to be tidied up on close company legislation, the ECJ judgement, and the right to repayment of VAT and excise duties. There may also be work to apply stamp duty to pilot paperless transactions.

6. Counsel is waiting for instructions for Committee Stage on:-

trusts 4-5 pages

CGT avoidance 6-12 pages

electricity privatisation 2-3 pages

Netherlands/Antilles up to ¼ page

Seizure of drug proceeds ½ page.



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Additional copies for Scorecard work:

Mr Gilhooly)
Mr Flanagan) FP
Mr O'Donnell)
Mr Matthews) ETS

Mr Pickford) EB

Mr Gieve) IDT
Mr Davies)
Dr Courtney) MP

Mr Mowl) PSF

Mr Bush)
Mr Calder)
Mr McManus) IR
Mr McNicol)
Mr Ko)

Mr P R H Allen)
Ms French) C&E

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SCORECARD OF 23 FEBRUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million	yield (+)/cost (-)	
		1989-90	1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	Reform employee NICs	- 860	- 860	-2440
2.	Freeze excise duties	nil	-1225	-1320
3.	Reduce duty on unleaded petrol; increase on 2 star	- 30	- 30	- 75
4.	VED: coaches and lorries	+ 40	+ 40	+ 40
5.	VAT: non-domestic construction etc	+ 315	+ 315	+ 540
6.	Index IT thresholds	-1465	nil	nil
7.	Increase car scales by 20 per cent	+ 90	+ 90	+ 110
8.	CT: raise small companies thresholds	- neg	- neg	- 35
Savings				
9.	Abolish stamp duty on shares from 1/4/90	+ 10	+ 10	- 900
10.	Life assurance	- 20	- 20	+ 45
11.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	5	- 10
Other				
12.	Schedule E: receipts basis	- 60	- 60	- 80
13.	VAT: bad debts, registration, etc	- 105	- 105	- 270
14.	Miscellaneous starters	- 70	- 35	+ 25
15.	TOTAL	-2160	-1885	-4370

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Estimated cost (-) or yield (+) in £ million from indexed base unless otherwise indicated. Indexation 6.8 per cent.

1. Reform employee NICs

Below £75 a week, NICs unchanged. Above £75, 5 per cent on £0-75 and 9 per cent on £75 to UEL. UEL increased from £325 to £358.

If UEL not increased, line 1 becomes -930, -2660.

Alternatives in place of line 1:

£1 +9 per cent on £44-358	- 830	-2440
2 per cent of £43 +9 per cent on £44-358	- 880	-2520

2. Excise duties

	1989-90	1990-91
Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 250
Alcohol	- 255	- 280
Total	-1225	-1320

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

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	1989-90	1990-91
Reduce tax by 0.7p a litre to make unleaded 2p a litre cheaper than 4 star, if reduction passed on to consumers	- 30	- 60
Increase duty on 2 star (and 3 star) by 1.1p a litre to make it as expensive as 4 star	-neg*	- 15

* cost of extra unleaded take-up balanced by extra yield from 2-star.

See Wilmott of 23 February.

Cost depends on take-up. No significant RPI effect.

4. VED: coaches and lorries

+20 for buses and coaches, +20 for rigid heavy goods vehicles. Over 70 VED rates abolished. No direct RPI effect.

5. VAT: non-domestic construction etc

	1989-90			1990-91		
	Private sector	Public sector	Total	Private sector	Public sector	Total
Construction						
- new (1)	15	250	265	20	325	345
- option to tax (2)	20	10	30	40	35	75
Fuel and power (3)	nil	nil	nil	15	80	95
Sewerage/water (3)	nil	nil	nil	neg	neg	neg
News services (1)	5	neg	5	5	neg	5
Protective boots and helmets (1)	neg	neg	neg	neg	neg	neg
Minor property changes (1)	15	neg	15	20	neg	20
TOTAL	55	260	315	100	440	540

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Assuming implementation dates of

(1)	1 April 1989
(2)	1 August 1989
(3)	1 July 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

6. Index income tax thresholds

Cost of illustrative alternatives, in place of line 6:

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Increase thresholds by 10 per cent	-2,130	- 665	- 925
Reduce basic rate by 1p (with indexation)	-2,865	-1,400	-1,725

7. Increase car scales by 20 per cent

No change in structure of car scales. No allowance for behavioural effects (likely to be small).

8. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

Reduces CT for about 23,000 companies.

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9. Abolish stamp duty on shares from 1/4/90

Cost revised in light of new forecast and new assumptions about Stock Exchange turn-over and share prices. Net of extra (+100 in 1990-91) yield from CGT, CT, VAT and Income Tax, as a result of increase, in transactions and equity prices. Figures under scrutiny and subject to revision.

If abolition from 1/1/90, cost in place of line 9: -150, -900.

10. Life assurance

From 1/1/90:

- Life Assurance Policy Duty abolished
- rate on policy holders' income and gains cut to 25 per cent
- expenses from pensions business only deductible from pensions profit
- relief for acquisition expenses spread over 7 years, but change phased in 4 steps.

Yield in 1990-91 (unchanged from last week) is more recent estimate than Deacon of [16] February.

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	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	- neg	- neg	- neg
Unit Trusts	nil	nil	- neg
Total	- 5	- 5	- 10

Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000 to £4,800, and on investment in unit and investment trusts from £750 to £2,400. Full year cost in long term of -30.

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Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

ESOPS

- corporation tax relief on company contributions to employee benefit trusts. Could build up to -20.

Unit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent from January 1990.

12. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93.

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13. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 20	- 20

14. Miscellaneous Starters

See Table 2.

15. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment -1720, -3630.

Table does not include pensioners' earnings rule.

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**BUDGET SECRET
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Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)	
		1989-90		1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base	
32	VAT: charities	- 5	- 5	- 5	
40	VAT: r + d cars	- 5	- 5	- 5	
43	Motability: car tax relief	- 5	- 5	- 10	
107	Relocation costs	+ 5	+ 5	+ 30	
Part of 100	Age allowances:				
	- over 75s	- 10	- 10	- 15	
	- reduce marginal withdrawal rate	- 5	- 5	- 5	
115	Employees' material interest	- neg	- neg	- 5	
116	PRP	- 10	- 10	- 15	
151	Covenanted membership subscriptions	- 5	- 5	- 10	
154	Over 60s private medical insurance	nil	nil	- 40	
204	BES: withdraw relief on loans to buy shares	+ neg	+ neg	+ 5	
206	Close company legislation	- neg	- neg	- neg	
216	CGT: unincorporated businesses trading losses	nil	nil	- 25	
251	CGT: freeze exemption limit	nil	nil	+ 10	
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25	
259	IHT: index threshold	- 35	nil	nil	
261	IHT: instruments of variation	+ 5	+ 5	+ 15	
453	Deep discounted bonds (COBO)	nil	nil	+ 15	
633	Sale of numberplates	+ neg	+ neg	+ 10	
650	ITV levy	nil	nil	+ 50	

TOTAL

- 70

35

+ 25

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1. All items in Table 2 now decided.
2. Details in starter reference sheets, under Finance Bill Starter number in first column.
3. Table omits following starters which protect existing revenue:
 - 119 Mixed residence and non-resident trusts
 - 254 CGT: non-resident companies trading in the UK
 - 264 CGT: avoidance on sale of subsidiaries
 - 400 Tax deductible from tax credit payments to US companies

These have a cost if not implemented.

4. Starter 100, age allowances: Scorecard shows cost of indexing over 80s' allowance and extending it to all over 75. Alternatives:
 - increase allowance for over 80s by 10 per cent: cost becomes -10, -10
 - double index allowance for over 80s: cost becomes -15, -20.
5. Starter 116, PRP: includes effects of changes announced 3 February.
6. Starter 154, private medical insurance: announced 31 January.
7. Starter 216, CGT: unincorporated businesses' trading losses: applies to gains realised from 6 April 1989 and losses from accounting years beginning with 1989-90. Full year effect -50.
8. Starter 453, COBO: includes index linked bonds with life of no more than 3 or 5 years.
9. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:

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- 2 Excise: power to estimate revenue duties payable
 3 Excise: restriction of duty-paid blending of made-wine
 4 Excise: measurement and declaration of original gravity of beer
 5 Excise: misdescription of substances as beer
 6 Excise: oil duties relief
 34 Raise VAT threshold from £22,100 to £23,600
 36 Right to repayment of VAT/excise duties and consequential changes
 39 Duty and tax relief for diplomats and visiting forces
 60 Prosecution time limits
 61 Seizure at export of probable cash proceeds of drug trafficking
 62 London Port banking: amendment to CEMA Section 17
 63 Unauthorised disclosure of confidential information (C & E)
 103 Secure accommodation
 114 Taxation of employee priority in company flotations
 118 Trusts
 158 Charities: payroll giving limit
 205 ACT: change in ownership
 207 Capital allowances at sports grounds
 209 Capital allowances: pre-consolidation amendments
 212 Reopening of claims etc
 213 Extension of pre-trading expenditure relief
 218 Lloyd's stock lending
 255 CGT: technical changes associated with rebasing
 256 CGT: chattels exemption
 262 CGT: sterling non-qualifying corporate bonds
 263 Gifts to housing associations
 404 Tax charge on switching investments in offshore funds (Umbrella funds)
 405 Payments to fund Netherlands Antilles euro-bond interest
 450 Keith committee: administrative improvements
 451 Sub-contractor tax scheme
 452 Unauthorised disclosure of confidential information (IR)
 455 Electricity privatisation: miscellaneous taxation provisions
 601 VED: trade licensing
 602 VED: special types
 605 VED: recovery vehicles
 606 VED: dishonoured cheques

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- 631 VED: update reference to 'registration book'
- 632 VED: grass cutting vehicles
- 651 Government stock: small estates
- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders

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TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Reform employee NICs	not known	not known
2.	Freeze excise duties	nil	nil
3.	Reduce duty on unleaded petrol	nil	nil
4.	VED: coaches and lorries	nil	nil
5.	VAT: non-domestic construction etc	+ 45	+ 130
6.	Index IT thresholds	- neg	+ 40
7.	Increase car scales by 20 per cent	nil	+ 10
8.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
9.	Abolish stamp duty on shares from 1/4/90	- nil	- 30
10.	Life assurance	+ neg	+ neg
11.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
12.	Schedule E: receipts basis	+ 10	+ 40
13.	VAT: bad debts, registration, etc	+ 10	+ 20
14.	Other starters	+ 15	+ 55
15.	TOTAL	+ 80	+ 265

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NOTES TO TABLE 3

Line 1: staffing effect on DSS (if any) not yet known.

On line 5, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 12 would save 100 staff in 1991-92 and 175 in 1992-93.

Line 14 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Over 60s medical insurance (includes setting-up costs in 1989-90)*	+ 10	+ 25
Index IHT threshold	+ 5	+ 10
CGT: freeze exemption limit	nil	+ 10
CGT: set off trading losses**	+ neg	+ 5
No change in threshold for stamp duty on housing***	<u>nil</u>	<u>+ 5</u>
TOTAL	+ 15	+ 55

* +45 in subsequent years.

** up to +10 by 1991-92.

*** +10 in subsequent years.

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ANNEX A

IMPLEMENTATION DATES

Figures in left hand column are starter numbers

MeasureReason

Retrospective for all time

400 Tax deductible from tax credit payments to US companies (does not affect pre 25/10/88 Court decisions) to restore law to what was originally intended

10 October 1988

116 PRP: allowing alterations (as ESC until Royal Assent) take-up and existing schemes' distributions

3 February 1989

116 PRP: 5 per cent test abolition (as ESC until Royal Assent) take-up and existing schemes' distributions

Budget Day

1 Excise duty rates (unleaded and 2 and 3 star) to minimise forestalling

118 Trusts (applies to settlements made on or after Budget day. Independent taxation related measures have practical effect from 6/4/90) to minimise forestalling

151 Covenanted membership subscriptions to give relief as soon as possible

153 Pensions: main changes to occupational schemes to prevent forestalling

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204	BES (shares issued on or after Budget day)	to prevent forestalling
205	ACT (events <u>after</u> Budget day)	to minimise forestalling
252	CGT: gifts relief	to prevent forestalling
254	CGT: non-resident companies	to prevent forestalling
259	IHT threshold	to give benefit as soon as possible
262	CGT: sterling non-qualifying corporate bonds	to prevent forestalling
263	CGT/IHT: gifts to housing associations	to give relief as soon as possible
404	Umbrella funds	to prevent forestalling
453	COBO	to prevent forestalling

15 March 1989

34	VAT: revalorisation of threshold)to give traders maximum
35	VAT: simplification of registration requirements)benefit from change
601-632	VED	tradition

1 April 1989

30	ECJ: new construction news services protective boots and helmets	earliest reasonable date after ECJ Judgement and Budget day
31	VAT: minor property changes	to coincide with new construction changes

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32	VAT: charities	tradition
38	VAT: default surcharge (applies to all returns due on or after 31 March)	to coincide with end of earliest VAT accounting period after Budget day
113	ESOPs (provisional)	start of CT financial year
200+201	Corporation tax rate and thresholds	start of CT financial year
206	Close company legislation (applies to accounting periods beginning after 31/2/89)	start of CT financial year
213	Pre-trading expenditure relief (for businesses starting to trade on or after 1/4/89)	start of CT financial year
6 April 1989		
100	Income tax thresholds etc	start of personal tax year
104	Company car scales	start of personal tax year
107	Relocation costs	avoids lengthy implementation period
108	Schedule E: receipts basis	start of personal tax year
112	Employee share schemes. FA 1978 schemes	start of personal tax year

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152	PEPs	relief moved from calendar year to tax year basis
158	Charities: payroll giving	start of personal tax year
251	CGT: annual exemption	start of personal tax year
256	CGT: chattels exemption	start of personal tax year
1 June 1989		
34	VAT: change in <u>deregistration</u> threshold	to allow businesses time to decide whether or not to deregister
Royal Assent		
112	Employee share schemes: increase in discount	no need for earlier start
116	PRP: Limit etc (will apply to profit periods after 6/4/89)	no need for earlier introduction
153	Pensions: FSAVCs - new tax charge	new charge not to apply retrospectively
261	IHT: instruments of variation	to give people time to change their wills
452	Unauthorised disclosure of confidential information	not needed until Section 2 OSA repealed

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1 August 1989

30 VAT: ECJ - option to tax rents

to allow full
Parliamentary scrutiny
and give landlords time
to decide whether or not
to opt

1 September 1989

112 Employee share schemes: FA1980 schemes

to give time for SAYE
prospectus to be
changed

1 October 1989

37 VAT: bad debt relief (effective from
Royal Assent, but 1 October date for
first claims)

relief available on
"bad debts" 18 months
old, backdated to
start of review
(1/4/88)

December 1989

633 Sale of registration numbers (pilot)

time needed to appoint
agents

1 January 1990

156 Unit Trusts

to align with life
assurance

215 Life assurance

to align with most
insurance companies'
accounting periods
and give them time to
re-write policies

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650 ITV Levy

start of extended contracts

1 April 1990

301 Stamp duty on shares

TAURUS delays. Avoids cost in 1989-90

6 April 1990

154 Over 60s' private medical insurance

set-up time, personal tax year

1 July 1990

30 ECJ: fuel and power, sewerage and water

to give industries time to adjust accounting systems, identify status of customers etc.

Still to be decided

119 Mixed residence and non resident trusts

264 CGT: avoidance on sales of subsidiaries

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ANNEX B

POINTS STILL TO BE DECIDED

Figures in left hand column are starter numbers

Customs and Excise

1. Excise Duty rates By usual Customs conventions, formal decision not to increase rates still to be taken. Minor details on leaded/unleaded being pursued by Economic Secretary.
32. VAT: Charities Some minor technical details related to ECJ judgement being pursued by Economic Secretary. Also issues of whether ESC relieving d-i-y Village Hall etc constructions from VAT should be turned into statutory provision in this Finance Bill - submission being considered by Economic Secretary.
- 35, 37 and 38: VAT "Deregulation Package" Formal decision needed on whether all three starters can be afforded.
61. Seizure at Export of Cash Proceeds of Drug Trafficking

Home Office has raised late difficulties. Customs consulting Economic Secretary. (May have to be dropped? - cannot now be ready before Committee Stage.)

Motability Decision on 20 February to include. Details being worked up by Customs. (Now seems legislation will be needed. Instructions on way to Counsel.)

Inland Revenue

100. Income Tax. Final formal decisions still to be taken, under Inland Revenue's usual conventions.
103. Benefits in Kind Misc 2 FST held meeting 22 February. Conclusions being reported to Chancellor.

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104. Benefits in Kind: car and car fuel benefit Financial Secretary pursuing details. Revenue submission to him under consideration.
113. ESOPs Financial Secretary has held meeting on outstanding issues. Conclusions being reported to Chancellor.
153. Pensions Need to settle detail of legislation to ensure employers do not get CT deduction for generalised provisions (where no taxable benefit to identified employees): IR advising. Can we allow people to run their own personal pensions?
156. Unit Trusts Issue to be decided about interest relief. IR submission under consideration by FST.
215. Life Assurance A number of secondary but important issues to be decided. Revenue submission to Financial Secretary, instructions to Counsel both promised by end this week (24 February). ETS looking at behavioural effects in 1989-90.
301. Stamp duty : rate on shares Effect of possible pilot exercises on timing. Behavioural effects being pursued by ETS.
453. Deep discounted bonds Decision on 3 years or 5 years cut-off (including Lloyd's angles); and on details of rules. Revenue submission with Financial Secretary for consideration.
455. Electricity privatisation Still unsettled whether legislation needed in 1989 Finance Bill. Issues concern (i) shares for employees on privatisation; (ii) nuclear decommissioning. PE submitting for overview meeting.

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Joint Revenue/Customs Starter

632 & 452 Taxpayer confidentiality Decision needed on whether "purported" information in or out. Submission from IR to Financial Secretary this week.

OTHER STARTERS

Employee National Insurance Contributions

Under active consideration.

Sub-contractors scheme

Draft 32 paragraph "consultative document" for issue on Budget Day (plus press notice) just submitted to Financial Secretary. Decisions needed on content, size, timing and handling.

Sterling commercial paper and short-term corporate bonds

Not a tax matter (therefore not a "starter") but a Budget Measure. FIM planning to submit by close Friday 24 February.

ITV levy

Letter awaited from Home Secretary - promised for Friday 24 February.

Sale of registration numbers

SoS for Transport has raised last - minute uncertainties about whether for inclusion this year. FP have submitted to Chancellor.

Committee stage starters

Apart from Electricity Privatisation and seizure of probable proceeds of drug trafficking (see above) list is:

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119: Mixed residence and non-resident trusts

264: Capital gains avoidance on sale of subsidiaries.

Both may need further consideration/decisions.

Also for Committee Stage would be!

Netherlands/Antilles Double Taxation Agreement

Technical "loophole" legislation may be desirable. Submission under consideration by Financial Secretary.

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SCORECARD OF 23 FEBRUARY 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

	£ million		yield (+)/cost (-)	
	1989-90	1990-91	1990-91	
	Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base	
1.	Reform employee NICs <i>self-employed NICs</i>	- 985 - 35	- 985 - 35	-2785 -150
2.	Freeze excise duties	nil	-1225	-1320
3.	Reduce duty on unleaded petrol; increase on 2 star	- 30	- 30	- 75
4.	VED: coaches and lorries	+ 40	+ 40	+ 40
5.	VAT: non-domestic construction etc	+ 315	+ 315	+ 540
6.	Index IT thresholds	-1465	nil	nil
7.	Increase car scales by 20 per cent <i>33</i>	+ 90 +155	+ 90 +155	+ 110 +185
8.	CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>				
9.	Abolish stamp duty on shares from 1/4/90	+ 10	+ 10	- 900
10.	Life assurance	- 20	- 20	+ 45
11.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 10
<u>Other</u>				
12.	Schedule E: receipts basis	- 60	- 60	- 80
13.	VAT: bad debts, registration, etc	- 105	- 105	- 270
14.	Miscellaneous starters	- 70	- 35	+ 25
15.	TOTAL	-2285 -2195	-2010 -1920	-4715 -4710

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EXCISE DUTIES

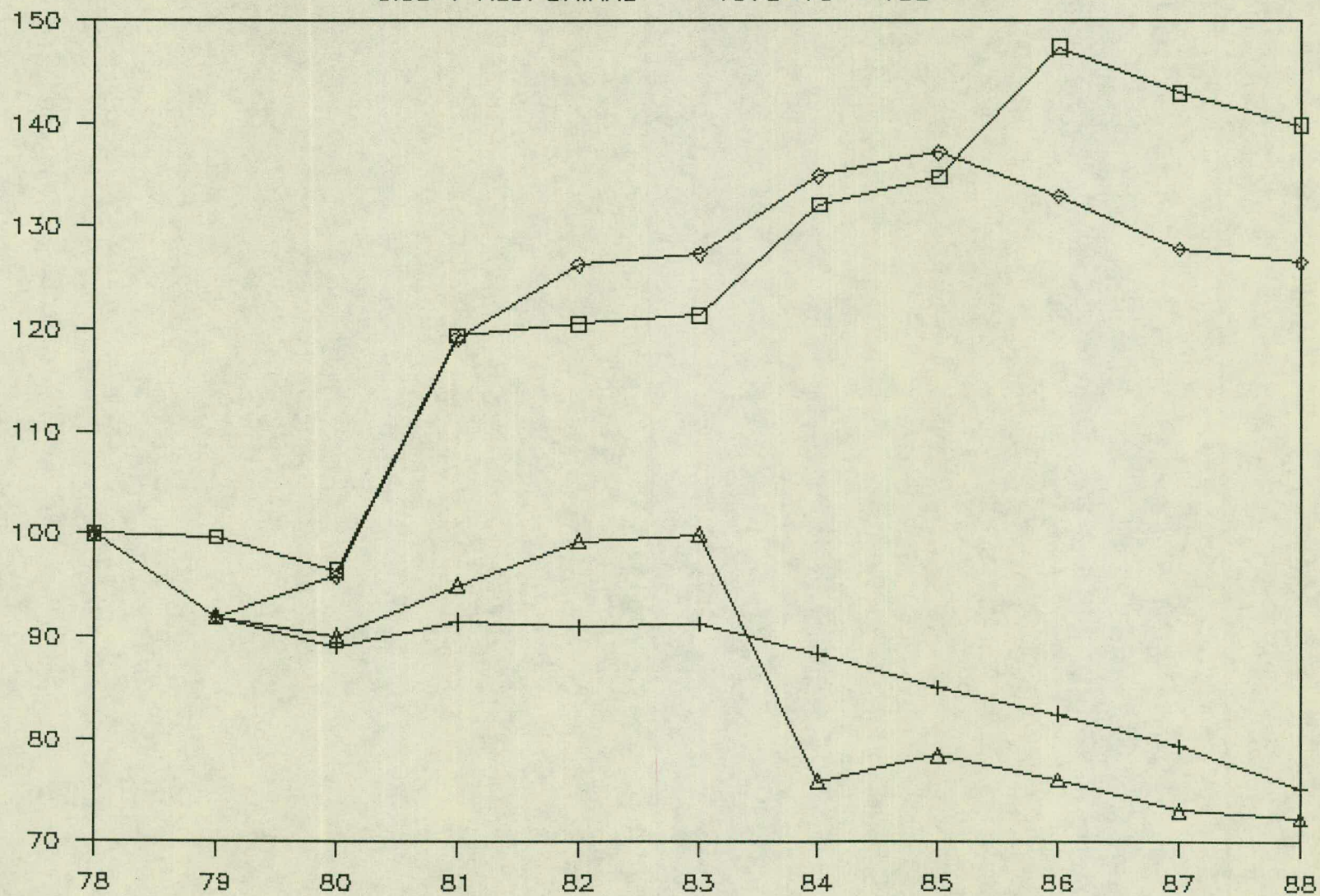
Revenue effects of indirect tax changes: ready reckoner
6.7% revalorisation

	price change (incl VAT) (pence)	£m yield 1989-90	RPI impact effect (%)	RPI impact effect per £100m of revenue
Beer (pint)	1.5	135	0.07	0.048
Cider (pint)	0.8	5	neg	0.049
Spirits (75cl)	36.4	65	0.04	0.066
Wine - light(75cl)	5.9	35	0.03	0.086
- other	-	10	0.01	0.064
Total alcohol		250	0.15	0.060
Cigarettes	6.4	220	0.13	0.060
Pipe tobacco	4.8	5	neg	
Cigars	3.6	5	0.01	0.090
Total tobacco		230	0.14	0.061
Petrol (gallon)	7.2	425	0.12	0.029
Derv (gallon)	6.1	95	0.01	0.006
Fuel oil(gallon)	0.2	5	neg	
Gas oil (gallon)	0.2	5	neg	
Total oils		530	0.13	0.024
VED - cars	670.0 [?]	155	0.05	0.031
- other		35	neg	
Total VED		190	0.05	
TOTAL		1200	0.47	0.039

295' 0.07
250 0.06

REAL LEVELS OF
EXCISE DUTY + VAT ON DUTY

CIGS + ALC. DRINKS 1978-79 = 100



□ CIGS

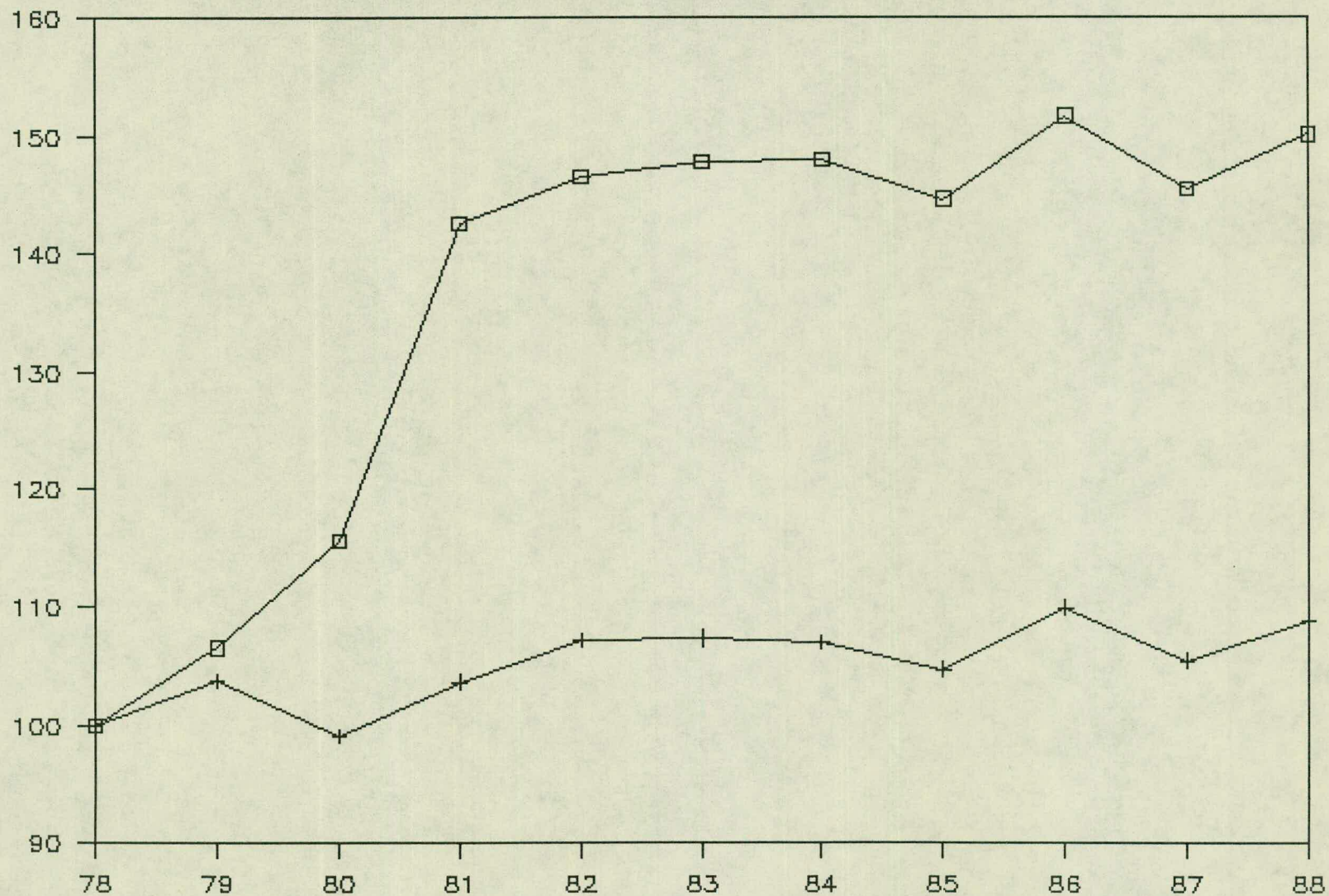
+ SPIRITS

◇ BEER

△ LIGHT WINE

REAL LEVELS OF
EXCISE DUTY + VAT ON DUTY

ROAD FUEL 1978-79 = 100



using RPI deflator
□ PETROL + DERV

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COPY NO. 2 OF 50 .

RECORD OF THE SIXTH BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 27 FEBRUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Hardcastle
Mr Byatt
Mr Monck (Items 4-5 only)
Mr Scholar
Mr Culpin
Mr Riley
Mr Gieve (Items 1-7 only)
Mr Gilhooly (Items 1-7 only)*
Mr McIntyre (Item 5 only)
Mr Neilson (item 4 only)
Mr Pickford (Items 5-7 only)
Mr M Williams (Item 8 only)
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Isaac - IR
Mr Painter - IR
Mr McGivern - IR
(items 2&8 only)
Mr Elliott - IR (item 2 only)
Mr Corlett - IR (item 4 only)
Miss M Hill - IR (item 4 only)
Mr P Lewis - IR (item 5 only)
Mr Mace - IR (item 5 only)
Mr Johns - IR (item 8 only)
Mr Prescott - IR (item 8 only)
Mr J Reed - IR (item 8 only)

Mr Unwin - C&E
Mr Jefferson Smith - C&E
Mr Wilmott - C&E
(items 1&3 only)

(*receives full minutes)

Papers:

(i) Budget Scorecard:

Mr Culpin's note of 23 February;
Mr Culpin's note of 24 February on "Revised Budget Package"

(ii) CGT set-off against trading losses (Starter 216):

PS/Chancellor's note of 23 February to PS/Financial Secretary; Financial Secretary's note of 22 February; Mr Elliott's (IR) note of 20 February to Financial Secretary

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(iii) Unleaded Petrol:

Mr Wilmott's (C&E) note of 23 February

(iv) Stamp Duty:

Ms Hill's (IR) note of 22 February to Financial Secretary ("Stamp Duty: Paperless Transactions"); Mr Monck's note of 24 February

(v) NICs:

Various papers (including Mr Lewis's note of 27 February on car scales, circulated at the meeting)

(vi) Presentation:

Mr Culpin's minute of 16 February

Mr Culpin's note of 24 February on "Revised Budget Package"

(vii) Press Notices:

Mr Flanagan's note of 23 February; Mr Denton's (IR) note of 23 February and enclosures; Mr P R H Allen's (C&E) note of 23 February and enclosures.

(viii) Tax relief for abandonment and nuclear provisions:

Mr Scholar's note of 23 February.

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Scorecard

In discussion the following points were made:

- (i) there was a strong case on presentational grounds for getting the first year cost of the package, on an indexed basis, below £2 billion if possible. One option was to drop the change to a receipts basis for Schedule E. It was noted that, without this change, it might be necessary to introduce an additional anti-avoidance provision to counter a recent Court judgement; and if we did not make the change this year, it might be some years before it was possible to bring it forward again, because of work on independent taxation etc. However, on balance, it was agreed to drop this measure;
- (ii) it was agreed that the CGT chattels exemption limit should be raised from £3,000 to £6,000, rather than to £5,000. This should have a negligible cost;
- (iii) there were still some doubts about the yield from the new ITV levy. We were waiting for a reply from the Home Secretary;
- (iv) all the main instructions were now with Counsel (except for those relating to Committee Stage amendments). There were still some decisions to be taken on life assurance, but these, although complex, were second order;
- (v) there was some concern about the amount to be introduced at Committee; this already totalled some 20 pages. The lengthiest provisions were those on CGT avoidance, but these should not be contentious. It would be desirable to get the (short) provisions on the Netherlands Antilles into the Bill as published. It would not be sensible to include the anti-avoidance provision on trusts in the

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Bill as published, since we were waiting for the House of Lords' judgement. It was possible that the Department of Energy might not be in a position to propose legislation on electricity privatisation in time for this year's Finance Bill;

- (vi) the decisions on excise duties other than petrol were confirmed. It was agreed to go ahead with the VAT deregulation package;
- (vii) on life assurance, it would be helpful to see the costs/yields from the individual measures. The best presentation would probably be to put ring-fencing pensions business first, and present the other measures as producing no net yield. It would be necessary to check whether, over a run of years, it was true to say that the whole of the net yield came from ring-fencing pension business.

CGT set-off against trading losses (Starter 216)

2. The Chancellor noted that this starter had arisen from a Budget representation by the Secretary of State for Trade and Industry. It was intended to provide a "lollipop" to the self-employed. There were, however, other areas of possible assistance to the self-employed (eg NICs) which might be more attractive. On balance, he was inclined to drop the starter for this year. It would be reinstated as a starter for next year's Budget. This was agreed.

Unleaded petrol

3. The Chancellor noted that the proposed differentials were lower than those in Germany. The price differential in the UK would, however, be the third largest in Europe.

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4. In discussion, the following points were made:

- (i) it could be argued that loading tax on 2 star was unnecessary, given the secular decrease in consumption of 2 star. On the other hand, encouraging the phasing out of 2 star would release storage capacity;
- (ii) although the trend in consumption was already moving towards unleaded petrol, there was a clear expectation that further action would be taken in the Budget;
- (iii) the calculations in the paper assumed that the duty change would all be passed on to pump prices. It would be important to ensure as far as possible that duty changes were passed on, and that public statements about the effect on pump prices could be substantiated.

5. The Chancellor said that the package in the paper should be implemented. However, the differential between unleaded petrol and 4 star leaded should be increased by 0.8 pence duty plus VAT, to ensure that the resulting pump price differential could be safely described as about 2 pence a litre. He invited the Economic Secretary to consider how best to present this package. The general presumption that unleaded petrol gave rise to a less effective performance should be countered; some evidence might be gathered from the oil companies, and they might be invited to make some statements here themselves.

Stamp duty

6. The Financial Secretary said that three problems had been identified:

- (i) deals involving two non-resident parties might not be covered by the SDRT charge (the "black hole" problem);

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- (ii) double or multiple charges to SDRT;
- (iii) situations where a charge was legally due, but impossible to collect.

The papers suggested that enabling powers, on which Regulations could be based, might be sufficient to deal with the majority of these problems during the interim period. It might, however, be necessary to introduce an ESC to deal with problems arising from the Water sale.

7. In discussion, the following points were made:

- (i) the problems with the "black hole" arose from the dematerialisation of the transactions, rather than from the abolition of stamp duty;
- (ii) the potential problems created by the Water sale could be overcome by the co-operation of the Stock Exchange. For example, calculation of the tax due in the first six weeks could be done via TALISMAN, and the tax liability on further paperless transactions might be done through intermediaries; there were, however, limits to which the Stock Exchange could reasonably be expected to set up arrangements for the payment of tax when this was not now done;
- (iii) the implications of stamp duty abolition for documents which must at present legally be stamped was a matter for the DTI; separate legislation on this might be needed;
- (iv) it was possible that the Abbey National conversion in July could produce problems similar to those for Water. In these circumstances there was little to be gained from bringing the start date for abolition of stamp duty forward to 1 January 1989: that could still leave

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transitional problems and would add to the first year cost of the Budget package.

8. The Chancellor, summing up, said that the regulation-making powers for the interim period should be included in the Finance Bill. 1 April 1990 was confirmed as the start date. He asked the Inland Revenue for a note, in consultation with the Financial Secretary and the Economic Secretary, on how the measures could best be presented.

NICs

9. The Chancellor said what was proposed was a worthwhile, though expensive, reform of employee NICs at the lower end. Of the various options, he thought the simplest to present would be to charge NICs at 2 per cent on earnings up to the LEL and 9 per cent thereafter. He preferred this presentation to the alternative of describing the entry fee as 2 per cent of the LEL, since people were used to paying NICs on all their earnings. There were two subsidiary issues to be settled: should the UEL be raised (and if not, should car scales be increased further); and should NICs for the self-employed be cut.

10. In discussion of the UEL, the following points were made:

- (i) raising the UEL would mean that the £3 per week benefit from the NICs package was cut off at a sensitive part of the earnings distribution;
- (ii) looked at simply in revenue and expenditure terms, raising the UEL looked a good buy: the discounted additional revenue was probably twice the discounted costs from extra SERPS entitlements;
- (iii) raising the UEL would increase the marginal tax + NIC rate for 700,000 people by 9 per cent.

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11. On the potential for an offsetting increase in car scales if the UEL was not raised, the following points were made:

- (i) there was an awkwardness of timing, because the NIC benefit would be received only from 1 October whereas increases in car scales would bite before then. The Revenue were investigating whether it was possible to time the recoding of car scales to coincide with the NIC reductions, but that looked very complicated;
- (ii) the options for the increase in car scales ranged from 30 per cent to 40 per cent. On the one hand, the losers from a 40 per cent increase coupled with the NIC package were concentrated on 'perk' cars and on those with larger incomes, and most of the losses were quite small; and since there was a widespread expectation that car scales would be raised very substantially, a 40 per cent increase would not be received with great surprise. On the other hand, a 40 per cent increase would raise real problems with those whose business mileage was high and whose personal use was small.

Summing up, the Chancellor said it was agreed that the UEL should not be increased, and car scales should be increased by a third. The recoding of the new car scales should follow the normal timetable.

12. There was considerable discussion about whether, and if so how large, a cut should be made in NICs for the self-employed. An increase in Class IV rates had already been ruled out, so the issue was whether Class II rates should be cut. The present formula set Class II rates at the sum of employer and employee NICs at the LEL (less 5p to allow for the fact that the self-employed did not qualify for unemployment benefit). On that basis, Class II rates would be cut from £4.25 to £2.95. There was

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also a strong case for cutting Class III contributions in line with the cut in employee NICs. In discussion the following points were made:

- (i) this would in one sense be generous to the self-employed, since they paid NICs at the Class II rate all the way up to an income of £5,000 a year;
- (ii) on the other hand, it would be very difficult to justify not following the formula and making the cuts for the self-employed; and it would be widely perceived as unfair if Class III rates were cut but not Class II;
- (iii) it would be possible to forget the '5p' in the formula, but on balance it was agreed there was little to be gained in pursuing that;
- (iv) the review of NICs for the self-employed was unlikely to be relevant to this decision: that was looking at the longer-term prospects for merging Class II and Class IV NICs;
- (v) it would be very difficult to justify a position where less NICs were paid in respect of an employee on the LEL than a self-employed person would pay on the same earnings;
- (vi) on balance, it was not attractive to make a further change to the tax relief applicable to self-employed NICs.

Summing up, the Chancellor said it was agreed that Class II NICs should be cut to £2.95; and that an appropriate cut should be made in Class III NICs.

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Presentation

13. The Chancellor said that a separate meeting on presentation would be arranged.

Press notices

14. The Chancellor thanked the Revenue and Customs both for producing drafts of the press notices to the tight deadline that had been set, and also for the generally high quality of the drafts. He asked Ministers to check through the drafts carefully on the subjects for which they had been allocated responsibility for presentation, and pass any comments back to Customs and the Revenue. General points on presentation could be covered at the separate meeting being arranged. It was possible that specific meetings might be needed on the presentation of the proposals on pensions and on life assurance.

Tax relief for abandonment and nuclear provisions

15. Mr Scholar said that the arguments in the paper proceeded from the assumption that electricity provisioning would be confined to reprocessing. On that basis Ministers could consider whether they were attracted by the oil industry's proposal on alienated funds, or its proposals on CT.

16. In discussion, the following points were made:

- (i) the read-across from the alienated funds proposal for oil to electricity was limited. There were no real equivalents to alienated funds in the electricity industry. Moreover, the different tax regime for oil (including PRT) could be used to justify special treatment;

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- (ii) on the other hand, the nuclear electricity industry would argue that it was a fortiori special;
- (iii) the present position for nuclear generation of electricity was as follows. There were three categories of expenditure: decommissioning of plant; reprocessing/removal of the nuclear core in old plant; current reprocessing of waste. Subject to final examination, the position under present legislation was: decommissioning of plant was clearly capital expenditure and provisioning would not attract tax relief; provisioning for current reprocessing would be allowable under existing law; provisioning for reprocessing fuel from old plant would possibly be allowable. It would not, however, be possible to reopen decisions concerning years for which the tax decisions were settled;
- (iv) it seemed likely that the extent of allowable expenditure under existing law would be sufficient to satisfy the Secretary of State for Energy;
- (v) as far as the oil industry was concerned, alienated funds would be particularly attractive to the oil companies if tax rates on North Sea oil extraction were reduced. The more genuinely alienated were the funds, the less attractive they would be to the companies;
- (vi) the alternative package set out in paragraph 10(i) of Mr Scholar's note should be acceptable to a sufficient number of companies in the industry.

17. After further discussion, the Chancellor summed up that tax relief on alienated abandonment funds should not be pursued further at this stage. Instead, the alternative package at paragraph 10(i) of Mr Scholar's note should be further explored, with a view to containing its repercussions within acceptable

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limits. Further work should be undertaken in-house; subject to points arising from that, discussions should be opened up with the oil industry. Tax relief for alienated funds should be reconsidered only if it did not prove practicable to arrive at a satisfactory package on the basis proposed.

ACSA

A C S ALLAN

28 February 1989

Distribution

Those present
Mr Wicks
Mr Sedgwick
Mr S Matthews
Miss J Simpson
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

(note: all members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

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SCORECARD OF 1 MARCH 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

	<u>£ million</u>	<u>yield (+)/cost (-)</u>	
	<u>1989-90</u>	<u>1990-91</u>	
	<u>Changes from a non-indexed base</u>	<u>Changes from an indexed base</u>	<u>Changes from an indexed base</u>
1. Reform NICs	-1020 ⁻¹⁰⁰⁰	-1020 ⁻¹⁰⁰⁰	-2935 ⁻²⁸⁹⁵
2. Freeze excise duties	nil	-1225	-1320
3. Reduce duty on unleaded petrol; increase on 2 star	- 40	- 40	- 100
4. VED: coaches and lorries	+ 40	+ 40	+ 40
5. VAT: non-domestic construction etc	+ 315	+ 315	+ 540
6. Index IT thresholds	-1465	nil	nil
7. Increase car scales by a third	+ 160	+ 160	+ 200
8. CT: raise small companies thresholds	- neg	- neg	- 35
<u>Savings</u>			
9. Abolish stamp duty on shares from 1/4/90	+ 10	+ 10	-1000
10. Life assurance	- 20	- 20	+ 45
11. Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 10
<u>Other</u>			
12. VAT: bad debts, registration, etc	- 105	- 105	- 270
13. Miscellaneous starters	- 70	- 35	+ 50
14. TOTAL	-2200	-1925	-4795 (4900)
	⁻²⁰⁸⁵		
NIC & SD change standard defn VAT pack yr (12)		-1915	-3755
		+ 105	+ 270
		<u>-1810</u>	<u>-3485</u>

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NOT TO BE COPIED**INDEXES TO TABLE 1**

Estimated cost (-) or yield (+) in £ million from indexed base unless otherwise indicated.

1. Reform NICs

	1989-90	1990-91
Class 1: 2 per cent of earnings below LEL, 9 per cent above, up to UEL	- 985	-2785
Class 2: up to UEL reduce from £4.25 to £2.95 a week	- 35	- 145
Class 3: reduce from £4.15 to £2.85 a week	- neg	- 5

2. Excise duties

Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 250
Alcohol	- 255	- 280
Total	-1225	-1320

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

3. Unleaded petrol

	1989-90	1990-91
Reduce tax by 0.8p a litre to make unleaded at least 2p a litre cheaper than 4 star, if reduction passed on to consumers	- 35	- 90

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Increase duty on 2 star (and 3 star)
 by 0.9p a litre to make it as expensive
 as 4 star - 5 - 10

Cost depends on take-up. No significant RPI effect.

4. VED: coaches and lorries

+20 for buses and coaches, +20 for rigid heavy goods vehicles. Number of main VED rates reduced from 214 to about 140. No direct RPI effect.

5. VAT: non-domestic construction etc

	1989-90			1990-91		
	Private sector	Public sector	Total	Private sector	Public sector	Total
Construction						
- new (1)	15	250	265	20	325	345
- option to tax (2)	20	10	30	40	35	75
Fuel and power (3)	nil	nil	nil	15	80	95
Sewerage/water (3)	nil	nil	nil	neg	neg	neg
News services (1)	5	neg	5	5	neg	5
Protective boots and helmets (1)	neg	neg	neg	neg	neg	neg
Minor property changes (1)	15	neg	15	20	neg	20
TOTAL	55	260	315	100	440	540

Assuming implementation dates of (1) 1 April 1989
 (2) 1 August 1989
 (3) 1 July 1990

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No impact effect on RPI, because no direct effect on prices to final consumers.

6. Index income tax thresholds

Indexation 6.8 per cent.

7. Increase car scales by a third

No change in structure of car scales. Includes behavioural effects of +10, +15 as employees switch to money wages.

8. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

Reduces CT for about 23,000 companies.

9. Abolish stamp duty on shares from 1/4/90

Cost revised in light of new forecast and new assumptions about Stock Exchange turn-over and share prices. Net of extra (+100 in 1990-91) yield from CGT, CT, VAT and Income Tax, as a result of increase in transactions and equity prices. Figures under scrutiny and subject to revision.

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NOT TO BE COPIED**10. Life assurance**

From 1/1/90:

	1989-90	1990-91
Expenses from pensions business only deductible from pensions profit	+ neg *	+ 155
Relief for acquisition expenses spread over 7 years but change phased in 4 steps	+ neg *	+ 100
Rate on policyholders' income and gains cut to 25 per cent	- neg *	- 180
Life Assurance Policy Duty abolished	- 10	- 80

* Under consideration. May be nil.

11. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	indexed base
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	- neg	- neg	- neg
Unit Trusts	nil	nil	- neg
Total	- 5	- 5	- 10

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Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000 to £4,800, and on investment in unit and investment trusts from £750 to £2,400. Full year cost in long term of -30.

Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

ESOPS

- corporation tax relief on company contributions to employee benefit trusts. Could build up to -20.

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NOT TO BE COPIEDUnit Trusts

- reduce CT rate on unfranked income from 35 to 25 per cent from January 1990.

12. VAT bad debts, registration etc

	1989-90	1990-91
Bad debt relief	- 50	-150
Simplification of registration rules	- 35	-100
Revision of default surcharge	- 20	- 20

13. Miscellaneous Starters

See Table 2.

14. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment []

Table does not include pensioners' earnings rule.

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→ Paul Gray



Paul

Alex

Paul,

Many thanks. We
spoke - paper plus
educat BLO folder
now stored.

This is my copy, Rec 6
15/3
sent to you on personal
basis. Please return
when you've finished
with it. (And don't
ring me up with questions
about payment to fund
Netherlands Antilles evotand
interest or similar!)

AA
←

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page

FROM: ROBERT CULPIN
DATE: 3 March 1989

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr Anson
- Dame Anne Mueller
- Mr Wicks
- Mr Hardcastle
- Mr Byatt
- Mr Scholar
- Mr Riley
- Mr Sedgwick
- Mr A C S Allan
- Mr Macpherson
- Miss Simpson
- Miss Wallace
- Mrs Chaplin
- Mr Tyrie
- Mr Call

- Sir Anthony Battishill)
- Mr Beighton)
- Mr Isaac)IR
- Mr Painter)
- Mr Unwin)
- Mr Jefferson Smith)C&E

Thanks. Still some possibilities of new & unincorporated set-off.

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BUDGET SCORECARD

I attach the Budget Scorecard. There are still a few loose ends, but the totals from an indexed base have settled down at under £2 billion in 1989-90 and around £3½ billion in 1990-91.

Rc

ROBERT CULPIN

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Additional copies for Scorecard work:

Mr Gilhooly)
Mr Flanagan) FP
Mr O'Donnell)

Mr Matthews) ETS

Mr Pickford) EB

Mr Gieve) IDT

Mr Davies)
Dr Courtney) MP

Mr Mowl) PSE

Mr Bush)
Mr Calder)
Mr McManus) IR
Mr McNicol)
Mr Ko)

Mr P R H Allen)
Ms French) C&E

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SCORECARD OF 3 MARCH 1989

TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES

		£ million	yield (+)/cost (-)	
		1989-90	1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
1.	<i>Employers'</i> Reform NICs	- 980	- 980	-2805
2.	Freeze excise duties	nil	-1225	-1320
3.	Reduce duty on unleaded petrol; increase on 2 star	- 40	- 40	- 100
4.	VED: coaches and lorries	+ 40	+ 40	+ 40
5.	VAT: non-domestic construction etc	+ 315	+ 315	+ 540
6.	Index IT thresholds	-1465	nil	nil
7.	Increase car scales by a third	+ 160	+ 160	+ 200
8.	CT: raise small companies thresholds	- neg	- neg	- 35
<i>Savings</i>				
9.	Life assurance	- 20	- 20	+ 45
10.	Pensions, PEPs, Share Schemes, Unit Trusts	- 5	- 5	- 10
<i>Other</i>				
11.	Schedule E: receipts basis	- 80	- 80	- 60
12.	Miscellaneous starters	- 70	- 35	+ 35
13.	TOTAL	-2145	-1870	-3470

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NOTES TO TABLE 1

Estimated cost (-) or yield (+) in £ million from indexed base unless otherwise indicated.

1. Reform NICs

Employers'

1989-90 1990-91

Class 1: 2 per cent of earnings up to LEL, 9 per cent above, up to UEL	- 980	-2800
Class 3: reduce from £4.15 to £2.85 a week	- neg	- 5

2. Excise duties

Petrol, derv etc	- 545	- 580
VED	- 190	- 210
Tobacco	- 235	- 250
Alcohol	- 255	- 280
Total	-1225	-1320

Freeze reduces RPI by 0.48 percentage points compared with base forecast.

3. Unleaded petrol

1989-90 1990-91

Reduce tax by 0.8p a litre to make unleaded at least 2p a litre cheaper than 4 star, if reduction passed on to consumers	- 35	- 90
Increase duty on 2 star (and 3 star) by 0.9p a litre to make it as expensive as 4 star	- 5	- 10

Cost depends on take-up. No significant RPI effect.

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4. VED: coaches and lorries

+20 for buses and coaches, +20 for rigid heavy goods vehicles. Number of main VED rates reduced from 214 to about 140. No direct RPI effect.

5. VAT: non-domestic construction etc

		1989-90			1990-91		
		Private sector	Public sector	Total	Private sector	Public sector	Total
Construction							
- new	(1)	15	250	265	20	325	345
- option to tax	(2)	20	10	30	40	35	75
Fuel and power	(3)	nil	nil	nil	15	80	95
Sewerage/water	(3)	nil	nil	nil	neg	neg	neg
News services	(1)	5	neg	5	5	neg	5
Protective boots and helmets	(1)	neg	neg	neg	neg	neg	neg
Minor property changes	(1)	15	neg	15	20	neg	20
TOTAL		55	260	315	100	440	540

Assuming implementation dates of

(1)	1 April 1989
(2)	1 August 1989
(3)	1 July 1990

No impact effect on RPI, because no direct effect on prices to final consumers.

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6. Index income tax thresholds

Indexation 6.8 per cent.

7. Increase car scales by a third

No change in structure of car scales. Includes behavioural effects of +10, +15 as employees switch to money wages.

8. Corporation tax: raise small companies thresholds

50 per cent increase in profits limits for small companies' CT rate of 25 per cent.

- Rate available on profits up to £150,000 (instead of £100,000).
- Benefit not fully withdrawn until profits £750,000 (instead of £500,000).

Reduces CT for about 23,000 companies.

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9. Life assurance

From 1/1/90:

	1989-90	1990-91
Expenses from pensions business only deductible from pensions profit	+ neg *	+ 155
Relief for acquisition expenses spread over 7 years but change phased in 4 steps	+ neg *	+ 100
Rate on policyholders' income and gains cut to 25 per cent	- neg *	- 130
Life Assurance Policy Duty abolished	- 20	- 80

* Under consideration. May be nil.

10. Pensions, PEPs, Share Schemes, Unit Trusts

	1989-90		1990-91
	non-indexed base	indexed base	
Pensions	neg	neg	neg
PEPs	- 5	- 5	- 10
Employee Share Schemes	- neg	- neg	- neg
ESOPs	- neg	- neg	- neg
Unit Trusts	nil	nil	- neg
Total	- 5	- 5	- 10

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Pensions

- cash limit of £60,000 on earnings on which tax-privileged pensions can be paid: so maximum privileged pension of £40,000, maximum tax free lump sum of £90,000; any excess taxed;
- limits apply only to new pension scheme members; indexed to prices;
- increase in percentage of earnings payable to personal pensions attracting tax relief, subject to cash limit.

PEPs

- increase in limit on total annual investment from £3,000 to £4,800, and on investment in unit and investment trusts from £750 to £2,400. Full year cost in long term of -30.

Employee share schemes

- increase FA 1978 all-employee share scheme limit from £1,250 or 10 per cent of salary to £2,000 or 10 per cent
- increase FA 1980 all-employee SAYE share scheme limit from £100 to £150 per month
- increase statutory limit on share price discount for FA 1980 schemes.
- annual cost expected to build up to between 5 and 10.

ESOPS

- corporation tax relief on company contributions to employee benefit trusts. Could build up to -20.

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Unit Trusts

reduce CT rate on unfranked income from 35 to 25 per cent from January 1990.

11. Schedule E: receipts basis

Cost is transitional. Yields +10 in 1991-92 and +50 in 1992-93

12. Miscellaneous Starters

See Table 2.

13. Total direct effects

Not same as effects on PSDR.

MP estimate total call of Budget measures on fiscal adjustment -1720 in 1989-90 and -2840 in 1990-91.

Table does not include pensioners' earnings rule.

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TABLE 2: MISCELLANEOUS STARTERS (I.E. LINE 12 OF TABLE 1)

Table contains only those starters which cost or yield £5 million a year or more

FB Starter number	Proposal	£ million		yield (+)/cost (-)
		1989-90	1990-91	
		Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
32	VAT: charities	- 5	- 5	- 5
40	VAT: r + d cars	- neg	- neg	- 5
43	Motability: car tax relief	- 10	- 10	- 10
107	Relocation costs	+ 5	+ 5	+ 30
Part of 100	Age allowances:			
	- over 75s	- 10	- 10	- 15
	- reduce marginal withdrawal rate	- 5	- 5	- 5
115	Employees' material interest	- neg	- neg	- 5
116	PRP	- 10	- 10	- 15
151	Covenanted membership subscriptions	- 5	- 5	- 10
154	Over 60s private medical insurance	nil	nil	- 40
204	BES: withdraw relief on loans to buy shares	+ neg	+ neg	+ 5
206	Close company legislation	- neg	- neg	- neg
251	CGT: freeze exemption limit	nil	nil	+ 10
252	CGT: abolish tax deferral on gifts	+ neg	+ neg	+ 25
259	IHT: index threshold	- 35	nil	nil
261	IHT: instruments of variation	+ 5	+ 5	+ 15
453	Deep discounted bonds (COBO)	nil	nil	+ 15
650	ITV levy	nil	nil	+ 45
TOTAL		- 70	- 35	+ 35

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NOTES TO TABLE 2

1. All items in Table 2 now decided.
2. Details in starter reference sheets, under Finance Bill Starter number in first column.
3. Table omits following starters which protect existing revenue:

119 **Mixed residence and non-resident trusts**

254 **CGT: non-resident companies trading in the UK**

264 **CGT: avoidance on sale of subsidiaries**

400 **Tax deductible from tax credit payments to US companies**

These have a cost if not implemented.

4. Starter 40, **VAT: r + d cars:** now starts from 1 August 1989, hence lower cost in 1989-90.
5. Starter 43, **motability:** now starts from 1 April 1989, hence higher cost in 1989-90.
6. Starter 116, **PRP:** includes effects of changes announced 3 February.
7. Starter 154, **private medical insurance:** announced 31 January.
8. Starter 650, **ITV levy:** now assumes profits element of levy at 20 per cent, not 22.5 per cent, hence lower yield in 1990-91.
9. The following starters still in play are expected to have nil or negligible cost or yield in 1989-90 and 1990-91:

2 Excise: power to estimate revenue duties payable
3 Excise: restriction of duty-paid blending of made-wine
4 Excise: measurement and declaration of original gravity of beer

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- 5 Excise: misdescription of substances as beer
6 Excise: oil duties relief
34 Raise VAT threshold from £22,100 to £23,600
36 Right to repayment of VAT/excise duties and consequential changes
39 Duty and tax relief for diplomats and visiting forces
60 Prosecution time limits
61 Seizure at export of probable cash proceeds of drug trafficking
62 London Port banking: amendment to CEMA Section 17
63 Unauthorised disclosure of confidential information (C & E)
103 Secure accommodation
114 Taxation of employee priority in company flotations
118 Trusts
158 Charities: payroll giving limit
205 ACT: change in ownership
207 Capital allowances at sports grounds
209 Capital allowances: pre-consolidation amendments
212 Reopening of claims etc
213 Extension of pre-trading expenditure relief
218 Lloyd's stock lending
255 CGT: technical changes associated with rebasing
256 CGT: chattels exemption
262 CGT: sterling non-qualifying corporate bonds
263 Gifts to housing associations
404 Tax charge on switching investments in offshore funds (Umbrella funds)
405 Payments to fund Netherlands Antilles euro-bond interest
450 Keith committee: administrative improvements
451 Sub-contractor tax scheme
452 Unauthorised disclosure of confidential information (IR)
455 Electricity privatisation: miscellaneous taxation provisions
601 VED: trade licensing
602 VED: special types
605 VED: recovery vehicles
606 VED: dishonoured cheques
631 VED: update reference to "registration book"
632 VED: grass cutting vehicles
651 Government stock: small estates

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- 652 Gilts redemption monies: new procedures
- 654 Redemption 3% 1986-1996: wind-up of Annuities Account and Sinking Fund
- 655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
- 656 National Savings: abolition of minimum interest rate provision
- 657 National Savings: restriction of investment and ordinary accounts to personal holders

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TABLE 3: STAFFING EFFECTS

		Effect in man-year terms in	
		<u>1989-90</u>	<u>1990-91</u>
1.	Reform employee NICs	not known	not known
2.	Freeze excise duties	nil	nil
3.	Reduce duty on unleaded petrol	nil	nil
4.	VED: coaches and lorries	nil	nil
5.	VAT: non-domestic construction etc	+ 45	+ 130
6.	Index IT thresholds	- neg	+ 40
7.	Increase car scales by 20 per cent	nil	+ 10
8.	CT: raise small companies thresholds	nil	nil
<u>Savings</u>			
9.	Life assurance	+ neg	+ neg
10.	Pensions, PEPs, Share Schemes, Unit trusts	+ neg	+ neg
<u>Other</u>			
11.	Schedule E: receipts basis	+ 10	+ 40
12.	Other starters	+ 15	+ 50
<hr/>			
13.	TOTAL	+ 70	+ 270
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NOTES TO TABLE 3

Line 1: staffing effect on DSS (if any) not yet known.

On line 5, Customs have provision in the PES baseline for extending VAT to non-domestic construction etc.

Line 11 would save 100 staff in 1991-92 and 175 in 1992-93

Line 12 breaks down as follows:

	<u>1989-90</u>	<u>1990-91</u>
Over 60s medical insurance (includes setting-up costs in 1989-90)*	+ 10	+ 25
Index IHT threshold	+ 5	+ 10
CGT: freeze exemption limit	nil	+ 10
No change in threshold for stamp duty on housing**	<u>nil</u>	<u>+ 5</u>
TOTAL	+ 15	+ 50

* +45 in subsequent years.

** +10 in subsequent years.

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