O-CH/NL/0499 PT A

PO CH/NL/0499
PART. A

PO CH/NL/0499
PART. A

1989 BUDGET
FINANCIAL SECTOR
BORROWING REQUIREMENTS.

23.2.89

CLOSED

cm/fsbr/004

FROM: COLIN MOWL
DATE: 3 August 1988

1. **MR SCHOLAR** Approved in draft

2. **CHANCELLOR**

NBR @ Cm

Ch.

Changes seem sensible. Agree?

3/8

cc Financial Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Sir A Wilson
Mr Odling-Smee
Mr Sedgwick
Mr Culpin
Mrs Lomax
Mr Watts
Mr Pickford
Mr Gieve
Mrs Todd
Mr Vernon
Miss Simpson

FSBR

The FSBR is a much clearer and more readable document than it was a few years ago. We believe however there is still room for improvement, particularly as regards the annex to chapter 6 and its relationship to table 1.2 (copies of the relevant pages from the 1988 FSBR are attached).

2. This minute proposes the following changes for implementation in the 1989 FSBR:

(i) the abolition of both parts A and B of the chapter 6 annex;

(ii) transferring the key elements of table 6B.3 (Consolidated Fund revenue) from the chapter 6 annex to table 1.2.

3. Part A of the annex is a series of dense notes attempting to explain, not very successfully, the relationships between the tables <u>within</u> chapter 6 and between chapter 6 tables and table 1.2. We suspect that outsiders hardly, if ever, refer to it. Indeed it reads as if it is little more than the way we tell ourselves how we put the numbers together. That it exists at all is probably a reflection of initial over-enthusiasm to make the FSBR more transparent. If outsiders really want to get into this area they can refer to earlier editions of the FSBR or ask.

4. Part B of the annex presents the estimated outturn for the CGBR for the year just ending in a funds and accounts format and gives forecasts for Consolidated Fund revenue for the year ahead. Outsiders have complained that it is extremely difficult to understand - the transfers between funds <u>within</u> the CGBR are a particular source of confusion. Furthermore, the decision in 1984 not to show the allocation of the public expenditure Reserve deprived these tables of most of their useful information, that in relation to the year ahead. (But no-one has noticed, so perhaps the information was not after all very useful.) Only table 6B.3 contains important information, which we propose should be transferred to table 1.2. This would have the advantage of putting in one place in the FSBR the forecasts and outturns for all the principal individual taxes. It would also remove some of the apparent inconsistencies in the FSBR, for example those which arise from the use of more than one definition of income tax and corporation tax.

5. This change would also highlight in table 1.2 those definitions of the various taxes on which the focus falls during the course of the year when each month's PSBR figures are published. In one sense the effect would therefore be to make the approach on the receipts side of table 1.2 the same as on the expenditure side ie. one in which administrative/operational concepts are embedded within national accounts totals.

6. I attach a copy of the proposed new format for table 1.2 (the numbers are consistent with the 1988 FSBR). The table differs from the existing format only in the way it arrives at the total taxes and royalties sub-total. The treatment of other receipts, expenditure etc is unchanged.

7. All the information about individual taxes in table 6B.3 is retained in the amended table 1.2. We could consolidate some of the rows if you think there is too much detail. Compared with table 6B.3 the amended 1.2 omits total Inland Revenue and total Customs and Excise receipts, and total Consolidated Fund revenue. It would considerably complicate Table 1.2 to include these

sub-totals in it, so we propose to incorporate them in the body of chapter 6, in table 6.4 on central government transactions.

8 This minute seeks your agreement to the changes to the FSBR set out in paragraph 2 above.

Colin Mowl

COLIN MOWL

In general, these represent a worthwhile further improvement, esp 2(i).

I have one or two comments on the proposed new Table 1.2, however:

a) Footnote 1 shd continue to provide the ACT figs, & perhaps also the figs for CT on cap gains.

b) Most of the white space @ X & Y is usefully used up by disaggregation of 'other depts' in the expenditure table.

c) In the table @ Z, the words 'borrowing' & 'borrowing requirement' shd be replaced by 'debt repayment', & the signs reversed. This will enable us to dispense with footnote 5.

d) The above changes shd also be made to chapter 6, esp table 6.7, with similar changes 'financial deficit' to 'financial surplus'.

M

PROPOSED NEW TABLE 1.2

cm/eahs/006c

PROPOSED NEW TABLE 1.2

Table 1.2 The finances of the Public Sector

	£ billion		
	1987-88		1988-89
	1987 Budget	Latest estimate	Forecast
RECEIPTS			
Income tax	39.9	41.4	42.1
Corporation tax[1] excluding North Sea	14.4	15.0	19.1
North Sea revenues:			
Petroleum revenue tax	1.7	2.3	1.2
Oil royalties	0.8	1.0	0.6
North Sea corporation tax[2]	0.6	0.6	0.7
ACT set off	0.8	0.7	0.8
Total North Sea[3]	3.9	4.7	3.3
Capital gains tax	1.3	1.4	2.0
Inheritance tax	1.1	1.1	1.0
Stamp duties	2.1	2.4	2.0
Value added tax	23.3	24.1	26.2
Petrol, derv etc	7.8	7.8	8.4
Tobacco duties	4.8	4.8	5.0
Alcohol duties	4.3	4.4	4.5
Betting and gaming duties	0.8	0.8	0.9
Car tax	1.1	1.2	1.3
Customs duties etc	1.4	1.5	1.6
Agricultural levies	0.2	0.2	0.1
Vehicle excise duties	2.6	2.7	2.8
Gas levy	0.5	0.5	0.4
Local authority rates	16.9	16.9	19.0
Other[4]	1.4	1.4	1.5
Total taxes and royalties	**127.8**	**132.3**	**141.2**
National insurance and other contributions	28.5	28.7	31.6
Interest and dividend receipts	5.7	6.3	5.6
Gross trading surpluses and rent	3.3	3.0	3.5
Other	3.5	3.4	2.9
General Government Receipts	**168.8**	**173.7**	**184.9**

	£ billion		
	1987-88		1988-89
	1987 Budget	Latest estimate	Forecast
EXPENDITURE			
DHSS - social security	46.0	46.3	48.5
DHSS - health and personal social services	19.1	19.7	20.7
Defence	18.8	18.6	19.2
Education and science	16.6	17.1	18.0
Scotland, Wales and Northern Ireland	16.0	16.3	17.1
Other departments	33.6	33.0	34.9
Privatisation proceeds	-5.0	-5.0	-5.0
Reserve	3.5	-	3.5
Public expenditure planning total	**148.6**	**146.0**	**156.8**
X			
General government gross debt interest	17.9	17.5	17.5
Other adjustments	7.0	8.3	8.6
Y			
General Government Expenditure	**173.5**	**171.8**	**182.9**

Expenditure, receipts and ~~borrowing~~[5] debt repayment

	£ billion		
	1987-88		1988-89
	1987 Budget	Latest estimate	Forecast
General government expenditure	173.5	171.8	182.9
General government receipts	168.8	173.7	184.9
General government ~~borrowing requirement~~	4.7	-1.9	-2.0
Public corporations' market and overseas ~~borrowing~~	-0.8	-1.2	-1.2
Public sector ~~borrowing requirement~~	**3.9**	**-3.1**	**-3.2**

Z

1 Including advance corporation tax and corporation tax on capital gains.
2 After advance corporation tax set off.
3 Before ACT set off.
4 Adjustments for advance corporation tax set-off against North Sea corporation tax, plus VAT paid by central and local government, development land tax, other excise duties, and accruals adjustment.
~~5 Net borrowing: positive; net debt repayment: negative.~~

debt repayment

mjd 2/88Jn

RESTRICTED

FROM: J M G TAYLOR
DATE: 9 August 1988

MR MOWL

cc Financial Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Sir A Wilson
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Culpin
Mrs Lomax
Mr Watts
Mr Pickford
Mr Gieve
Mrs Todd
Mr Vernon
Miss Simpson

BF to Alex
~~10/1/89~~
~~31/1/89~~
BF 22/2 to Alex

Ch
This is back paper relevant to FSBR Ch 6, which you have
AA

FSBR

The Chancellor has seen your minute of 3 August.

2. He has commented that, in general, these changes - and in particular abolishing both parts A and B of the Chapter 6 Annex - are worthwhile further improvements.

3. He does, however, have one or two comments on the proposed new Table 1.2:

(a) footnote 1 should certainly continue to provide the ACT figures, and possibly also the figures for CT on capital gains;

(b) most of the white space at X and Y (see attachment, top copy only) could usefully be used up by some disaggregation of "other departments" in the expenditure table;

(c) in the final table, the words "borrowing" and "borrowing requirement" should be replaced by "debt repayment" and the signs reversed. This will enable us to dispense with footnote 5.

4. These changes should also be made to Chapter 6, especially table 6.7, with "financial deficit" similarly changed to "financial surplus".

J M G TAYLOR

[redacted]

PROPOSED NEW TABLE 1.2

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	£ billion 1987-88 1987 Budget	1987-88 Latest estimate	1988-89 Forecast
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Reserve	3.5	-	3.5
Public expenditure planning total	**148.6**	**146.0**	**156.8**
General government gross debt interest	17.9	17.5	17.5
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General Government Expenditure	**173.5**	**171.8**	**182.9**

X

Y

Expenditure, receipts and ~~borrowing~~[5]

debt repayment

	£ billion 1987-88 1987 Budget	1987-88 Latest estimate	1988-89 Forecast
General government expenditure	173.5	171.8	182.9
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Public sector ~~borrowing requirement~~	**3.9**	**-3.1**	**-3.2**

Z

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3 Before ACT set off.
4 Adjustments for advance corporation tax set-off against North Sea corporation tax, plus VAT paid by central and local government, development land tax, other excise duties, and accruals adjustment.
~~5 Net borrowing: positive; net debt repayment: negative.~~

debt repayment

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P.N.J
10.II

FROM: COLIN MOWL
DATE: 10 February 1989

1. MR SEDGWICK
2. CHANCELLOR

Cl
You have at least another £1¼ bn.

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Riley
Mr Culpin
Mr S J Davies
Mr Hibberd
Mr Patterson

PSDR AND TAX BURDEN IN 1988-89 AND 1989-90

In response to Mr Allan's minute of yesterday (copy attached) this minute gives our best views today on:

- the **PSDR** in 1988-89, taking into account the provisional outturn for January;

- the **PSDR in 1989-90**, assuming the Budget package in the Scorecard of 9 February;

- the size of the **fiscal adjustment** which would leave

  (a) the PSDR excluding privatisation proceeds, and

  (b) the non-oil tax burden,

  unchanged in 1989-90.

2. We are due to give you a revised view of the PSDR next Thursday, taking into account fully re-worked forecasts, on a post-Budget basis, from the revenue departments. For this note we have been able to do no more than get a rough indication of how the numbers might turn out. We may well reach different conclusions on 1988-89 and 1989-90 by the time we report to you next week.

PSDR in 1988-89

3. The PSDR in January is provisionally £7.2 billion, £0.6 billion higher than assumed in the Winter Economic Forecast. In addition the PSDR for April to December has been revised up by

B.L.O. SECRET

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1 billion, with a downward revision of £0.2 billion to the PC net repayment more than offset by an upward revision to the LA net repayment.

4. Taking into account these developments and a revised view of February and March, our new forecast is for a PSDR in 1988-89 of £14¼ billion, equivalent to 3 per cent of money GDP. Table 1 compares the latest forecast with earlier ones.

TABLE 1: PSBR* IN 1988-89 (£ billion)

	1988 Budget Forecast	Winter Forecast	Latest Forecast
CGBR(O)	-4.5 (0.5)	-12.0 (-5.0)	-13.3 (-6.2)
LABR	2.1	0.9	0.6
PCBR	-0.8	-1.8	-1.5
PSBR	-3.2 (1.8)	-12.9 (-5.9)	-14.2 (-7.1)

* excluding privatisation proceeds in brackets.

5. The forecast central government net repayment has been increased by £1¾ billion, just over half of which is from lower expenditure. On the receipts side the main change is an upward revision to national insurance contributions. The changes to the forecasts of the LABR and PCBR largely reflect the revisions to the outturns to December.

PSDR in 1989-90

6. Our latest forecast for 1989-90, assuming a Budget package with a direct revenue cost of £1.2 billion (Scorecard of 9 February), is a net repayment of £13 billion.

TABLE 4: LATEST PSDR FORECASTS

	Winter Forecast 1988-89	Winter Forecast 1989-90	Latest Forecast 1988-89	Latest Forecast 1989-90
PSDR				
£ billion	12.9	11.2	14.2	13.0
% of money GDP	2.7	2.2	3.0	2.6
PSDR excluding privatisation proceeds				
£ billion	5.9	6.2	7.1	8.0
% of money GDP	1.2	1.2	1.5	1.6
Memo: Fiscal adjustment				
£ billion	-	1.5	-	1.0
% of money GDP	-	0.3	-	0.2

7. The main reasons for the latest forecast for the PSDR in 1989-90 being higher than in the Winter Forecast:

- a smaller fiscal adjustment (by £0.5 billion);

- the carry forward of a higher PSDR in 1988-89 (£1.3 billion).

Unchanged PSDR excluding privatisation proceeds

8. On the basis of the current Budget package the PSDR excluding privatisation proceeds rises from about £7 billion in 1988-89 to about £8 billion in 1989-90. The size of package which would hold it constant at £7 billion depends on its composition. But a package with a direct revenue effect of around £2¼ billion would hold the PSDR excluding privatisation proceeds constant, on the assumption that the tax cuts in addition to those in the current package took the form of reductions in income tax.

9. But because money GDP is rising, by over 7 per cent in 1989-90, a flat PSDR in cash terms implies a fall as a percentage of money GDP. The PSDR has to rise by £0.5 billion for it to be unchanged relative to GDP. It follows, on the same assumption about the composition of the package as before, that a package with a direct revenue effect of about £1¾ billion would hold the PSDR excluding privatisation proceeds unchanged relative to money GDP.

TABLE 5: EFFECTS OF BUDGET PACKAGES

£ billion	Direct revenue effects	PSBR effects
Current package	1¼	1
Larger packages	1¾	1½
	2¼	2

An unchanged tax burden

10. Assuming the package as in the Scorecard of 9 February, the non-oil tax burden is forecast to rise by about ¼ percentage point in 1989-90, the total tax burden by marginally less, as shown in table 6.

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TABLE 6: TAX BURDEN

	Taxes and NICs as % of money GDP		
	1987-88	1988-89	1989-90*
Total	38.0	37.2	37.3
Non-oil	37.7	37.0	37.2

* assuming package as in Scorecard of 9 February.

A package with a direct revenue effect of £2¼ billion would hold the non-oil tax burden at its 1988-89 level ie. a package with a direct revenue cost of about £1 billion more than in the latest Scorecard. But a package of this magnitude would produce a marginal fall (0.1) in the total tax burden.

Conclusion

11. The arithmetic in this note suggests that a larger Budget package than currently assumed would be consistent with holding either the PSDR excluding privatisation proceeds, or the tax burden unchanged in 1989-90. But as you know forecasts of public finances are subject to very large margins of error. At this stage the uncertainties are particularly large. Not only are the revenue departments still re-working their forecasts, but there are a number of specific uncertainties such as the level of money GDP in 1988-89 and local authority rate decisions for 1989-90, which may not be resolved until just before the Budget. It would not be surprising therefore if the arithmetic were to change over the next few weeks.

Colin Mowl

COLIN MOWL

chex.ps/aa/13 CONFIDENTIAL

FROM: A C S ALLAN
DATE: 9 February 1989

SIR T BURNS

FISCAL ADJUSTMENT

The Chancellor would be grateful for a note, by this weekend, setting out, on the latest estimates:

(i) what fiscal adjustment would leave a PSDR (excluding privatisation proceeds) in 1989-90 the same as that now expected for 1988-89; and

(ii) what fiscal adjustment would leave the burden of taxation in 1989-90 (taxation as a percentage of GDP) the same as in 1988-89.

ACSA

A C S ALLAN

2/11/2

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FROM: C J RILEY
DATE: 16 February 1989

CHANCELLOR

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Sedgwick
Mrs Lomax
Mr S Davies
Mr Gieve
Mr Mowl
Miss Simpson
Mr Patterson
Mrs Todd
Mr Hibberd
Mrs Wright
Mr Savage
Miss Wallace
Mrs Chaplin
Mr Tyrie

For Monday's 5PM meeting.

What do FBs look like?

THE PSDR PATH IN THE MTFS

Peter Sedgwick sent you yesterday a submission on the PSDR in 1988-89 and 1989-90. This note is about the path in the medium term. It sets out very briefly some alternatives; we aim to get a fuller submission on the medium term fiscal projections to you next week.

2. Three possible options are presented in the attached table, taking off from the 1988-89 figure in the Sedgwick note and assuming for the moment that you will want to show the PSDR excluding privatisation proceeds unchanged in 1989-90. They are:

Option 1

PSDR?

The PSBR comes back to 1% of GDP (£6 billion) by 1992-93, a reduction of £6½ billion on the figure shown for 1989-90. The reduction would, of course, be bigger if you went for a more central figure in 1989-90.

ie higher?

Option 2

The PSDR excluding privatisation proceeds comes back to zero by 1992-93. This is very similar to option 1; the PSDR including privatisation proceeds comes down to £5 billion (¾% of GDP).

Option 3

A balanced budget - i.e. a zero PSDR - by 1992-93. This involves a reduction in the PSDR of £12½ billion (or more) over the medium term.

But high PSDRs may stimulate pressure too (though not so evident @ Cabinet?)

3. If you want to avoid signalling that a large pot of money is available for public expenditure increases, there is much to be said for options 1 and 2. The stories in the two cases would have to be slightly different, however.

Option 1

- The norm in the longer term is a balanced budget - i.e. a zero PSDR;

- the large PSDR we are running at present reflects very favourable cyclical influences, which will tend to unwind as the economy reverts to a more sustainable path. Given the degree of uncertainty it is sensible to err on the side of caution and only move gradually towards a balanced budget;

- it is also sensible to take account of the current high level of privatisation proceeds. They are not available for spending and are better used to repay debt;

- given the continuing strength of domestic demand, and with the private sector in deficit, a prudent fiscal stance will help to retain the confidence of markets.

Option 2

- The norm in the longer term is a balanced budget - i.e. a zero PSDR;

- it would be wrong to bring the PSDR right back to zero while privatisation proceeds remain substantial. They are not available for spending, and should be used to repay debt;

- as privatisation proceeds decline relative to GDP, it will be right to come back to budget balance. In the meantime we should aim for a balanced budget excluding privatisation proceeds;

- the large PSDR we are running at present reflects very favourable cyclical influences, which tend to unwind as the economy reverts to a more sustainable path. Given a degree of uncertainty it is sensible to aim on the side of caution and only move gradually towards a balanced budget;

- given the continuing strength of domestic demand and with the private sector in deficit, a prudent fiscal stance will help to retain the confidence of markets.

4. In both cases we would have to explain why the medium term objective has changed since last year. With option 1 we can argue that the Government has always adopted a gradualist approach to fiscal policy, and caution also suggests not returning zero too quickly.

5. If option 2 were adopted we would say that we have decided to take account of privatisation proceeds explicitly in assessing the speed with which we approach the balanced budget. The gradualism and caution arguments would also be relevant. In response to the charge that we had not properly allowed for asset sales, because we have ignored sales of land, council houses etc, we would presumably have to argue that these have somewhat different economic effects.

6. Option 3 would of course be easier to justify in relation to the norm of a balanced budget. The story might go as follows:

- The longer term norm is a balanced budget, and the path in the PSBR is consistent with this;

- the path is entirely stylised, and as usual the PSDR to be set in future Budgets will be reviewed in the light of circumstances at the time;

- the large PSDR we are running at the present reflects very favourable cyclical influences which will unwind as the economy reverts to a more sustainable path. Given the degree of uncertainty it is sensible to err on the side of caution and only move gradually towards a balanced budget;

- given the continuing strength of domestic demand and with the private sector in deficit, a prudent fiscal stance will help to retain the confidence of markets.

- thus the stylised path very definitely does not imply a large pot of money available for public expenditure.

7. The force of the cyclical argument will obviously depend on the path of GDP which we publish. If we show growth rates of 2% per annum in the next two years, followed by 2¾% thereafter, this would imply a cumulative shortfall of about 1½% relative to trend. Even with a fairly high cyclical response, it is unlikely that this would reduce the PSDR by more than £5 billion - i.e. less than half of the 1989-90 level.

8. With option 3 we might face the charge that we had not been sufficiently cautious, given high asset sales and the private sector's deficit. On the former, we would argue that even if the contribution of all asset sales were discounted, the ratio of debt to GDP would still be falling. On the latter, we would say we think it unlikely that the private sector will remain in deficit throughout the medium term; saving is likely to recover and the growth of investment diminish.

9. You may like to consider the medium term path at your meeting on the PSDR now scheduled for Monday afternoon.

CJR

C J RILEY

mp.pc/Riley/071

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OPTIONS FOR THE PSDR PATH IN THE MTFS

	1988-89	1989-90	1990-91	1991-92	1992-93
Option 1					
PSDR - £ billion	14	12½	9½	7	6
- % of GDP	3	2½	1¾	1¼	1
			1½	½	
PSDR excluding privatisation					
- £ billion	7	7½	4½	2	1
- % of GDP	1½	1½	¾	¼	¼
Option 2					
PSDR - £ billion	~~14~~ 13½	~~12½~~ 12	9½	7	5
- % of GDP	3	2½	1¾	1¼	¾
PSDR excluding privatisation					
- £ billion	~~7~~ 6½	~~7½~~ 7	4½	2	0
- % of GDP	1½	1½	¾	¼	0
			1	½	
Option 3					
			9	6	3
PSDR - £ billion	~~14~~ 13½	~~12½~~ 12	9½	4	0
- % of GDP	3	2½	~~1¾~~ 1½	¾	0
PSDR excluding privatisation					
- £ billion	~~7~~ 6½	~~7½~~ 7	4½	-1	-5
- % of GDP	1½	1½	¾	- ¼	- ¼

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FROM: P N SEDGWICK
DATE: 16 February 1989

CHANCELLOR

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Riley
Mrs Lomax
Mr S Davies
Mr Mowl
Miss Simpson
Mr Patterson
Mrs Todd
Mrs Wright
Ms Chaplin
Mr Tyrie

Mr Calder - IR)Sections
Mr Vernon - C&E)1a and 1d only

Ch
I think the best way of handling this is to have a meeting after the overview on Monday (which will not be too long since we've lost public sector pensions though Wed to gain NICs) AP

JS

THE PSDR IN 1988-89 AND 1989-90

The attached note by Colin Mowl and me presents the latest forecast for the PSDR in 1988-89 and in 1989-90 taking account of the latest package, and assesses what numbers to publish in the FSBR. We need guidance on the latter in order to prepare the detailed figuring for Chapter 6.

SECRET B.L.O.

2. You will receive on Wednesday February 22 a first draft of Chapter 6 that will incorporate detailed figures consistent with your provisional decisions on the PSDR. There will be a final submission on PSDR prospects on Thursday March 9, by which time the provisional February PSDR will be available. It will be just about possible to make further changes to the FSBR figuring at that stage if necessary, but this is one day later than last year and the timetable will be very tight.

SECRET

P.N.S
P N SEDGWICK

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THE PSDR IN 1988-89 AND 1989-90

SUMMARY

1988-89 - The PSDR in 1988-89 is forecast to be £14½ billion. The PSDR excluding privatisation proceeds is forecast to be £7½ billion.

- Our latest forecast for public expenditure in 1988-89 is significantly below the levels assumed in the 1989 PEWP. GEP's latest February assessment (to be circulated tomorrow) is that the Planning Total will be £151.1 billion. We have forecast a planning total outcome a little below this, at £150.8 billion, and GGE of £178.3 billion, both of these are £2½ billion respectively below the figures in the 1989 PEWP. £1 billion of these downward revisions is from higher privatisation proceeds.

See historical figures

- With GGE in 1988-89 lower than in the 1989 PEWP, the GGE ratio (excluding privatisation proceeds) is 39 per cent; ¾ per cent lower than in the PEWP.

- The share of non-North Sea taxes and NIC's in GDP is forecast to have fallen by ½ per cent in 1988-89 to 37¼ per cent, a lower level than forecast in the 1988 FSBR.

1989-90 - The central forecast for the PSDR in 1989-90 is £14½ billion, £9½ billion excluding privatisation proceeds. This takes account of a package with a direct revenue effect of £1.0 billion and assumes that activity is as in the draft of Chapter 3 of the FSBR. The PSDR effect of the package is less than that of the fiscal adjustment assumed in the Winter Forecast. The pre-Budget forecast of the PSDR has been increased, by over £2½ billion since the Winter Forecast.

- The **PSDR excluding privatisation proceeds** in 1989-90 is forecast to be £9½ billion (1¾ per cent of GDP), compared with £7½ billion in 1988-89 (1½ per cent of GDP).

- Our central forecast of the **planning total** in 1989-90 has not changed much since the Winter Forecast. A tiny overspend on plans is forecast. Taken with our latest assessment for debt interest it would imply a small fall of ¼ per cent in the **GGE ratio** to 38¾ per cent.

- The **share of non-oil taxes and NICs** in GDP is forecast to rise slightly in 1989-90.

<u>**Presentation in the FSBR**</u>

- The record of the last four years is of the FSBR understating the strength of public finances in the year ahead, by progressively greater amounts. Presentational adjustments explain some though only a small proportion of these errors. Against this background presentational adjustments in the 1989 FSBR will be of doubtful effect. There is a strong case for publishing more central estimates.

- Nevertheless if the aim were to present a **PSDR 1988-89** that was more likely to be overshot than undershot, it would be just about possible on the evidence now available to publish a net repayment rounding to £14 billion. (This figure could go up between now and March 14.) A lower repayment than this would probably appear to be a deliberate attempt to understate the strength of public finances. Most up to date outside comment envisages net repayments of £15 billion or more.

What is the margin of error? Several £ bn

(before today's figures)

- There would be no problems in publishing for 1989-90 a PSDR excluding privatisation proceeds that is the same, as a percentage of GDP, as the published forecast outturn for 1988-89 ie. a PSDR of £12½ billion, £7½ billion excluding privatisation proceeds. This

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would provide a safety margin of about £2 billion. We could even have a higher safety margin than this without appearing too uncentral eg. we could possibly go down to a PSDR of £12 billion

(1) THE FORECAST

(a) 1988-89

Table 1 summarises the main features of the latest assessment and compares them with earlier forecasts:

TABLE 1 : RECEIPTS, EXPENDITURE AND DEBT REPAYMENT
£ billion

	1988-89			1989-90		
	1988 FSBR	Winter Forecast	Latest	1988 FSBR	Winter Forecast	Latest
General Government Receipts	184.9	189.6	191.0	195.2*	204.4*	206.5*
General Government Expenditure	182.9	179.3	178.3	192.8	193.2	192.6
Fiscal adjustment	-	-	-	3.4	1.6	1.0
GGDR	2.0	10.3	12.7	-1.0	9.6	12.8
PCMOD	1.2	2.6	1.8	1.0	1.6	1.6
PSDR (per cent of GDP)**	3.2 (¾)	12.9 (2¾)	14.5 (3)	0.0 (0)	11.2 (2¼)	14.5 (2¾)
PSDR excluding privatisation proceeds (per cent of GDP)**	-1.8 (-½)	5.9 (1¼)	7.5 (1½)	-5.0 (-1)	6.2 (1¼)	9.5 (1¾)

* before fiscal adjustment
** Treasury adjusted GDP figures are used throughout this note

2. Table 2 shows that the upward revision to the PSDR for 1988-89 since the Winter Forecast is more than accounted by a higher central government net repayment on own account. £½ billion of this central government revision is from a changed assumption about the Electricity Council's corporation tax. The Council is now assumed to pay tax this year, increasing the CG net repayment, reducing that of PCs and, hence leaving the PSDR unchanged. Just over half of the remaining CG revision is due to lower expenditure. On the receipts

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side the other main change is an upward revision to national insurance contributions. The change to the LABR largely reflects revisions to earlier months of the year, and is consistent with a downward revision to LA net capital spending.

TABLE 2 : PSBR* IN 1988-89
(£ billion)

	1988 Budget forecast	Winter forecast	Latest forecast
CGBR(O)	-4.5 (0.5)	-12.0(-5.0)	-14.0(-6.9)
LABR	2.1	0.9	0.5
PCBR	-0.8	- 1.8	- 1.1
PSBR	-3.2 (1.8)	-12.9 (-5.9)	-14.5 (-7.5)

* excluding privatisation proceeds in brackets.

3. The outturn for the PSBR for the 10 months to January was a net repayment of £15.5 billion. The latest forecast is for a small repayment in February and borrowing in March of £1½ billion (£2½ billion excluding privatisation proceeds). The high March figure reflects the usual seasonal pattern, but it is always difficult to judge the size of the end-year surge in central government expenditure and the local authority borrowing.

TABLE 3 : MONTHLY BORROWING PROFILE FOR REST OF 1988-89*
(£ billion)

	Outturn to January	Latest Forecast: February	March	Total for year
CGBR(O)	-13.8 (-7.8)	-0.1	0.0 (0.9)	-14.0 (-6.9)
LABR	- 0.6	0.1	1.1	0.5
PCBR	- 1.0	-0.5	0.4	- 1.1
PSBR	-15.5 (-9.4)	-0.5	1.5 (2.4)	-14.5 (-7.5)

* excluding privatisation proceeds in brackets

4. The forecast of the CGBR(O) in March assumes £1 billion privatisation proceeds, largely from KIO, and expenditure of £0.4 billion on Shorts. The forecast also assumes that the

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electricity industry pays £½ billion corporation tax allowed for in its EFL.

5. Table 4 shows changes since the Budget and the Winter Forecast in central government tax and national insurance contribution receipts (NICs).

TABLE 4 : CENTRAL GOVERNMENT TAXES AND NATIONAL INSURANCE CONTRIBUTIONS IN 1988-89 (£ billion)

	Changes since 1988 Budget	Changes since Winter Forecast
Income Tax	1.4	-0.1
Advance corporation tax	0.8	0.0
Other corporation tax	- 1.7	0.6*
Capital gains tax	0.5	-0.1
Stamp duty	0.4	0.0
Other	0.0	-0.1
Total Inland Revenue	1.4	0.3
VAT	1.4	0.1
Road fuel duty	0.3	0.0
Alcohol and tobacco duty	0.1	0.0
Car tax	0.1	0.0
Other	0.1	0.0
Total Customs and Excise	2.1	0.2
NICs	0.9	0.3
TOTAL	4.5	0.8

* of which Electricity Council 0.5

6. The shortfall on corporation tax cannot be fully explained at this stage. It may partly reflect lower profits and higher investment in 1986 and 1987 than recorded at the time of the 1988 Budget.

7. A high proportion of the shortfall on central government expenditure is directly or indirectly attributable to buoyant activity. Social security and Department of Employment/MSC programmes are the prime examples. But the large forecast MOD underspend of its cash limit may partly reflect capacity constraints amongst its suppliers. GGE in 1988-89 is about £1 billion lower than in the Winter Forecast, with the central government and local authority components down by roughly equal amounts.

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(b) 1989-90

8. On the basis of an assumed fiscal adjustment of £1½ billion, the Winter Economic Forecast had a net repayment in 1989-90 of £11.2 billion, £6.2 billion excluding privatisation proceeds. The new forecast substitutes the latest Budget package for the assumed fiscal adjustment and incorporates changes to the underlying forecasts of receipts and expenditure in the light of later information and changes to the rest of the forecast. The new forecast is for a higher PSDR of £14.5 billion - £9.5 billion excluding privatisation proceeds: this mainly reflects a number of the factors behind the higher PSDR in 1988-89 - such as higher NIC receipts - which carry forward into 1989-90. In addition

- the PSBR cost of the Budget package is smaller than that of the fiscal adjustment in the Winter Forecast;

- the higher net repayment has reduced debt interest.

(c) Public Expenditure

9. The Winter Forecast included a forecast of the planning total outturn in 1989-90 which was the same as the level provided for in the Autumn Statement and 1989 PEWP. The overall picture has changed very little. We have attempted to allow for the central government Review Body awards announced today, which involve smaller increases than allowed for in the Winter Forecast. Local authority capital, on the other hand, is slightly higher than in the Winter Forecast because the estimate of LAs' capital receipts in the current year has been revised up and they are expected to spend some of these higher receipts next year. The largest forecast claim on the Reserve next year remains LA current expenditure, but there are also significant claims from central government pay and local authority capital.

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TABLE 5 : FORECAST CLAIMS ON THE RESERVE
(£ billion)

	1988-89	1989-90
CG pay	1.2	0.9
Social security	-1.2	-0.5
Other CG	-0.4	0.4
LA current	1.3	2.0
LA capital	-0.9	0.8
Public corporations	-0.4	0.0
Privatisation proceeds	-2.0	0.0
TOTAL	-2.5	3.6
(Forecast underspend on planning total)	(6.0)	(-0.1)

10. The forecast of debt interest payments in 1989-90 is a little lower than in the Winter Forecast due to higher debt repayment. It is of course also well below the Autumn Statement and 1989 PEWP. (gross debt interest in 1988-89 is, however, £½ billion above the PEWP.)

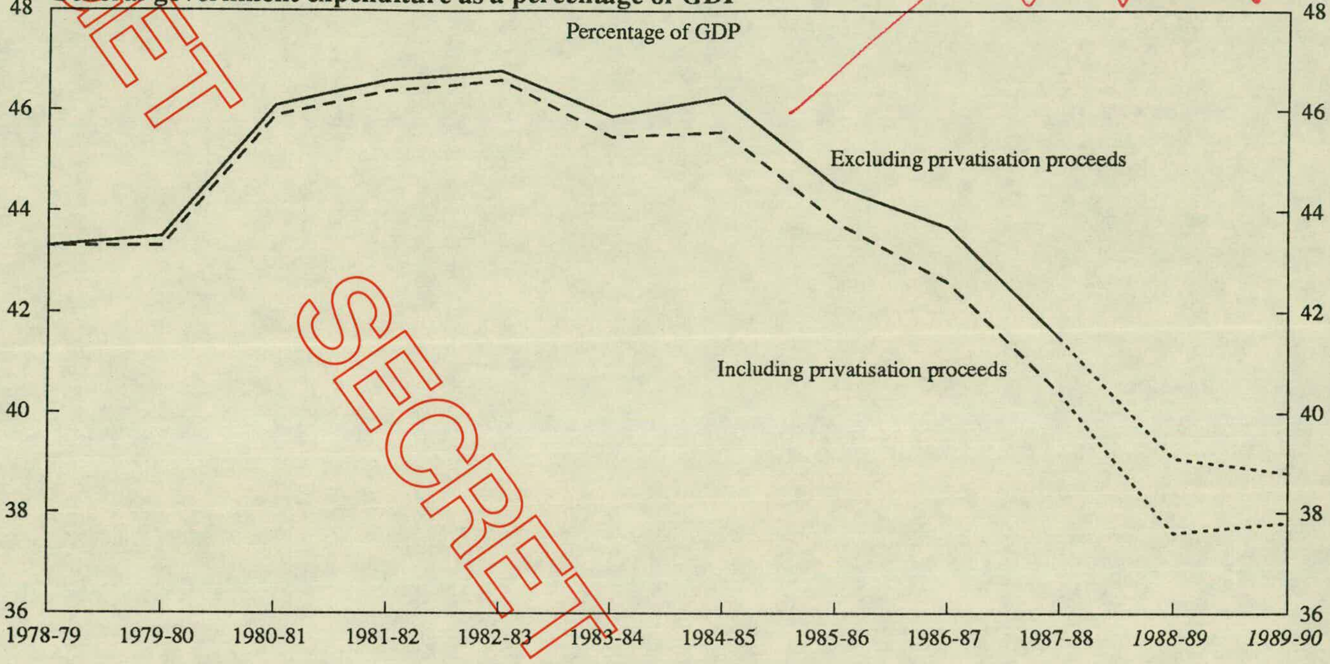
TABLE 6 : GENERAL GOVERNMENT EXPENDITURE
(£ billion)

	Latest Outturn	1989 PEWP		Latest Forecast	
	1987-88	1988-89	1989-90	1988-89	1989-90
Planning Total	145.7	153.4	167.1	150.8	167.2
Gross Debt Interest	17.8	17.7	17.0	18.3	16.3
Other adjustments	8.3	9.8	9.5	9.3	9.2
GGE	171.8	180.9	193.7	178.3	192.6
GGE excluding privatisation proceeds (% of GDP)	177.0 (41½)	187.0 (39¾)	198.7 (39¼)	185.3 (39)	197.6 (38¾)
Money GDP	426.1	470.7	507.8	474.6	509.7

GGE excluding privatisation proceeds in 1988-89 is now put at about £185½ billion, over £1½ billion below the level in this year's PEWP. With the growth of money GDP a little higher than in the PEWP, the GGE ratio (excluding privatisation proceeds) falls more than in the PEWP, by nearly 2½ per cent compared with 1¾ per cent. The PEWP projected the ratio to fall by a further ½ per cent in 1989-90 but

despite a latest forecast cash figure lower than the PEWP, the ratio is now forecast to fall only ¼ per cent because of lower money GDP growth.

General government expenditure as a percentage of GDP



(d) <u>Receipts</u>

11. Table 7 summarises the latest forecast of taxes and NICs. The forecast incorporates the Budget package in the Scorecard of 16 February which has a direct revenue effect of £1 billion.

TABLE 7 : TAXES AND NICs
(% increases on year earlier)

	(% Share in 1988-89)	1988-89	1989-90
Income tax	(0.25)	4.6	7.9
Corporation tax	(0.10)	19.8	16.5
Capital gains tax	(0.01)	74.0	-16.7
Stamp duties	(0.01)	- 3.3	9.2
TOTAL INLAND REVENUE	(0.39)	6.8	9.0
VAT	(0.16)	14.4	7.8
Duties on fuel, alcohol and tobacco	(0.13)	8.4	0.9
TOTAL CUSTOMS AND EXCISE	(0.28)	12.0	4.8
LA rates	(0.11)	11.2	8.1
NICs	(0.18)	13.1	9.1
Total Taxes and NICs		9.8	7.5

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12. Corporation tax (CT) receipts are forecast to grow by 16 per cent in 1989-90, a little less than in 1988-89. Within the total ACT receipts are forecast to grow very much less and other (mainstream) corporation tax rather more than this year. The forecast is for a substantial rise in the average rate of tax paid by financial companies, from 11½ per cent in 1988-89 to 13¾ per cent in 1989-90. The higher assumed level of short-term interest rates in the forecast helps the profitability of the financial sector, which has less scope for sheltering tax than ICCs. The forecast assumes, following consultation with FIM, that sovereign debt provisions by banks allowable against tax fall from £2.5 billion in 1987 to £0.6 to £0.7 billion in 1988.

13. Corporation tax is the only tax forecast to grow significantly faster than money GDP. The growth of income tax and national insurance contributions is forecast to exceed that of money GDP, but by smaller amounts, due to a forecast rise in the share of wages and salaries in GDP. But this has a relatively large effect on the tax burden because income tax and NICs account for nearly half of total taxes.

14. VAT (before Budget changes) is forecast to grow less than consumer spending because the deceleration in the growth of spending is expected to hit goods and services subject to VAT relatively hard. But with total consumer spending forecast to grow a little faster than money GDP and the widening of the VAT base to non-domestic construction etc, the ratio of VAT to money GDP is forecast to be unchanged.

15. The stamp duty forecast assumes that equity prices will be marked up a little as soon as the abolition of duty on stocks and shares is announced.

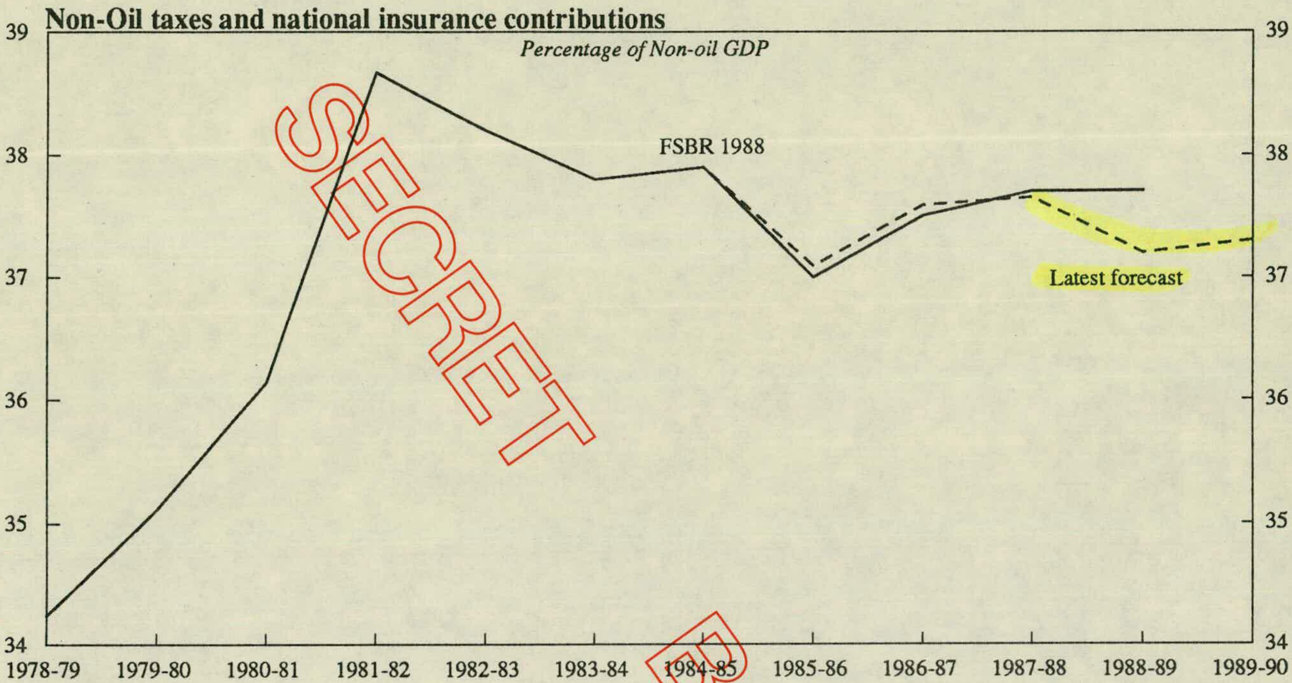
16. Local authority rate and community charge income is forecast to rise by 8 per cent in 1989-90, more than money GDP, but we still do not yet have any hard information on actual rate decisions by authorities. By the time the Budget arithmetic is finalised however a fairly reliable estimate should be available.

17. Table 8 summarises the latest forecast of the tax burden.

TABLE 8 : TOTAL TAXES* AND NICs AS A PERCENTAGE OF MONEY GDP

	1986-87	1987-88	1988-89	1989-90
Total	38.1	37.9	37.4	37.4
Non-oil	37.6	37.7	37.2	37.4

* including community charge



(e) <u>Variations in the Budget package</u>

18. The latest forecast with a Budget package of £1 billion produces in 1989-90 a rise in both the PSDR excluding privatisation proceeds and the non-oil tax burden. The table below shows what size of package would be consistent with no change in each of these

TABLE 9 : BUDGET PACKAGE
Direct revenue cost £ billion

No change in PSDR* in £b	3-3½
No change in PSDR* % of GDP	2½-3
No change in non-oil tax burden	1½-2
(Scorecard 16 February)	(1)

* excluding privatisation proceeds

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(2) PRESENTATION IN THE FSBR

19. Annex II compares PSBR/PSDR forecasts for the year ahead in the FSBR and outturn. The PSBR has been overforecast for four years (if 1988-89 is included) - by large and increasing amounts in the last three years.

20. Only a small part of the large errors can be attributed to presentational adjustments. For 1988-89 the presentational adjustment accounted for about £1 billion of a possible total error of over £11 billion.

21. Against this forecasting record the scope for presentational changes influencing expectations is modest and maybe non-existent. Indeed there is a case for publishing what are more obviously central fiscal projections.

22. If the aim is to publish PSDR forecasts that are more likely to be over than undershot it is worth remembering that if the sale of water goes ahead as planned privatisation proceeds in 1989-90 are quite likely to exceed the £5 billion assumed in the forecast. This would produce an element of safety margin.

23. A factor that goes in the opposite direction is the likely fall in output growth. Chart 3 shows that there has been a pronounced tendency over the last twenty years to have large positive errors in the PSBR when growth is low, and negative errors when it is high. There must be a real possibility that the recent bias towards underscoring the buoyancy of public finances will end and go into reverse sometime in the next year or so.

This problem is 1990-91 [illegible] rather than 1989-90.

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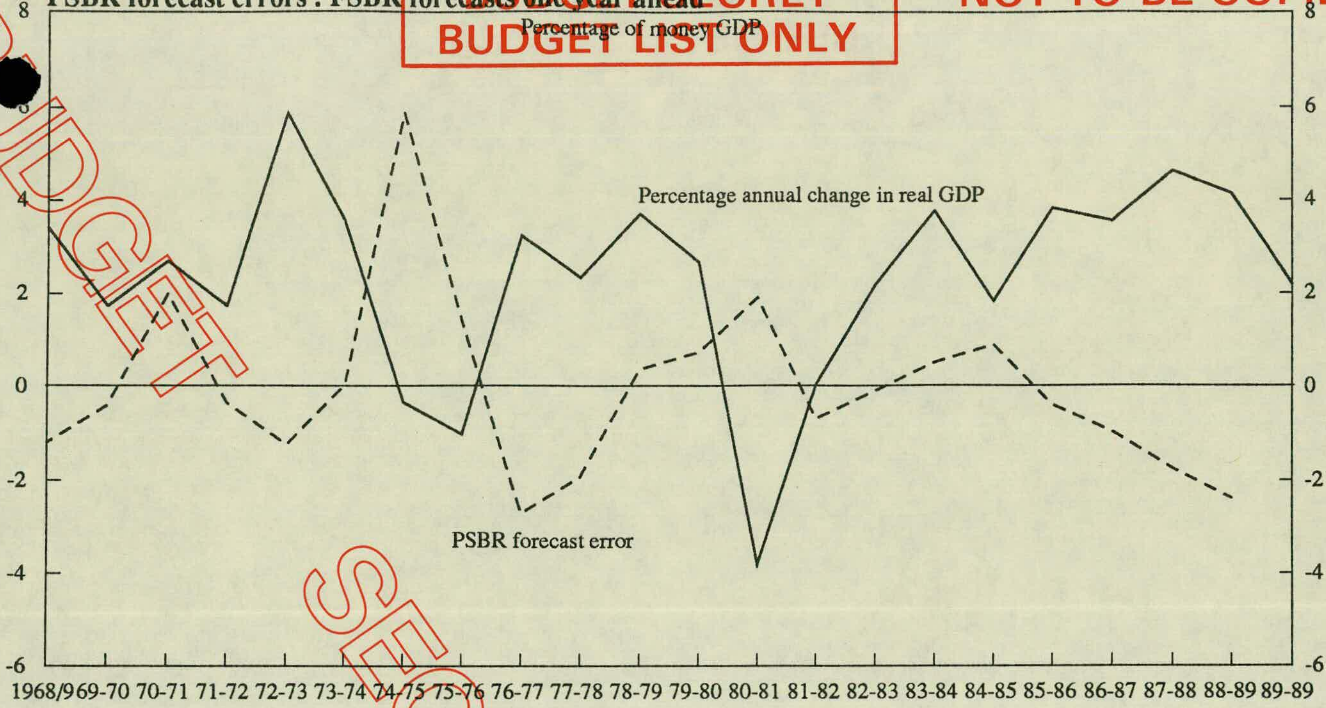
PSBR forecast errors : FSBR forecasts one year ahead



1. No adjustments have been made for forecast errors

24. It will also be necessary to check that forecast growth of receipts and GDP are not obviously inconsistent. Table 9 sets out the latest forecasts.

TABLE 10 : FORECAST GROWTH OF RECEIPTS AND GDP*
(% increases on previous years)

	1988-89	**1989-90**
Total taxes and NICs	9.8 (12.3)	7.5 (9.1)
Non-oil taxes and NICs	11.0 (13.5)	7.9 (9.5)
General government receipts (GGR)	9.8 (12.2)	7.6 (9.1)
Non-oil GGR	11.0 (13.4)	8.0 (9.5)
Money GDP	11.4	7.4
Non-oil money GDP	12.3	7.5

* figures in brackets exclude following effects of 1988 and 1989 Budgets

£ billion	**1988-89**	**1989-90**
1988 Budget	4.0	6.2
1989 Budget	-	1.0

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25. Taking all these factors into account our advice on numbers that could be published without appearing too overtly uncentral are:

- £14 billion for 1988-89 - £½ billion below our central view, and (on this assumption)

13.6

- £12½ billion for 1989-90 which would be the same proportion of GDP as in 1988-89 once privatisation proceeds were excluded. However it might be possible to go down to a PSDR of say £12 billion without appearing unduly cautious.

12.1

26. There are likely to be a series of other constraints on the public finance figuring in the FSBR. We do not yet know whether we will be able to meet all of them:

- planning total in 1989-90 same as PEWP;

- fall in GGE ratio in 1989-90 from its inevitably lower level in 1988-89;

- possibly some constraint on change in tax burden between the two years.

All this is against a background in which money GDP numbers cannot be finalised until days before Budget.

ANNEX I: BORROWING IN FEBRUARY AND MARCH

£ billion

	PSBR	CGBR(O)	LABR	PCBR	Excluding privatisation proceeds PSBR	Excluding privatisation proceeds CGBR(O)
Current prices						
1983-84	2.6	1.8	1.2	- 0.4	N/A	N/A
1984-85	2.1	1.0	1.5	- 0.3	2.2	1.0
1985-86	2.4	1.4	1.2	- 0.2	2.8	1.8
1986-87	2.8	2.3	0.8	- 0.3	4.0	3.5
1987-88	3.3	2.5	1.3	- 0.5	3.3	2.5
Average	2.6	1.8	1.2	- 0.4	3.1	2.2
1988-89	1.0	-0.2	1.2	-	2.0	0.8
1988-89 prices						
1983-84	3.3	2.3	1.5	- 0.5	N/A	N/A
1984-85	2.6	1.2	1.8	- 0.3	2.7	1.3
1985-86	2.8	1.7	1.4	- 0.3	3.3	2.2
1986-87	3.2	2.7	0.9	- 0.4	4.5	4.0
1987-88	3.6	2.7	1.4	- 0.6	3.6	2.7
Average	3.1	2.1	1.4	- 0.4	3.5	2.5
1988-89	1.0	-0.2	1.2	-	2.0	0.8

BORROWING IN MARCH

£ billion

	PSBR	CGBR(O)	LABR	PCBR	Excluding privatisation proceeds PSBR	Excluding privatisation proceeds CGBR(O)
Current prices						
1983-84	2.2	1.4	1.1	- 0.3	N/A	N/A
1984-85	2.2	1.5	1.1	- 0.3	2.3	1.5
1985-86	2.8	1.4	1.2	0.2	3.2	1.8
1986-87	3.2	2.2	0.9	0.0	3.9	2.9
1987-88	3.8	2.8	1.2	- 0.1	3.8	2.8
Average	2.8	1.9	1.1	- 0.1	3.3	2.3
1988-89	1.5	-	1.1	0.4	2.4	0.9
1988-89 prices						
1983-84	2.9	1.9	1.4	- 0.3	N/A	N/A
1984-85	2.7	1.8	1.3	- 0.4	2.8	1.9
1985-86	3.3	1.6	1.4	0.2	3.8	2.1
1986-87	3.6	2.5	1.0	- 0.1	4.4	3.4
1987-88	4.1	3.0	1.3	- 0.1	4.1	3.0
Average	3.3	2.2	1.3	- 0.1	3.8	2.6
1988-89	1.5	-	1.1	0.4	2.4	0.9

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ANNEX II: PSBR FORECAST ERRORS IN THE FSBR

A. Year just finishing	Forecast £b	Outturn £b	Error £b	Error % of GDP
1967-68	2.0	2.0	- 0.1	- 0.1
1968-69	0.3	0.5	+ 0.1	+ 0.3
1969-70	- 0.6	- 0.5	+ 0.1	+ 0.2
1970-71	0.6	0.8	+ 0.2	+ 0.4
1971-72	1.3	1.0	- 0.3	- 0.6
1972-73	2.9	2.5	- 0.3	- 0.5
1973-74	4.3	4.4	+ 0.2	+ 0.2
1974-75	7.6	8.0	+ 0.4	+ 0.4
1975-76	10.8	10.6	- 0.2	- 0.2
1976-77	8.8	8.5	- 0.3	- 0.3
1977-78	5.7	5.6	- 0.1	- 0.1
1978-79	9.2	9.2	- 0.1	0.0
1979-80	9.1	9.8	+ 0.7	+ 0.3
1980-81	13.5	13.0	- 0.4	- 0.2
1981-82	10.6	8.8	- 1.8	- 0.7
1982-83	7.5	9.2	+ 1.7	+ 0.6
1983-84	10.0	9.7	- 0.3	+ 0.1
1984-85	10.5	10.1	- 0.4	- 0.1
1985-86	6.8	5.7	- 1.2	- 0.3
1986-87	4.1	3.4	- 0.7	- 0.2
1987-88	- 3.1	- 3.5	- 0.4	- 0.1

		Error £b	Error % of GDP
Average Absolute Errors	Whole period	0.5	0.3
	Last 10 years	0.8	0.3
	Last 5 years	0.6	0.2
Bias	Whole period	- 0.2	- 0.1
	Last 10 years	- 0.3	- 0.1
	Last 5 years	-0.6	- 0.2

B. Year ahead	Forecast £b	Outturn £b	Error £b	Error % of GDP
1967-68	1.5	2.0	+ 0.5	+ 1.2
1968-69	1.0	0.5	- 0.5	- 1.2
1969-70	- 0.3	- 0.5	- 0.2	- 0.4
1970-71	- 0.2	0.8	+ 1.1	+ 2.0
1971-72	1.2	1.0	- 0.2	- 0.4
1972-73	3.4	2.5	- 0.8	- 1.2
1973-74	4.4	4.4	-	0.0
1974-75	2.7	8.0	+ 5.2	+ 5.9
1975-76	9.1	10.6	+ 1.5	+ 1.4
1976-77	12.0	8.5	- 3.5	- 2.7
1977-78	8.5	5.6	- 2.9	- 1.9
1978-79	8.5	9.2	+ 0.6	+ 0.4
1979-80	8.3	9.8	+ 1.5	+ 0.7
1980-81	8.5	13.0	+ 4.5	+ 1.9
1981-82	10.6	8.8	- 1.8	- 0.7
1982-83	9.5	9.2	- 0.3	- 0.1
1983-84	8.2	9.7	+ 1.5	+ 0.5
1984-85	7.2	10.1	+ 2.9	+ 0.9
1985-86	7.1	5.7	- 1.4	- 0.4
1986-87	7.1	3.4	- 3.7	- 1.0
1987-88	3.9	- 3.5	- 7.4	- 1.7

		Error £b	Error % of GDP
Average Absolute Errors	Whole period	2.0	1.3
	Last 10 years	2.6	0.8
	Last 5 years	3.4	0.9
Bias	Whole period	- 0.2	+ 0.2
	Last 10 years	- 0.4	+ 0.1
	Last 5 years	- 1.6	- 0.3

est.ld/james/24 Feb/fsbr

BUDGET CONFIDENTIAL

MP

FROM: S M A JAMES
DATE: 24 FEBRUARY 1989

PS/CHANCELLOR

cc:
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gilhooly
Mr Matthews
Mr Macpherson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call
PS/IR
Mr Unwin, C&E
Mr Jefferson-Smith, C&E
Mr P R M Allen, C&E
Ms French, C&E

FSBR CHAPTER 4: CUSTOMS AND EXCISE TAX CHANGES

Your minute of 21 February asked the Economic Secretary to review the Customs and Excise contribution to the text of Chapter 4. The Economic Secretary has seen the revised Customs contribution incorporated in the attachments to Mr Macpherson's minute of 23 February.

He has the following comments:

(i) <u>4.31</u> to be replaced by the following:

"To comply with the European Court judgment of 21 June 1988 certain previously zero rated goods and services will be subject to VAT at the standard rate.

As announced on 6 February, the regime will aim to minimise the tax and compliance burden.

Non-residential construction and property development will be liable to VAT from 1 April 1989 with transitional relief for prior contractual commitments. Landlords will be given the option to tax rents of non-residential buildings from 1 August 1989.

VAT will also be applied

from 1 April 1989 to:		protective boots and helmets supplied to employers
	:	news services
from 1 July 1990 to	:	fuel and power supplied to businesses
	:	water and sewerage services supplied to industry.

(ii) <u>**4.34**</u>, line 3: delete "nearly" after "gallon"; line 5: insert "leaded" between "3 star" and "petrol".

(iii) <u>**Annex: Explanatory notes to Table 4.1, VAT paragraph 54**</u>: reorder this so that the reference to option to tax comes before that to building land. Clarify "in certain circumstances" (line 5). Retain the square-bracketed sentence ("Tenants whose landlords opt ...").

Smaj

S M A JAMES
Private Secretary

pf.dc.128 BUDGET SECRET

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FROM M C SCHOLAR
DATE 17 FEBRUARY 1989

CHANCELLOR OF THE EXCHEQUER

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 Culpin
Mr Riley
Mr Sedgwick
Mr McIntyre
Mr Matthews
Mr A C S Allan
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
MR Isaac - IR
Mr Painter - IR
Mr Calder - IR

Mr Unwin - C&E
Mr Jefferson Smith - C&E

It wd be an embarrassment ~~...~~ on goal to have separate heading entitled 'expenditure measures', esp as no such garment I sd last year. Moreover, the rule is an expenditure measure for a v. special kind! It the earnings rule is ...

Ch

I am nervous about a specific heading "expenditure measures" in Table 1.1.

AA acc. Darwin

Just this is a tax measure. However, if we have NICs

FSBR TREATMENT OF ABOLITION OF THE EARNINGS RULE FOR PENSIONERS

You asked for a note on how the abolition of the earnings rule for pensioners should be shown in the FSBR. We have no firm figures yet, so this note, I am afraid, lacks the focus they would give it. You will get the numbers soon in the drafts of the relevant chapters of the FSBR. But it will be helpful meanwhile to have your views on the general presentation.

package, too, there must be a case for having NIC changes + the earnings rule under a separate heading 'other measures'. Before going, I wd like to see the table ... a colour ...

2. There are numerous precedents for Table 1.1 to include public expenditure measures. I suggest that we should strike a total of tax measures (as we did, for example in the 1986 FSBR - see copy attached at Annex A), then show, either underneath without any heading or above with off-centre figures not included in the total, the entry for the abolition of the earnings rule. We would give the direct public expenditure effect of this, with a footnote explaining that this will make no net addition to public expenditure, since the expenditure will be met from the Reserve; and that there will be some offsetting revenue effects amounting to some £x million a year, which have been taken account of in the forecast.

3. I do not think we can leave these revenue effects out of the FSBR altogether, given both their likely size and that they will be in large part a direct flowback of income tax payments on the extra pensions. But they should not be included in Chapter 4, which sets out the Budget tax proposals.

4. Apart from the direct tax flowback there are the behavioural effects, which pull in opposite directions. On the one hand it will become more attractive for pensioners to work, so more earnings and more tax; on the other hand the payment of a pension to working pensioners previously not entitled to it will make them better off and this income effect may lead them to work less, so less earnings and less tax. We are considering what conclusion to recommend to you on this, both on substance and the words for the FSBR.

5. Are you content with the general treatment in the FSBR set out above?

6. I have agreed this note with Sir A Battishill and Mr Anson.

MCS

M C SCHOLAR

Annex A

Table 1.1 The Budget measures[1]

	£ million		yield(+)/cost(−)
	1986–87		1987–88
	Changes from an indexed base	Changes from a non-indexed base	Changes from a non-indexed base
Tax proposals:			
Income tax basic rate[2]	−950	−950	−1 305
Income tax allowances and thresholds	+15	−1 125	−1 470
Excise duties			
—petrol/derv	+135	+465	+495
—vehicle excise duty	−135	+5	+5
—tobacco	+175	+315	+335
—alcohol	−175	—	—
—gas oil	+25	+30	+30
—other minor oil duties	−25	−20	−20
Stamp duties			
—reduction in rate	−70	−70	−75
—extension of base	+70	+70	+85
Capital transfer tax (inheritance tax)	−35	−55	−100
Charities			
—package of reliefs	−10	−10	−70
—anti abuse measures	*[3]	*	+20
Pension fund surplus rules	+20	+20	+120
Other tax changes	−25	−25	+65
Total tax measures	**−985**	**−1 350**	**−1 885**
Expenditure measures:			cost(+)/saving(−)
Counselling initiative and Jobstart allowance	+100	+100	+70
Community Programme	+60	+60	+120
New Workers Scheme	+25	+25	+50
Enterprise Allowance Scheme	+5	+5	+35
Loan Guarantee Scheme	*	*	+5
Total expenditure measures (gross)[4]	**+195**	**+195**	**+290**
Offsetting savings in social security benefits	−95	−95	−125
Net call on the Reserve	+100	+100	+165

[1] *These measures, and the basis of the costings shown, are described in detail in Chapters 4 and 5.*

[2] *Figures include the effect of the consequential change in the rate of advance corporation tax.*

[3] *Negligible.*

[4] *Including Northern Ireland consequentials.*

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FROM: COLIN MOWL
DATE: 17 February 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Riley
Mrs Lomax
Mr Sedgwick
Mr A Allan
Mr S Davies
Miss Simpson
Mr Patterson
Ms Chaplin
Mr Tyrie
Mr Call

PSDR IN 1989-90 WITH NICs REFORM

Mr Sedgwick's minute of 16 February (The PSDR in 1988-89 and 1989-90) set out the post-Budget fiscal prospect assuming the Budget package in the Scorecard of 16 February. This minute summarises the prospect on the assumption that NICs reform with a direct revenue cost in 1989-90 of £1 billion is added, giving a package with a total cost of £2 billion.

Best Estimates

2. The NICs reform is assumed to be implemented from 1 October 1989 and to involve changes to employee NICs only (eg. option 4 in Mr McIntyre's minute of 16 February). The aggregate tax burden, as conventionally defined, measures some major taxes such as income tax, VAT and NICs, on an accruals basis. We have assumed that the direct effect of the reform on NIC accruals is £1.3 billion in 1989-90, more than the £1 billion direct receipts cost because of payment lags.

	1988-89	1989-90
PSDR excluding privatisation proceeds - £ billion		
£1 billion package	7.5	9.5
£2 billion package with NICs		8.5
PSDR excluding privatisation proceeds - % of GDP		
£1 billion package	1.6	1.9
£2 billion package with NICs		1.7
Non-oil tax burden - %		
£1 billion package	37.2	37.4
£2 billion package with NICs		37.1

37.1

? [illegible] adjustment?

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3. The addition of the NIC package reduces the PSDR in 1989-90 by £1 billion, the same as the direct revenue cost - the offsetting tax flowbacks are negligible in the first six months. On our best estimate the PSDR excluding privatisation proceeds in 1989-90 is £1 billion higher than 1988-89 with the NIC package. It barely changes between the two years as a share of GDP. With the NIC package the non-oil tax burden falls marginally.

Presentation in the FSBR

4. Were the larger package adopted the safety margins discussed in Mr Sedgwick's minute of 16 February would be lower <u>for a given published PSDR.</u> On the assumption that a PSDR of £14 billion were published for 1988-89 and that the PSDR in 1989-90 were the same as a percentage of GDP as in 1988-89, there would be a safety margin of only £1 billion.

PSDR (including privatisation proceeds) - £ billion	**1988-89**	**1989-90**
Best estimate with £2 billion package	14.5	13.5
Possible published figure	14.0	12.5
Safety margin	0.5	1.0

(Privatisation proceeds fall by £2 billion in 1989-90 and the PSDR excluding privatisation proceeds needs to rise by £½ billion to keep it unchanged as a percentage of GDP).

Colin Mowl

COLIN MOWL

or 12

½ 1½ ½ 0

what 1½/1½ i.e. low figs

~~66464~~

~~4.1355~~

509.7

474.6

7.1

6.6

1.39

1.39

12.1

13.6

COPY NO 32 OF 32 COPIES

FROM: A C S ALLAN
DATE: 20 February 1989

PMP

MR SCHOLAR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Culpin
Mr Riley
Mr Sedgwick
Mr McIntyre
Mr Matthews
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill IR
Mr Beighton IR
Mr Isaac IR
Mr Painter IR
Mr Calder IR

Mr Unwin C&E
Mr Jefferson Smith C&E

FSBR TREATMENT OF ABOLITION OF THE EARNINGS RULE FOR PENSIONERS

The Chancellor was grateful for your minute of 17 February. But he feels it would be an embarrassing own goal to have a separate heading entitled "Expenditure Measures" in table 1.1, especially in the light of what he said last year. Moreover, the earnings rule is an expenditure measure of a very special kind: according to the Darman duck test it is a tax measure. However, if we are to have a NICs package, too, then there may be a case for having NIC changes and the earnings rule under a separate heading "Other Measures". Before going nap on this, he would like to see as soon as possible a cockshy of what this would look like.

A C S ALLAN

ACSA/BS/89/4

2 of 19.

NOTE OF A MEETING IN THE CHANCELLOR'S ROOM
HM TREASURY AT 5.30PM ON MONDAY 20 FEBRUARY 1989

pp

Present: Chancellor of the Exchequer
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mrs Lomax
Mr Riley
Mr Sedgwick
Mr Gieve
Mr Hibberd
Mr Mowl
Mrs Chaplin
Mr Tyrie

THE PSDR IN 1988-89, 1989/90 AND IN THE MTFS

The Chancellor said he would be grateful for a chart and table showing GGE ratio (excluding privatisation proceeds) and the non-North Sea tax burden since 1970.

2. There was considerable discussion about what forecast of the PSDR in 1988-89 to publish in the FSBR. The outside range was probably £13.2 billion (which implied high borrowing in March after allowing for the special factors) and £14.6 billion (which assumed borrowing in February and March would be proportionately as much below last year as the cumulative difference over the year to January). There had been two factors inflating borrowing in March 1988: the timing of Easter which had increased social security payments; and the redemption of an indexed gilt. Neither factor applied this year, and there would be an additional £1 billion of privatisation proceeds this year; even allowing for a payment for shorts, it seemed inevitable that borrowing in March 1989 would be very much lower. Summing up, the Chancellor said

the range for publication was probably £13.6 billion to £14 billion. A final decision would be taken once we had an indication of the February outturn; in the meantime the figuring should assume a PSDR of £14 billion.

3. In discussion of the forecast for 1989-90, it was generally felt that tying ourselves to a PSDR less privatisation proceeds which was the same percentage of GDP as in 1988-89 unnecessarily set up a new rule. It would be better to use a figure which gave the same cash figure excluding privatisation proceeds, which on the assumptions above would be £11½-£12 billion. There was always a risk of over constraining the forecasts, but it should be possible to show an unchanged tax burden on this basis.

4. There was a preliminary discussion of the PSDR path in the MTFS. In discussion, the following points were made:

(i) It would be necessary to see the fiscal adjustments before any final decision could be made. The cumulative fiscal adjustments were roughly £7 billion under option 1, £8 billion under option 2, and £13 billion under option 3. In all these cases the vast bulk of the fiscal adjustment came in the last year.

(ii) The tax burden was forecast to fall by 1% between 1989/90 and 1992/93 before any fiscal adjustment largely because of a reduction in the affective corporation tax rate.

(iii) If we adjusted the revenue projections to offset the optimism in the public expenditure figures, the cumulative fiscal adjustments would be reduced to about £3 billion, £4 billion and £9 billion respectively.

(iv) Outside commentators had not necessarily yet picked up the lower CT receipts in January, and would be likely to calculate higher figures for the fiscal adjustment.

5. There was some discussion about whether we should publish year-by-year fiscal adjustment, or just the cumulative fiscal adjustments, or just the tax burden. It was generally felt that it would be very difficult to avoid giving a year-by-year figures to the TCSC, and that if we were going to have to do this it would be better to publish them in the FSBR.

6. The general view was that it would be desirable to use a stylised path in the MTFS; one possibility was 14/12/9/6/3. Option 2 - returning the PSDR excluding privatisation proceeds to zero by the end of the period - was not attractive, since it created another version of the balanced budget, in a precise form. The Chancellor asked for a range of options to be examined, and the annual fiscal adjustments displayed. These should all be based on the PSDR including privatisation proceeds; one of the options should show the PSDR falling to zero by the end of the period.

ACSA

A C S ALLAN

22 February 1989

Distribution

Those present
Mr Anson
Mr S J Davies
Miss Simpson

BUDGET SECRET

FROM: N I MACPHERSON
DATE: 20 February 1989

1. MR GILHOOLY 20/2

2. CHANCELLOR

And a few of unclear. I have now brought Annex & fully into the cost changes & Table. This needs FST doing, and I would like FST to take a close look at the Annex & the IR tax changes & the C&E tax changes.

a
A few comments marked

cc: Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gilhooly
Mr Matthews
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

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

Mr Unwin) C&E
Mr Jefferson Smith)

SECRET

B.L.O.

FSBR CHAPTER 4

I attach a draft Chapter 4 of the FSBR, plus table 4.1 and the Annex.

2. It would be helpful to know if you are content with the summary section. This describes in summary form the significant tax changes. It does not at this stage contain anything on NICs. Paragraphs 4.16 and 4.18 on life assurance

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and unit trusts refer to tax rates being reduced to 25 per cent. No explicit link has been made with the basic rate.

3. Table 4.1 includes a positive yield from stamp duty abolition in 1989-90 in line with the decision taken at today's Overview. (The figure of +£50 million is highly provisional and is likely to be revised downwards in the next Scorecard). The abolition of life assurance policy duty has been scored in the stamp duty section (Item 52) making the yield of the main life assurance package (Item 24) more transparent. Are you content with this? Also do you want us to spell out the benefit of stamp duty abolition to the life assurance industry?

4. The introduction to the Annex to Table 4.1 has been revised to take on board the changed methodology to costing revenue effects, set out in Mr Odling-Smee's minute of 5 October, with which you agreed.

N I Macpherson

N I MACPHERSON

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4 The Budget tax proposals

4.01 The main tax and other changes proposed in the Budget are summarised below. A full list of changes is given in Table 4.1.

Income tax

4.02 The main income tax thresholds will be increased in line with the statutory indexation provisions (based on the increase of 6.8 per cent in the RPI in the year to December 1988); ~~and~~ the higher level of age allowance currently for those aged 80 and over will be extended to those aged 75 and over. This will mean that:

the single person's and wife's earned income allowances will rise ~~by £180~~ from £2,605 to £2,785;

the married allowance will rise ~~by £280~~ from £4,095 to £4,375;

the additional personal allowance and widow's bereavement allowance will rise ~~by £100~~ from £1,490 to £1,590;

the age allowance for those aged 65 to 74 will rise ~~by £220~~ from £3,180 to £3,400 (single) and ~~by £350~~ from £5,035 to £5,385 (married);

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~~the age allowance for those aged 75 to 79 will rise by £360 from £3,180 to £3,540 (single) and by £530 from £5035 to £5,565 (married);~~

~~the age allowance for those aged 80 and over will rise by £230 from £3,310 to £3,540 (single) and by £360 from £5,205 to £5,565 (married);~~

but odd. do we need to do "will rise by £x" for every age group?

The age allowance for those aged 75 and over will rise from £3,180 for those under 80 and from £3,310 for those 80 and over to £3,540 (single), and from £5,035 for those under 80 and from £5,205 for those 80 and over to £5565 (married);

the income limit for age allowance will rise ~~by £800~~ from £10,600 to £11,400;

the basic rate limit will rise from £19,300 to £20,700 of taxable income.

4.03 The age allowance withdrawal rate will be reduced from £2 of allowances for each £3 of income to £1 for each £2 of income above the new limit of £11,400.

Benefits in kind

4.04 Car benefit scale charges will be increased by 20 per cent from 6 April 1989.

B.L.O. SECRET

Private medical insurance

4.05 Income tax relief will be given from April 1990 on private medical insurance premiums for those aged 60 and over.

Charitable giving

4.06 The limit on charitable donations qualifying for tax relief under the payroll giving scheme will be doubled from £240 to £480 a year from 6 April 1989.

Employee share trusts

4.07 Tax relief will be given for payments by companies to qualifying employee share trusts (or Employee Share Ownership Plans - ESOPs)

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Scheme no-one will know what this is!

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Approved employee share schemes

4.08 The annual limit for the 1978 employee share scheme will be increased to £2000 or - if greater - to 10 per cent of pay up to a maximum of £6000. The 1980 SAYE share scheme limit will be increased from £100 to £150 per month. The maximum discount of the share price at which options may be granted will be doubled to 20 per cent.

Profit-related pay

4.09 The cash ceiling on the amount of profit-related pay attracting tax relief will be increased to £4,000. The registration rules for PRP schemes will be simplified.

SECRET

Personal equity plans

irrespective of other holdings.

+ simplifications

4.10 The annual limit on investment in Personal Equity Plans will be increased from £3,000 to £4,800. The annual limit on investment in unit and investment trusts will be increased to £2,400, and restricted to unit and investment trusts which invest mainly in UK equities. The ~~[illegible]~~ PEP rules will be greatly simplified.

Schedule E assessment

expand? (transitional cost)

4.11 The basis of assessment for Schedule E emoluments will be changed from earnings to receipts.

B.L.O.

Relocation expenses

4.12 Payments an employer makes towards the additional housing costs of an employee transferred to a more expensive location will no longer be exempt from tax.

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Pensions

4.13 The tax regime for pensions will be amended. For occupational schemes the main features will be:

employers will be able to set up "top up" schemes for their employees, with no limits on benefits, but without special tax reliefs;

a limit will be placed on pensions paid from tax approved schemes, based on earnings of £60,000 a year. This is consistent with a privileged pension of up to £40,000 a year or maximum tax free lump sum of up to £90,000. The earnings limit will be indexed to prices;

the rules for tax approved pensions, particularly affecting those who take early retirement, will be simplified and improved.

[illegible] on what this refers to

These changes will apply to schemes set up on or after Budget day and to new members joining existing schemes on or after that date.

4.14 New simplified rules will be introduced for monitoring additional voluntary contributions. Any surplus contributions made will be returned to employees, subject to a special tax charge.

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Annual contribution limits for

4.15 ~~For~~ personal pension schemes~~, annual contribution limits,~~ will be increased as a percentage of earnings, ~~will be made more generous, but will be~~ subject to ~~a~~ an overall cash limit, based on the £60,000 earnings limit for occupational schemes.

Life assurance

4.16 The following changes for life assurance companies will be introduced from 1 January 1990:

pension and general annuity business expenses will be deductible only from pension or general annuity profits;

Is this right order?

relief for expenses of acquiring new life assurance business (other than pension or general annuity business) will be spread over seven years; this change will be phased in gradually over the next four years; ~~subject to transitional measures to phase in the change;~~

say phased in over four years.

the rate of tax charged on income and capital gains attributable to policy holders will be reduced to the basic rate of income tax (25 per cent); ~~25 per cent;~~

life assurance policy duty will be abolished.

Stamp Duties

4.17 Stamp duties on share transactions will be abolished from 1 April 1990.

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Unit trusts

4.18 A new tax regime will be introduced from 1 January 1990 for unit trusts in transferable securities which are freely marketable throughout the European Community under the UCITS directive. The rate of corporation tax charged on their income will be reduced to 25 per cent.

the basic rate of income tax

COBO ~ **Deep discount bonds**

~~The Budget~~

4.19 The ~~Following the abolition of the~~ Control of Borrowing Order (will be abolished, ~~~~ and) the regime for deep discount bonds, including certain index-linked bonds, will be amended with effect from Budget day.

Business taxation

4.20 The profits limit for the small companies' corporation tax rate of 25 per cent for financial year 1989 will be raised from £100,000 to £150,000 and the limit for marginal relief will be raised from £500,000 to £750,000.

jargon.

4.21 The main rate of corporation tax for the financial year 1989 will be 35 per cent.

Surely better to have the higher rate tie to income tax, rather than a special rate of Corporation Tax

4.22 The apportionment rules for close companies will be abolished. Special provisions and a higher rate of corporation tax of 40 per cent will be introduced for close investment companies which distribute less than a specified percentage of their profits.

4.23 An unincorporated trader who sustains a trading loss and realises a capital gain in the same year will be able to set off the loss against the gain.

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B.L.O. SECRET

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Oil taxation *

~~4.24 A new petroleum revenue tax allowance will be introduced in respect of the cost of qualifying incremental investment undertaken within certain North Sea fields but outside the existing development area for the field.~~

Capital gains tax

4.25 The capital gains tax annual exempt amount will remain at £5,000 in the case of individuals and £2,500 in the case of most trusts.

4.26 Capital gains tax deferral on life time ~~time~~ gifts will be restricted to certain types of gift - in particular, gifts of business and heritage assets, ~~and~~ gifts on which there is an immediate charge to inheritance tax, and gifts to charity.

? gifts to charities
? gifts between husbands & wives

Inheritance tax

4.27 From Budget day the threshold for inheritance tax will be increased in line with the statutory indexation provisions from £110,000 to £118,000.

VAT

B.L.O. SECRET

4.28 The present turnover requirements for VAT registration will be replaced for most businesses by a single limit based on turnover in the previous twelve months.

4.29 From 15 March 1989 the registration limit will become £23,600 a year.

Ask Mr Unwin to turn into attractive English: these are goodies (& not cheap!)

? 4.30 A comprehensive system of relief from VAT on bad debts will be introduced.

jargon. 4.31 The maximum rate of default surcharge will be reduced from 30 per cent to 20 per cent.

* Dropped at today's Overview

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4.32 As announced on 6 February, a new VAT regime will be applied to the construction and exploitation of non-residential buildings and land. VAT at the standard rate will be applied to

jargon.

- news services (but not newspapers);
- protective boots and helmets supplied to employers;
- fuel and power supplied to businesses; and
- water and sewerage services supplied to industry.

Ask BSi to also do this. Need to make clear (a) ECJ origins & (b) what the danger of this in jargon-free terms

4.33 VAT relief for charities will be extended to charity and certain other fund-raising events, classified and certain other types of advertising, and to medical sterilising equipment.

Excise duties

4.34 The duty on unleaded petrol will be reduced by the equivalent of 3.2p a gallon, 0.7p a litre, (inclusive of VAT). A surcharge of 5p a gallon, 1.1p a litre, (inclusive of VAT) will be introduced on 2 and 3 star petrol.

Vehicle excise duty

4.35 The number of rates of vehicle excise duty for hackney carriages (buses, coaches, taxis etc.) will be reduced from over sixty to five. Rates of duty for buses and coaches ~~as a group will be brought up to a level to cover track costs.~~ Rates of duty will be increased also for certain rigid heavy goods vehicles.

Will be increased by (or to) £x a year, to cover track costs.

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ITV levy

4.36 From 1 January 1990, the additional payments made by ITV programme contractors will be assessed on a mixture of net advertising revenue and profits.

Tax administration

4.37 In the light of recommendations by the Keith Committee, changes will be made:

to update the system of monetary penalties for tax offences;

to modernise the powers of the Inland Revenue to obtain information;

to improve compliance by employers.

Tax confidentiality

Earnings rule

NICs

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Table 4.1 Direct effects of changes in taxation

See Annex 4 Paragraph numbers		£ million Estimated effect on receipts in: 1989-90 Changes from a non-indexed base	1989-90 Changes from an indexed base	1990-91 Changes from an indexed base
	INLAND REVENUE	yes		
	Income tax			
1	Increase in single allowance of £180 and married allowance of £280	-1120	-	-
2	Increase in additional personal allowance and widow's bereavement allowance of £100	-10	-	-
3	Increase in age allowance of £220 (single) and £350 (married) for those aged 65 to 74	-70	-	-
4	Increase in age allowance of £360 (single) and £530 (married) for those aged 75 to 79	-30	-10	-15
5	Increase in age allowance of £230 (single) and £360 (married) for those aged 80 and over	-20	-	-
6	Increase in income limit for age allowance of £800	-15	-	-
7	Increase in basic rate limit of £1,400 to £20,700	-210	-	-
8	Reduction in age allowance withdrawal rate	-5	-5	-5
9	Fringe benefits - car benefit scales	+90	+90	+110
10	Reimbursement of additional housing costs - withdrawal of exemption	+5	+5	+30
11	Fringe benefits - removal expenses	*	*	*
12	Tax relief for private medical insurance for those aged 60 and over	-	-	-40
13	Pension - amendments to tax rules — pretty terse - I'm not sure what would be better	*	*	*
14	Payroll giving to charities - increase in donation limit to £4800 a year	*	*	*
15	Membership covenants to heritage charities — not in text	-5	-5	-10
16	~~Amendments to~~ profit-related pay legislation — feeble	-10	-10	-15
17	Increase in approved employee share limits	*	*	*
18	Employee priority in public offer of shares	*	*	*
19	Changes in material interest tests	*	*	-5
20	Abolition of tax relief on new loans to buy Business Expansion Scheme shares	[*	*	+5]
21	Schedule E - change to receipts basis of assessment	-60	-60	-80
22	Change in rule on settlements where settlor or spouce can benefit	*	*	*
23	Tax deductible from tax credit payments to US companies	-	-	-
	Income tax and corporation tax			?
24	Taxation of income and gains of life assurance companies	[*	*	+125]
25	Abolition of close company apportionment	*	*	*
26	Capital allowances - safety at sports grounds } merge? — yes	*	*	*
27	Capital allowances - miscellaneous amendments	*	*	*
28	Extension of relief for pre-trading expenditure	*	*	*
29	Subcontractor tax scheme - reduction in voucher requirements	-	-	-
	Income tax and capital gains tax			
30	Personal Equity Plans - increase in limits etc (minimum change)	-5	-5	-10
31	Set off of trading losses against gains — Unincorporated companies:	-	-	[-25]

This is v complicated. Can't we stick to 2 lines: indexation & extension to over 75's

* = Negligible - = Nil

Liberalisation of

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Table 4.1 Direct effects of changes in taxation

£ million

See Annex 4 Paragraph numbers		Estimated effect on receipts in: 1989-90 Changes from a non-indexed base	1989-90 Changes from an indexed base	1990-91 Changes from an indexed base
	Income tax, corporation tax and capital gains tax			
32	Keith committee - administrative changes	*	*	*
33	Deep discounted bonds - taxation of uplift as income	-	-	+15
34	Tax charge on switching investments in offshore funds	*	*	*
	Corporation tax			
35	Increase in profits limits for small companies rate and marginal relief	*	*	-35
36	Changes in the taxation of certain unit trusts	-	-	*
37	Relief for payments to employee share ownership ~~trusts~~ plans (ESOPs)	*	*	*
38	Advance corporation tax amendments	*	*	*
39	Sales of subsidiaries	*	*	*
	Oil taxation			
40	~~Petroleum revenue tax - incremental investment allowance~~	~~-10~~	~~-10~~	~~-20~~
	Capital gains tax			
	Restriction of			
	No change in			
41	Annual exempt amount ~~frozen~~ ~~[illegible]~~	-	*	+10
42	Gifts relief	*	*	+25
43	Change in the rules for Lloyd's underwriters	-	-	*
	Capital gains tax and corporation tax			
44	UK branches of foreign businesses - changes affecting capital gains	*	*	*
45	Technical changes associated with rebasing of capital gains	*	*	*
46	Increase in capital gains chattels exemption to £5000	*	*	*
47	Exemption of certain bonds from charges on capital gains	*	*	*
	Capital gains tax and inheritance tax			
48	Gifts to housing associations	*	*	*
	Inheritance tax			
49	Increase in threshold of £8000	-35	-	-
50	Changes in rules for varying disposition on death	+5	+5	+15
	Stamp duties			
51	Abolition of duty on shares	[+50	+50	-850]
52	Abolition of life assurance policy duty	-20	-20	-80
	TOTAL INLAND REVENUE	-1475	+25	-855

* = Negligible - = Nil

Table 4.1 Direct effects of changes in taxation

£ million

See Annex 4 Paragraph numbers		Estimated effect on receipts in: 1989-90 Changes from a non-indexed base	1989-90 Changes from an indexed base	1990-91 Changes from an indexed base
	CUSTOMS AND EXCISE			
	Value added tax			
53	Revised regitration rules	-35	-35	-100
54	Increase in registration limit	*	*	*
55	Bad debt relief	-50	-50	-150
56	Keith - review of default surcharge	-20	-20	-20
57	Recovery of overpaid VAT and excise duty	-	-	-
58	Revised tax regime for construction, buildings and land	+310	+310	+440
59	Change in libility of news services	+5	+5	+5
60	Change in liability of certain protective boots and helmets	*	*	*
61	Change in liability of certain supplies of fuel and power	-	-	+95
62	Change in liability of certain water and sewerage services	-	-	*
63	Reliefs for charities	-5	-5	-5
64	Relief for research and development cars	-5	-5	-5
	Excise duties			
65	No change in rate of spirits duty	-	-65	-70
66	No change in rate of beer duty	-	-140	-155
67	No change in rate of duty on cider and perry	-	-5	-5
68	No change in rate of duty on wine and made-wine	-	-45	-50
69	No change in rate of duty on 4 star petrol etc	-	-440	-465
70	No change in rate of duty on derv	-	-95	-105
71	No change in rate of duty on minor oils	-	-10	-10
72	No change in rates of tobacco products duties	-	-235	-250
73	Restriction on blending of duty-paid made-wine	*	*	*
74	Determination of original gravity of beer	*	*	*
75	~~Measures to promote~~ unleaded petrol Increase in duty on 2 star leaded petrol	disaggregate { -30	-30	-75
	TOTAL CUSTOMS AND EXCISE	+170	-865	-925
	Vehicle excise duty			
76	No change in VED on cars, light vans and main lorry rates	-	-190	-210
77	Increase in VED rates for taxis, buses and coaches	+20	+20	+20
78	Increase in certain other VED rates	+20	+20	+20
	TOTAL VED	+40	-150	-170
	Other			
79	Sale of registration numbers	*	*	+10
80	ITV levy re-basing	-	-	+60
81	Unauthorised disclosure of confidential information	-	-	-
	TOTAL OTHER	*	*	+70
	TOTAL CHANGES IN TAXATION	-1265	-990	-1880

Reduction in duty on

I don't know we want do this

Looks as though we want this

* = Negligible - = Nil

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ANNEX TO CHAPTER 4

Explanatory notes to Table 4.1

Table 4.1 gives the direct effects of changes in taxation. Estimates are rounded to the nearest £5 million. "Negligible" means less than £3 million.

The direct effect of a tax change is the difference between the yield of the tax which would arise on the basis of the rate of tax, allowances, etc prevailing before the Budget (the pre-Budget regime) and the yield after the changes proposed in the Budget (the post-Budget regime). The difference in yield is generally calculated by applying the pre- and post-Budget regimes to the same tax base. This base is the post-Budget base - that is, the levels of income, consumption, profits, etc forecast for future years on the assumption that all the measures proposed in the Budget take effect.

Tax changes may cause changes in taxpayers' behaviour, which in turn can alter the tax base and hence revenue. The direct effects are estimated subject to the constraint that, in general, total incomes and total expenditure are fixed at their post-Budget levels. Thus the estimates in the table do not include income effects - that is, effects arising solely from the impact of changes in taxes on disposable incomes. Nor do they include the effects of changes in the tax base arising from changes in pre-tax incomes, the general level of prices or other macro economic variables which may result from the proposed tax change. But other behavioural effects are taken into account where it is thought that they will have a significant effect on the yield.

For Customs & Excise taxes and duties, all the estimates of yield incorporate the effects of the tax changes on relative prices and associated changes in the pattern of consumers' expenditure. Aggregate income and consumers' expenditure at

factor cost are assumed not to change. [This is a slight modification of previous practice in which nominal consumers' expenditure at market prices, rather than at factor cost, was held constant.] Examples where behavioural effects are taken into account for Inland Revenue taxes include changes involving the take-up of a new or modified relief and changes to the rates of stamp duty or CGT [update in the light of Budget measures].

The post-Budget forecast of each tax given in Table 1.2 takes account of all the effects of the measures announced in the Budget, and not just the direct effects included in table 4.1.

The figures in the first column of Table 4.1 show the direct effect of the Budget proposals on receipts in 1989-90. Budget proposals are compared with a non-indexed base - that is, with the pre-Budget regime of allowances, thresholds and rates of duty at 1988-89 levels.

The figures in the second column show the direct effect of the Budget proposals on receipts in 1989-90, measured against an indexed base. The indexed base for 1989-90 is obtained by increasing 1988-89 allowances, thresholds and rates of duty by 6.8 per cent, the increase in the RPI over the year to December 1988.

The figures in the third column show the direct effect on receipts in 1990-91, also measured against an indexed base. For this comparison, both the Budget proposals and the indexed base for 1989-90 have been further indexed by the forecast movement in the RPI between the fourth quarters of 1988 and 1989 (shown in Table 3.12).

The remainder of this annex provides a commentary on the Budget proposals in Table 4.1; the paragraph numbers refer to the lines in this table. Additional information is provided for those proposals where the effect on tax liabilities in

the first complete year to which the change applies (full year effect) is substantially different from the effect on receipts in either 1989-90 or 1990-91; or where the impact of the proposal is expected to build up over a period of years.

Income Tax

1 to 7 The increases in the main personal allowances and the basic rate limit are in line with the statutory indexation provisions (based on the increase of 6.8 per cent in the RPI in the year to December 1988). The higher age allowance formerly for those aged 80 and over will be extended to those aged 75 years and over.

8 The age allowance withdrawal rate will be reduced from £2 of allowances for each £3 of income to £1 for each £2 of income above the limit of £11,400.

9 For 1989-90 the scales for taxing car benefits will be increased by 20 per cent from their 1988-89 levels.

10 The extra-statutory concession which has exempted from tax certain reimbursements by employers of additional housing costs incurred by their employees who have had to move with their jobs to more expensive locations will be withdrawn from 6 April 1989. There will be transitional relief for those already benefiting from the concession and for those who enter into a

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commitment to move before 6 April 1989 and who start a job in the new location by 1 July 1989.

11 The extra-statutory concession which has exempted job-related relocation expenses from any charge to income tax will be put on a statutory footing from 1989-90, but no relief will be available for any capital loss incurred on the disposal of the old property.

12 Tax relief will be available (with basic rate relief given at source) for eligible premiums paid in 1990-91 and subsequent years for private medical insurance for those aged 60 years and over. The cost for 1990-91 assumes an increase in take-up in the region of 10 per cent as a result of the new relief. Eventual costs will depend, among other things, on the extent to which medical insurance for the over-60s is promoted and taken up.

13 The amendments to the tax rules for pension schemes will mean that:

for tax approved schemes, earnings over £60,000 will be ignored for the purpose of calculating benefits (consistent with a maximum pension of £40,000, or tax-free lump sum of £90,000). Other amendments will be made to the tax rules to improve early retirement benefits, to allow a two-thirds final salary pension on retirement after 20 years' service between ages 50 and 70 and to simplify calculation of tax-free lump sums. These

changes apply to new schemes set up on or after 14 March 1989 and to new members joining existing schemes on or after that date;

employers will be able to set up top-up schemes with no limits on benefits, but without tax privileges such as tax-free investment build-up; or any tax relief on contributions

new rules will allow surplus voluntary contributions to be returned to the member instead of reducing benefits from the employer's scheme. The voluntary scheme will deduct a 35 per cent charge from the refund to recoup the tax advantages enjoyed on contributions and build-up. There will be a further liability on higher rate taxpayers;

changes will be made to the personal pensions tax rules to increase from 1988-89 the age related contribution limits. The increased limit will be subject to [the £60,000] earnings cap. And the rules for calculating tax-free lump sums will be simplified.

These measures overall are expected to have broadly neutral revenue effects both in the early years and in the longer term.

Is this really so? Important pl: affects presentation.

14 The limit on charitable donations qualifying for relief under payroll deduction schemes will be increased from £240 to £480 from April 1989. The cost will depend on take-up.

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15 The condition for relief for charitable covenants will be relaxed so that where a member of a heritage charity is given free entry to view the charity's property, that benefit will not disqualify the covenant payments from relief. The cost will depend on take-up.

16 Amendments to the profit related pay (PRP) legislation will

- abolish the '5 per cent test' on a PRP scheme's eligibility for registration;

- increase to £4,000 the cash limit on the amount of PRP attracting tax relief;

- provide a facility for scheme employers to alter, subject to conditions, the rules of PRP schemes which have already been registered; and

- enable PRP schemes to be registered for certain employment units for which the amount of PRP will depend upon the profits of the whole business rather than of the employment unit itself.

17 The annual limit on the value of shares which may be appropriated to an employee under an approved employee profit-sharing share scheme (ICTA 1988 Section 186) will be increased, with effect from 6 April 1989, from £1,250 or 10 per cent of pay subject to a maximum of £5,000 to £2,000 or 10 per cent of pay subject to a maximum of £6,000. The limit on monthly savings made by an employee under an approved savings-related share option scheme

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(ICTA 1988 Section 185) will be increased, from a day to be appointed, from £100 to £150. The maximum discount on the share price at which options may be granted under these schemes will be increased from 10 per cent to 20 per cent. The kinds of shares which may be used in a company's approved employee share scheme will be extended to include those of a member of a consortium owning the company where the member owns one-twentieth or more of the company's ordinary share capital.

18 There will be a relaxation in the conditions under which income tax relief is given to employees who benefit by virtue of their employment from priority in applying for a public offer of shares.

19 Changes will be made in the material interest tests of an employee's eligibility to participate in an approved employee share scheme and in a registered profit-related pay scheme, and of an individual's entitlement to close company interest relief. Subject to certain conditions, these changes will exclude shares held by a trust of which the employee is a beneficiary when reckoning his material interest, [provided that he has received no more than limited benefit from the trust].

20 Relief for interest on loans to acquire Business Expansion Scheme shares on or after 14 March 1989 will be abolished.

21 From 6 April 1989 Schedule E emoluments will be assessed for the year in which they are

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received instead of the year for which they are earned. There will be a transitional cost, but from 1992-93 when the transition is complete, there will be an annual yield of about £50 million.

22 As part of the introduction of Independent Taxation, outright gifts between husband and wife will be taken outside the rule which treats certain settlement income as the settler's for higher rate tax purposes. For certain other settlements the present rule will be extended to the basic rate producing a small revenue yield.

23 Legislation will be introduced to make clear the amount of UK tax that is deductible from UK tax credits to which non-residents may be entitled under a double taxation convention. This measure will prevent a potential Exchequer loss of about £15 million a year.

Income tax and corporation tax

24. From 1 January 1990, the rules for taxing life assurance companies' profits will be reformed:

to prevent the expenses of pension and general annuity business from being set against taxable income and gains of other life assurance business;

to spread the relief for the costs of acquiring new business (other than pension and general annuity business) over seven years, subject to transitional

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arrangements in the first four years to phase out the present immediate relief; and

to reduce the corporation tax rate on income and capital gains allowable to policyholders to 25 per cent.

The yield in 1990-91 and the immediately following years is reduced by the proposed transitional arrangements, and by the carry-forward of unrelieved expenses from past years. The yield is likely to peak in 1995-96, diminishing thereafter. The yield in all years depends on developments in the industry, particularly in the level of new business, and is therefore highly uncertain.

25 The apportionment rules for close companies will be abolished. A higher rate of corporation tax of 40 per cent will be introduced for close investment companies which distribute less than a specified percentage of their profits. A close investment company will no longer get tax relief for interest payments, annual payments or management expenses unless these would have been deductible if paid by an individual.

26 The legislation relating to capital allowances for safety expenditure at sports grounds will be amended from 1 January 1989 to take account of the extensions of safety certificate requirements to regulated stands at undesignated sports grounds.

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27 Minor amendments will be made to the capital allowances legislation to correct defects and anomalies in advance of the consolidation of that legislation.

28 The period for which relief may be available for business expenditure incurred before a trade begins will be increased from three to five years. The cost of this proposal will take some years to build up and could amount of tens of millions of pounds.

29 The requirements for subcontractors in the construction industry to provide tax vouchers will be reduced, principally by aggregation of successive small payments onto a single voucher.

Income tax and capital gains tax

30 The main changes are:

an increase in the overall annual limit on investment in a Personal Equity Plan to £4,800;

within that an increase in the limit for investment in authorised unit trusts and investment trusts to £2,400, coupled with a new requirement that the trust must invest mostly in UK equities;

significant simplifications for plan managers; and

the facility for new share issues to be brought within plans.

The costs assume take-up in the region of 400,000 in the first full year. The cost is likely to reach £30 million after 5 years.

31. After 5 April 1989, if an unincorporated trader makes a trading loss and realises a capital gain in the same income tax year of assessment he will be able to set off the loss against the gain. [The estimated full year costs accrued in 1989-90 and 1990-91 are £50 million and £75 million respectively.]

Income tax, corporation tax and capital gains tax

32 In the light of recommendations of the Keith Committee, administrative changes will be made:

to update the system of monetary penalties for tax offences in line with inflation and remove obsolete penalties;

to introduce a uniform time limit of 20 years for recovery of tax lost through default;

to allow taxpayers further time to claim reliefs where an Inspector discovers that further tax is due;

to modernise the Inland Revenue's powers to obtain information about a taxpayer under enquiry, to allow questions to be put to the taxpayer, provide greater

safeguards for the taxpayer and protect audit papers and tax advice from disclosure by his accountant;

to amend the Inland Revenue's search powers to provide greater safeguards for the taxpayer;

to create a new criminal offence for the deliberate destruction of documents called for under the Inland Revenue's information powers;

to change the filing date for returns of PAYE and NIC deductions by employers from 19 April to 19 May, tighten up the penalties for filing gradually over a period of years, leading to the introduction of automatic penalties for all late filing (but not before 1995).

The effect on revenue in subsequent years is expected to be small.

33 From Budget Day the existing corporate deep discount legislation in Schedule 4 ICTA 1988 will be widened to include non-variable deep discounted securities issued by non-corporate borrowers. On a sale or redemption the accrued discount will be taxed as income. Any excess or shortfall will be taxed as a capital gain or loss unless the security is exemption from capital gains tax as a qualifying corporate bond. Where deep discounted securities have variable features so that the precise accrued discount at any particular time cannot be determined in advance (including certain index linked

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bonds), the whole of the uplift between cost price and sale or redemption price will be taxed as income. The eventual yield is very uncertain but is estimated at around £50 million.

34 A tax charge will be imposed on UK investors on gains when they switch holdings within an offshore fund.

Corporation Tax

35 The profits limit for the small companies' corporation tax rate of 25 per cent for financial year 1989 will be raised from £100,000 to £150,000 and the limit for marginal relief will be raised from £500,000 to £750,000

36 From 1 January 1990 all unit trusts that are UCITS (Undertakings for Collective Investment in Transferable Securities) under the relevant European Communities legislation will be subject to corporation tax on their income at a rate of 25 per cent, with no relief being given for interest paid by them. The cost will rise to about £20 million from 1991-92 onwards.

37 Payments made by a company to an [employee share trust] will be deductible in calculating its corporation tax liability where the trust meets conditions aimed at ensuring the acquisition of shares in the company by its employees.

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38 Various minor changes will be made to the advance corporation tax (ACT) rules concerning a company which is part of a group or consortium.

39 Measures will be introduced to counter avoidance of tax on disposals of subsidiaries in ways which could cause a substantial loss of tax.

Oil Taxation

40 A new petroleum revenue tax (PRT) allowance will be introduced, relating to the cost of qualifying incremental investment outside the existing development area of certain North Sea oil fields. It will take the form of a 15 per cent enhancement to the relevant expenditure that is allowable as a deduction in determining PRT profits. The figures in Table 4.1 include the cost of relief for all of the expenditure of incremental projects that would otherwise not be expected to go ahead, as well as the cost of relief for the allowance itself. There will be a yield in later years as a result of revenues from these projects.

Capital Gains Tax

41 The capital gains tax annual exempt amount will remain at £5,000 in the case of individuals and £2,500 in the case of most trusts. ~~The revenue yield in 1991-92 is estimated at £15 million.~~

Reads v oddly

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42 Capital gains tax gifts relief (which allows deferral on gifts) will be restricted to certain types of gift, the main categories being gifts of business and heritage assets and gifts on which there is an immediate charge to inheritance tax. The revenue yield in 1991-92 is estimated at £40 million. The change will not affect gifts to charities or between spouses.

43 The capital gains tax rules applying to assets held by Lloyd's underwriters in their premiums trust funds will be amended to facilitate stock lending to market makers.

Capital Gains Tax and Corporation Tax

44 Changes will be made to the rules for the taxation of capital gains of foreign businesses with UK branches or agencies or with operations on the UK continental shelf. The main effect will be to counter possible developments which could lead to a significant loss of tax.

45 Technical changes will be made to clarify how the provisions in the Finance Act 1988 for rebasing the taxation of capital gains to 1982 should apply in certain special situations.

46 Chattels with a disposal value of less than £3,000 are exempt from charges on capital gains. The limit will be raised to £5,000.

47 Certain sterling bonds will be exempted from capital gains tax and corporation tax on gains. The main effect will be to counter use of the indexation allowance in ways which could cause a significant loss of tax.

Capital gains tax and Inheritance Tax

48 Certain gifts to registered housing associations will qualify for capital gains tax deferral and inheritance tax exemption.

Inheritance Tax

49 The estimated full year cost of indexation attributable to taxable estates in 1989-90 is £80 million.

50. The facility for varying the disposition of a deceased person's assets will be limited to those variations making adequate provision for dependent relatives of the deceased.

Stamp Duty

51 The following stamp duties will be abolished from 1 April 1990:

the present ½ per cent ad valorem duty on the transfer of UK registered securities;

stamp duty reserve tax;

the 1½ per cent duties on the conversion of UK shares into depository receipts or their transfer into clearance services;

associated charges on bearer shares and unit trusts units; and

certain fixed duties on share transfers.

Announcement of the

[~~Abolition~~ Abolition of these duties is expected to lead to ~~a~~ some rise in the ~~price of shares and in the volume~~ value of share transactions. That will mean an increased yield from stamp duty in 1989-90 and from some other taxes, eg capital gains and value added tax in later years. The cost figures in Table 4.1 take account of these additional yields.]

Better to say 'turnover'? to the price/volume. Would be say we expect share prices to rise!

52 Life assurance policy duty will be abolished from 1 January 1990. The cost in 1990-91 takes account of the consequential change in corporation tax liability

Value Added Tax

53 The present VAT registration rules will be replaced by a single requirement based on turnover in the previous twelve months. The existing rules based on anticipated turnover will still apply, in modified form, to large businesses and short term events.

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54 From 15 March 1989, the registration limit will become £23,600 a year.

55 A comprehensive system of VAT relief on all debts which are more than 18 months old and which have been written off in the trader's accounts will be introduced. Repayment of the relief, or part of it, will be required where the debt is subsequently paid in whole or in part.

56 The maximum rate of default surcharge will be reduced from 30 per cent to 20 per cent for all appropriate VAT returns due on or after 31 March 1989.

57 The right of taxpayers to recover overpaid VAT, excise duty [and car tax] will be confirmed - subject to certain conditions - and procedures established which will enable VAT accounting errors to be corrected.

Transitional provisions? - ✓

58 From 1 April 1989, VAT will be applied at the standard rate to the construction and sale of new non-residential buildings. From 1 August 1989, VAT at the standard rate will be applied, in certain circumstances, to building land; and landlords will be able to opt to charge tax on their non-residential property and land transactions.

59 From 1 April 1989, VAT will be applied at the standard rate to news services (but not newspapers).

60 From 1 April 1989, VAT will be applied at the standard rate to protective boots and helmets supplied to employers.

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61 From 1 July 1990, VAT will be applied at the standard rate to fuel and power supplied to businesses.

62 From 1 July 1990, VAT will be applied at the standard rate to water and sewerage services supplied to industry.

63 VAT relief for charities will be extended to charity and certain other fund-raising events, medical sterilising equipment and classified and certain other types of advertising.

64 From 1 May 1989, all cars used by manufacturers for research and development purposes will be relieved of VAT.

Excise duties

65-72 There will be no change in the rates of duty on alcoholic drinks, tobacco products and most hydrocarbon oils.

73 The duty arrangements for made-wine will be brought into line with those applicable to wine [of fresh grapes] by prohibiting duty-paid blending.

74 The rules for determining the original gravity of beer for duty purposes will be clarified.

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75 The duty on unleaded petrol will be reduced by the equivalent of 3.2p a gallon, 0.7p a litre (including VAT). A surcharge of 5p a gallon, 1.1p a litre (including VAT), will be introduced on 2 and 3 star petrol.

Vehicle excise duties

76 There will be no change in the duties on cars, light vans, motor cycles and most lorries.

77 From 15 March 1989, the number of duty rates for taxis, coaches and lorries will be reduced from over sixty to five and rates will be adjusted.

78 From 15 March 1989, the rates of duty on certain rigid lorries will be increased to bring them more into line with rates for articulated vehicles of similar gross weight. The rate of duty for special types capable of carrying very long, wide or heavy loads will be increased to £3,100.

Other

79 A pilot scheme making certain registration numbers available for sale to the public will begin in December 1989.

80 From 1 January 1990, the additional payments made by ITV programme contractors will be assessed on a mixture of net advertising revenue and profits.

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81 Criminal sanctions will be provided against unlawful disclosure of information relating to an identifiable taxpayer by employees or former employees of revenue departments.

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FROM: A C S ALLAN
DATE: 21 February 1989

pup

MR MACPHERSON

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gilhooly
Mr Matthews
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill IR
Mr Beighton IR
Mr Isaac IR
Mr Painter IR
Mr Calder IR

Mr Unwin C&E
Mr Jefferson Smith C&E

FSBR CHAPTER 4

The Chancellor was grateful for your minute of 20 February. I attach a copy of those pages on which he had comments. As you will see, he does want to link the new tax rates for life assurance and unit trusts to the basic rate.

2. The Chancellor would be grateful if the Financial Secretary could take a close look at the Inland Revenue tax changes in the annex and the Economic Secretary could do the same for Customs and Excise tax changes.

ACSA

A C S ALLAN

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CHANCELLOR'S COMMENTS MARKED

4 The Budget tax proposals

4.01 The main tax (and other) changes proposed in the Budget are summarised below. A full list of changes is given in Table 4.1.

Income tax

4.02 The main income tax thresholds will be increased in line with the statutory indexation provisions (based on the increase of 6.8 per cent in the RPI in the year to December 1988); ~~and~~ the higher level of age allowance currently for those aged 80 and over will be extended to those aged 75 and over. This will mean that:

the single person's and wife's earned income allowances will rise ~~by £180~~ from £2,605 to £2,785;

the married allowance will rise ~~by £280~~ from £4,095 to £4,375;

the additional personal allowance and widow's bereavement allowance will rise ~~by £100~~ from £1,490 to £1,590;

the age allowance for those aged 65 to 74 will rise ~~by £220~~ from £3,180 to £3,400 (single) and ~~by £350~~ from £5,035 to £5,385 (married);

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~~the age allowance for those aged 75 to 79 will rise by £360 from £3,180 to £3,540 (single) and by £530 from £5035 to £5,565 (married);~~

~~the age allowance for those aged 80 and over will rise by £230 from £3,310 to £3,540 (single) and by £360 from £5,205 to £5,565 (married);~~

The age allowance for those aged 75 and over will rise from £3,150 for those under 80 and from £3,310 for those ~~over~~ 80 and over to £3,540 (single), and from £5,035 for those under 80 and from £5,205 for those 80 and over to £5,565 (married).

the income limit for age allowance will rise ~~by £800~~ from £10,600 to £11,400;

the basic rate limit will rise from £19,300 to £20,700 of taxable income.

4.03 The age allowance withdrawal rate will be reduced from £2 of allowances for each £3 of income to £1 for each £2 of income above the limit of £11,400.

Benefits in kind

4.04 Car benefit scale charges will be increased by 20 per cent from 6 April 1989.

Private medical insurance

4.05 Income tax relief will be given from April 1990 on private medical insurance premiums for those aged 60 and over.

Charitable giving

4.06 The limit on charitable donations qualifying for tax relief under the payroll giving scheme will be doubled from £240 to £480 a year from 6 April 1989.

Employee share trusts

4.07 Tax relief will be given for payments by companies to qualifying employee share trusts (or Employee Share Ownership Plans – ESOPs)

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Approved employee share schemes	**4.08** The annual limit for the 1978 employee share scheme will be increased to £2000 or - if greater - to 10 per cent of pay up to a maximum of £6000. The 1980 SAYE share scheme limit will be increased from £100 to £150 per month. The maximum discount of the share price at which options may be granted will be doubled to 20 per cent.
Profit-related pay	**4.09** The cash ceiling on the amount of profit-related pay attracting tax relief will be increased to £4,000. The registration rules for PRP schemes will be simplified.
Personal equity plans	**4.10** The annual limit on investment in Personal Equity Plans will be increased from £3,000 to £4,800. The annual limit on investment in unit and investment trusts will be increased to £2,400, irrespective of other holdings and restricted to unit and investment trusts which invest mainly in UK equities. The PEP rules will be greatly simplified.
Schedule E assessment	**4.11** The basis of assessment for Schedule E emoluments will be changed from earnings to receipts.
Relocation expenses	**4.12** Payments an employer makes towards the additional housing costs of an employee transferred to a more expensive location will no longer be exempt from tax.

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4.15 Annual contribution limits for personal pension schemes will be increased ~~annual contribution limits~~, as a percentage of earnings, ~~will be made more generous, but will be~~ subject to an overall cash limit based on the £60,000 earnings limit for occupational schemes.

Life assurance

4.16 The following changes for life assurance companies will be introduced from 1 January 1990:

pension and general annuity business expenses will be deductible only from pension or general annuity profits;

relief for expenses of acquiring new life assurance business (other than pension or general annuity business) will be spread over seven years; ~~subject to transitional measures to phase in the change;~~ this change will be phased in gradually over the next four years;

the rate of tax charged on income and capital gains attributable to policy holders will be reduced to ~~25 per cent;~~ the basic rate of income tax (25 per cent);

life assurance policy duty will be abolished.

Stamp Duties

4.17 Stamp duties on share transactions will be abolished from 1 April 1990.

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Unit trusts

the basic rate of income tax

4.18 A new tax regime will be introduced from 1 January 1990 for unit trusts in transferable securities which are freely marketable throughout the European Community under the UCITS directive. The rate of corporation tax charged on their income will be reduced to (25 per cent)

COBO and

Deep discount bonds

will be abolished, and

4.19 ~~Following the abolition of the~~ The Control of Borrowing Order, the regime for deep discount bonds, including certain index-linked bonds, will be amended with effect from Budget day.

Business taxation

4.20 The profits limit for the small companies' corporation tax rate of 25 per cent for financial year 1989 will be raised from £100,000 to £150,000 and the limit for marginal relief will be raised from £500,000 to £750,000.

4.21 The main rate of corporation tax for the financial year 1989 will be 35 per cent.

surely better to have the higher rate of income tax, rather than a special rate of Corporation Tax?

4.22 The apportionment rules for close companies will be abolished. Special provisions and a higher rate of corporation tax of 40 per cent will be introduced for close investment companies which distribute less than a specified percentage of their profits.

4.23 An unincorporated trader who sustains a trading loss and realises a capital gain in the same year will be able to set off the loss against the gain.

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Oil taxation *

~~4.24 A new petroleum revenue tax allowance will be introduced in respect of the cost of qualifying incremental investment undertaken within certain North Sea fields but outside the existing development area for the field.~~

Capital gains tax

4.25 The capital gains tax annual exempt amount will remain at £5,000 in the case of individuals and £2,500 in the case of most trusts.

× 4.26 Capital gains tax deferral on lifetime ~~time~~ gifts will be restricted to certain types of gift - in particular, gifts of business and heritage assets, ~~and~~ gifts on which there is an immediate charge to inheritance tax, and gifts to charity.

Inheritance tax

4.27 From Budget day the threshold for inheritance tax will be increased in line with the statutory indexation provisions from £110,000 to £118,000.

VAT

4.28 The present turnover requirements for VAT registration will be replaced for most businesses by a single limit based on turnover in the previous twelve months.

4.29 From 15 March 1989 the registration limit will become £23,600 a year.

These need to be turned into attractive English: they are goodies (& not cheap!)

4.30 A comprehensive system of relief from VAT on bad debts will be introduced.

4.31 The maximum rate of default surcharge will be reduced from 30 per cent to 20 per cent.

* Dropped at today's Overview

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EST to redo. Needs to make clear (a) ECJ origins and (b) what we are doing in jargon free terms.

4.32 As announced on 6 February, a new VAT regime will be applied to the construction and exploitation of non-residential buildings and land. VAT at the standard rate will be applied to

- news services (but not newspapers);
- protective boots and helmets supplied to employers;
- fuel and power supplied to businesses; and
- water and sewerage services supplied to industry.

4.33 VAT relief for charities will be extended to charity and certain other fund-raising events, classified and certain other types of advertising and medical sterilising equipment.

Excise duties

4.34 The duty on unleaded petrol will be reduced by the equivalent of 3.2p a gallon, 0.7p a litre, (inclusive of VAT). A surcharge of 5p a gallon, 1.1p a litre, (inclusive of VAT) will be introduced on 2 and 3 star petrol.

Vehicle excise duty

4.35 The number of rates of vehicle excise duty for hackney carriages (buses, coaches, taxis etc.) will be reduced from over sixty to five. Rates of duty for buses and coaches will be increased [by / to] £X a year, to cover track costs. ~~as a group will be brought up to a level to cover track costs.~~ Rates of duty will be increased also for certain rigid heavy goods vehicles.

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ITV levy

4.36 From 1 January 1990, the additional payments made by ITV programme contractors will be assessed on a mixture of net advertising revenue and profits.

Tax administration

4.37 In the light of recommendations by the Keith Committee, changes will be made:

to update the system of monetary penalties for tax offences;

to modernise the powers of the Inland Revenue to obtain information;

to improve compliance by employers.

^ Tax confidentiality

^ Pensioners' earnings rule

^ NICs.

Table 4.1 Direct effects of changes in taxation

£ million

See Annex 4 Paragraph numbers		Estimated effect on receipts in: 1989-90: Changes from a non-indexed base	1989-90: Changes from an indexed base	1990-91: Changes from an indexed base
	INLAND REVENUE			
	Merge to 2 lines: indexation and extension to over 75s.			
	Income tax			
1	Increase in single allowance of £180 and married allowance of £280	-1120	-	-
2	Increase in additional personal allowance and widow's bereavement allowance of £100	-10	-	-
3	Increase in age allowance of £220 (single) and £350 (married) for those aged 65 to 74	-70	-	-
4	Increase in age allowance of £360 (single) and £530 (married) for those aged 75 to 79	-30	-10	-15
5	Increase in age allowance of £230 (single) and £360 (married) for those aged 80 and over	-20	-	-
6	Increase in income limit for age allowance of £800	-15	-	-
7	Increase in basic rate limit of £1,400 to £20,700	-210	-	-
8	Reduction in age allowance withdrawal rate	-5	-5	-5
9	Fringe benefits - car benefit scales	+90	+90	+110
10	Reimbursement of additional housing costs - withdrawal of exemption	+5	+5	+30
11	Fringe benefits - removal expenses	*	*	*
12	Tax relief for private medical insurance for those aged 60 and over	-	-	-40
13	Pension - amendments to tax rules	*	*	*
14	Payroll giving to charities - increase in donation limit to £4800 a year	*	*	*
15	Membership covenants to heritage charities	-5	-5	-10
16	~~Amendments~~ Liberalisation of to profit-related pay legislation	-10	-10	-15
17	Increase in approved employee share limits	*	*	*
18	Employee priority in public offer of shares	*	*	*
19	Changes in material interest tests	*	*	-5
20	Abolition of tax relief on new loans to buy Business Expansion Scheme shares	[*	*	+5]
21	Schedule E - change to receipts basis of assessment	-60	-60	-80
22	Change in rule on settlements where settlor or spouce can benefit	*	*	*
23	Tax deductible from tax credit payments to US companies	-	-	-
	Income tax and corporation tax			
24	Taxation of income and gains of life assurance companies	[*	*	+125]
25	Abolition of close company apportionment	*	*	*
26	Capital allowances - safety at sports grounds } merge	*	*	*
27	Capital allowances - miscellaneous amendments }	*	*	*
28	Extension of relief for pre-trading expenditure	*	*	*
29	Subcontractor tax scheme - reduction in voucher requirements	-	-	-
	Income tax and capital gains tax			
30	Personal Equity Plans - increase in limits etc.	-5	-5	-10
31	Unincorporated companies: Set off of trading losses against gains	-	-	[-25]

* = Negligible   - = Nil

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Table 4.1 Direct effects of changes in taxation

£ million

See Annex 4 Paragraph numbers		Estimated effect on receipts in: 1989-90 Changes from a non-indexed base	1989-90 Changes from an indexed base	1990-91 Changes from an indexed base
	Income tax, corporation tax and capital gains tax			
32	Keith committee - administrative changes	*	*	*
33	Deep discounted bonds - taxation of uplift as income	-	-	+15
34	Tax charge on switching investments in offshore funds	*	*	*
	Corporation tax			
35	Increase in profits limits for small companies rate and marginal relief	*	*	-35
36	Changes in the taxation of certain unit trusts	-	-	*
37	Relief for payments to employee share ownership ~~trusts~~ plans (ESOPs)	*	*	*
38	Advance corporation tax amendments	*	*	*
39	Sales of subsidiaries	*	*	*
	~~**Oil taxation**~~			
~~40~~	~~Petroleum revenue tax - incremental investment allowance~~	~~-10~~	~~-10~~	~~-20~~
	Capital gains tax			
41	No change in annual exempt amount	-	*	+10
42	Restriction of gifts relief	*	*	+25
43	Change in the rules for Lloyd's underwriters	-	-	*
	Capital gains tax and corporation tax			
44	UK branches of foreign businesses - changes affecting capital gains	*	*	*
45	Technical changes associated with rebasing of capital gains	*	*	*
46	Increase in capital gains chattels exemption to £5000	*	*	*
47	Exemption of certain bonds from charges on capital gains	*	*	*
	Capital gains tax and inheritance tax			
48	Gifts to housing associations	*	*	*
	Inheritance tax			
49	Increase in threshold of £8000	-35	-	-
50	Changes in rules for varying disposition on death	+5	+5	+15
	Stamp duties			
51	Abolition of duty on shares	[+50	+50	-850]
52	Abolition of life assurance policy duty	-20	-20	-80
	TOTAL INLAND REVENUE	-1475	+25	-855

* = Negligible   - = Nil

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Table 4.1 Direct effects of changes in taxation

See Annex 4 Paragraph numbers		£ million. Estimated effect on receipts in: 1989-90: Changes from a non-indexed base	1989-90: Changes from an indexed base	1990-91: Changes from an indexed base
	CUSTOMS AND EXCISE			
	Value added tax			
53	Revised regitration rules	-35	-35	-100
54	Increase in registration limit	*	*	*
55	Bad debt relief	-50	-50	-150
56	Keith - review of default surcharge	-20	-20	-20
57	Recovery of overpaid VAT and excise duty	-	-	-
58	Revised tax regime for construction, buildings and land	+310	+310	+440
59	Change in libility of news services	+5	+5	+5
60	Change in liability of certain protective boots and helmets	*	*	*
61	Change in liability of certain supplies of fuel and power	-	-	+95
62	Change in liability of certain water and sewerage services	-	-	*
63	Reliefs for charities	-5	-5	-5
64	Relief for research and development cars	-5	-5	-5
	Excise duties			
65	No change in rate of spirits duty	-	-65	-70
66	No change in rate of beer duty	-	-140	-155
67	No change in rate of duty on cider and perry	-	-5	-5
68	No change in rate of duty on wine and made-wine	-	-45	-50
69	No change in rate of duty on 4 star petrol etc	-	-440	-465
70	No change in rate of duty on derv	-	-95	-105
71	No change in rate of duty on minor oils	-	-10	-10
72	No change in rates of tobacco products duties	-	-235	-250
73	Restriction on blending of duty-paid made-wine	*	*	*
74	Determination of original gravity of beer	*	*	*
75	~~Measures to promote~~ Reduction in duty on unleaded petrol. Increase in duty on 2star unleaded petrol.	-30	-30	-75
	TOTAL CUSTOMS AND EXCISE	+170	-865	-925
	Vehicle excise duty			
76	No change in VED on cars, light vans and main lorry rates	-	-190	-210
77	Increase in VED rates for taxis, buses and coaches	+20	+20	+20
78	Increase in certain other VED rates	+20	+20	+20
	TOTAL VED	+40	-150	-170
	Other			
79	Sale of registration numbers	*	*	+10
80	ITV levy re-basing	-	-	+60
81	Unauthorised disclosure of confidential information	-	-	-
	TOTAL OTHER	*	*	+70
	TOTAL CHANGES IN TAXATION	-1265	-990	-1880

disaggregate

news to Ch (?)

Likely to be dropped.

* = Negligible - = Nil

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changes apply to new schemes set up on or after 14 March 1989 and to new members joining existing schemes on or after that date;

employers will be able to set up top-up schemes with no limits on benefits, but without tax privileges such as tax-free investment build-up;

new rules will allow surplus voluntary contributions to be returned to the member instead of reducing benefits from the employer's scheme. The voluntary scheme will deduct a 35 per cent charge from the refund to recoup the tax advantages enjoyed on contributions and build-up. There will be a further liability on higher rate taxpayers;

changes will be made to the personal pensions tax rules to increase from 1988-89 the age related contribution limits. The increased limit will be subject to [the £60,000] earnings cap. And the rules for calculating tax-free lump sums will be simplified.

Is this really so? Important point, which affects presentation

These measures overall are expected to have broadly neutral revenue effects both in the early years and in the longer term.

14 The limit on charitable donations qualifying for relief under payroll deduction schemes will be increased from £240 to £480 from April 1989. The cost will depend on take-up.

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38 Various minor changes will be made to the advance corporation tax (ACT) rules concerning a company which is part of a group or consortium.

39 Measures will be introduced to counter avoidance of tax on disposals of subsidiaries in ways which could cause a substantial loss of tax.

Oil Taxation

40 A new petroleum revenue tax (PRT) allowance will be introduced, relating to the cost of qualifying incremental investment outside the existing development area of certain North Sea oil fields. It will take the form of a 15 per cent enhancement to the relevant expenditure that is allowable as a deduction in determining PRT profits. The figures in Table 4.1 include the cost of relief for all of the expenditure of incremental projects that would otherwise not be expected to go ahead, as well as the cost of relief for the allowance itself. There will be a yield in later years as a result of revenues from these projects.

Capital Gains Tax

41 The capital gains tax annual exempt amount will remain at £5,000 in the case of individuals and £2,500 in the case of most trusts. ~~The revenue yield in 1991-92 is estimated at £15 million.~~

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stamp duty reserve tax;

the 1½ per cent duties on the conversion of UK shares into depository receipts or their transfer into clearance services;

associated charges on bearer shares and unit trusts units; and

certain fixed duties on share transfers.

Announcement of the

[Abolition of these duties is expected to lead to ~~a~~ some rise in the ~~price of shares and in the volume~~ value of share transactions. That will mean an increased yield from stamp duty in 1989-90 and from some other taxes, eg capital gains and value added tax in later years. The cost figures in Table 4.1 take account of these additional yields.]

52 Life assurance policy duty will be abolished from 1 January 1990. The cost in 1990-91 takes account of the consequential change in corporation tax liability

Value Added Tax

53 The present VAT registration rules will be replaced by a single requirement based on turnover in the previous twelve months. The existing rules based on anticipated turnover will still apply, in modified form, to large businesses and short term events.

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54 From 15 March 1989, the registration limit will become £23,600 a year.

55 A comprehensive system of VAT relief on all debts which are more than 18 months old and which have been written off in the trader's accounts will be introduced. Repayment of the relief, or part of it, will be required where the debt is subsequently paid in whole or in part.

56 The maximum rate of default surcharge will be reduced from 30 per cent to 20 per cent for all appropriate VAT returns due on or after 31 March 1989.

57 The right of taxpayers to recover overpaid VAT, excise duty [and car tax] will be confirmed - subject to certain conditions - and procedures established which will enable VAT accounting errors to be corrected.

58 From 1 April 1989, VAT will be applied at the standard rate to the construction and sale of new non-residential buildings. From 1 August 1989, VAT at the standard rate will be applied, in certain circumstances, to building land; and landlords will be able to opt to charge tax on their non-residential property and land transactions.

^ transitional provisions

59 From 1 April 1989, VAT will be applied at the standard rate to news services (but not newspapers).

60 From 1 April 1989, VAT will be applied at the standard rate to protective boots and helmets supplied to employers.

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(unstapled because pages in wrong order AA 22/2).

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BUDGET

COPY NO: 1 OF 30 COPIES

FROM: COLIN MOWL
DATE: 22 February 1989

** Note @ end m..

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Wicks
Mr Scholar
Mr Sedgwick
Mr Riley
Mr Culpin
Mrs Lomax
Mr S J Davies
Mr Hibberd
Mrs R Butler
Mr Pickford
Mr Gieve
Mr Patterson
Mrs Wright
Mrs Todd
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Calder - IR
Mr Vernon - C&E

Ch
Sorry, I didn't get this done last night. I will negotiate deadline extension.
AA

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FSBR TABLE 1.2 AND CHAPTER 6

I attach first drafts of FSBR table 1.2 and chapter 6.

Format

2. Last August you agreed that the annex to chapter 6 should be abolished and that there should be associated improvements to table 1.2. (Copies of last year's annex and table 1.2 are attached.) The arguments for these changes were:

- **part A of the annex** is a series of dense notes explaining the relationships between the tables within chapter 6 and between chapter 6 tables and table 1.2. It reads as if it is little more than the way we tell ourselves how we put the numbers together. We suspect it is of little help to outsiders and it is in any case already on the record in previous FSBRs.

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- part B of the annex presents the estimated outturn for the CGBR for the year just ending in a funds and accounts format and gives forecasts for Consolidated Fund revenue for the year ahead. Outsiders have complained that it is extremely difficult to understand. Furthermore, the decision in 1984 not to show the allocation of the public expenditure Reserve deprived these tables of most of their useful information, that in relation to the year ahead. Only table 6B.3 on Consolidated Fund (CF) revenue contains important information, which this year will appear in table 1.2 (except for total CF revenue which is in table 6.6).

- these changes also have the advantage of

  (a) putting in one place in the FSBR the forecasts and outturns for all the individual taxes,

and (b) removing some of the apparent inconsistencies in the FSBR, for example those which arose from the use of different definitions of income tax and corporation tax in table 1.2 and chapter 6.

- finally the changes will highlight in table 1.2 those definitions of the various taxes on which the focus falls during the course of the year when each month's PSBR figures are published. In one sense the effect is to make the approach on the receipts side of table 1.2 the same as on the expenditure side ie. one in which administrative/ operational concepts are embedded within national accounts totals.

3. As a result of consultation with the revenue departments we have made a number of small changes to table 1.2 compared with the version you approved. The main ones are to show sub-totals for the two departments' taxes and to omit the North Sea revenues sub-total. Total North Sea revenues and its components are given in a new table (6.3) in chapter 6. Dropping North Sea revenues from 1.2 can be justified in terms of their much reduced magnitude. They are only 1½ per cent of total receipts in 1988-89 compared with 8½ per cent as recently as 1984-85.

4. In addition, as you suggested, the number of departments shown separately within the planning total has been increased to reduce the white space on the expenditure side of the table.

5. In the printed version of the FSBR the footnotes to table 1.2 (and all the other tables) will be smaller, and therefore less intrusive, than in the attached draft.

6. Our intention in sending you table 1.2 now with chapter 6, rather than leaving it until you see the whole of chapter 1 is partly to get the changes to the format of the table out of the way, allowing you to concentrate on the main issues of Budget presentation when you see all of the chapter (if you have any further comments on the format of 1.2 we should be able to incorporate them in the complete draft of chapter 1 Mr Riley will be sending you tomorrow). The other reason for showing you 1.2 now is that it is difficult to make sense of the description and explanation in chapter 6 without reading it alongside the figures in table 1.2.

7. Apart from the abolition of the annexes, the only other significant change of format in the draft of chapter 6 compared with last year is the introduction of an explicit section on changes since last year's Budget (paragraphs 6.05 to 6.08), including a new table (6.2) modelled on one used in the 1986 Autumn Statement.

Figures

8. The draft shows PSDRs of £14 billion and £12 billion in 1988-89 and 1989-90 respectively, as agreed at your meeting on Monday. A Budget package with a direct 1989-90 revenue cost of £2 billion is incorporated. You also asked us to show no-change in the non-oil tax burden in 1989-90.

9. While all the important totals in the draft are consistent with these decisions there remains a considerable amount of work to do on the detailed components.

10. To achieve the agreed PSDR figures we have reduced receipts in 1989-90 by £¾ billion and increased debt interest and other adjustments by a similar amount compared with the forecasts on which Monday's discussion was based. The latter is consistent with a small fall, of ¼ per cent, in the GGE (excluding privatisation

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proceeds) ratio in 1989-90. However we will need to review the GGE figures further in consultation with GEP and MP in light of final decisions on the 1988-89 estimated outturn and on the MTFS. We will also need to look again at both the tax and expenditure figures when the money GDP figures are finalised, which will not be until the week before the Budget.

11. At Monday's meeting you asked to see charts and tables showing the GGE ratio and the non-oil tax burden from 1970. These are attached at the end of this minute. Equivalent charts also appear in the draft of chapter 6, but from 1978-79 only, as last year. You might wish to consider showing figures for the longer period in the chapter 6 charts. (? stick to existing ones)

Charts

12. In an attempt to make the chapter more interesting and readable we have included four new charts:

- chart 6.3 on debt interest; — ? better as % GDP
- chart 6.4 on the PSBR by sector; — worth doing [with one amendment]
- chart 6.5 on the LABR; — too confusing & not v helpful.
- chart 6.6 on public corporations' contribution to the planning total and the PCBR. — not v interesting

We should be grateful for your comments on these new charts.

13. The chart showing changes in the structure of receipts and expenditure since 1978-79 (chart 6.2 in last year's FSBR) has been dropped because we feel that the information it contained was not of great interest and did not fit particularly well with the structure of the rest of the chapter. If you wish however, this chart could easily be resurrected. A copy of last year's version and the numbers that would provide the basis of the chart were it to be retained are attached to the end of the draft.

[I quite like it]

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Other issues

14. As in previous years we have included the **North Sea revenues ready reckoners** (paragraph 6.12). You may wish to consider whether these are still necessary given the reduced importance of the North Sea sector. Probably omit

15. Paragraph 6.04 gives an estimate of the **stock of net public sector debt** at end 1988-89 (the latest published data relate to end-1987-88). We have not given such an estimate in previous years but we thought it worth including this year given the interest in debt repayment. We still have a certain amount of work to do on the figure itself - the one in the draft is a guestimate. ✓

16. We would not advise giving a figure for the end of 1989-90 because it would involve making assumptions about market sensitive variables such as exchange rates and discounts/premiums on gilts which we would not want to expose. The draft does however refer to the likelihood of a "further substantial fall" in 1989-90.

17. There is some small risk in giving the end-1988-89 figure in that it may focus attention on differences between the recorded PSDR and recorded changes in the stock of net debt. You will recall that despite a PSDR of £3½ billion the measured stock of debt did not fall in 1987-88, but rose slightly, by £0.2 billion. However the risk will be minimal if, as we suspect, there is only a relatively small difference in 1988-89 between the PSDR and our estimate of the change in the stock of debt.

18. **Community charge** receipts are not shown separately but are included with local authority rates in table 1.2 and throughout chapter 6. Footnote 4 to table 1.2 points this out. There would be no problem about giving a figure for the community charge element in 1989-90 if asked, as the forecast is based on announced level of charges for Scotland. There seems little point however giving the figure in the FSBR.

19. The question of the treatment of the community charge in GDP is not addressed directly in chapter 6. The description of row 2 in table 6.9 implies however that the community charge is <u>not</u> a tax on expenditure. This is not inconsistent with treating the community

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charge for GDP purposes as if it were a tax on expenditure. But if you felt we were being unnecessarily purist we could drop the reference to community charge from table 6.9.

Timetable

20. The timetable suggests that you might comment on the draft **by 10 o'clock tomorrow morning (Thursday)** so that if you wanted to see a revised version before it went to the printers on Friday we could put one to you on Thursday evening.

Colin Mowl

COLIN MOWL

Many thanks. ~~Clearly~~ A good chapter. I have made a number of changes in passing. In addition, as I have deleted 2 of your charts, pse substitute the equivalent of last yr's chart 6.2.
N.

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Non-oil tax burden and GGE ratio.

	Non-oil taxes and NICs as % of non-oil GDP	GGE excluding privatisation proceeds as % of GDP
1970-71	36.1	40.7
1971-72	34.6	41.1
1972-73	32.3	40.9
1973-74	33.1	42.3
1974-75	35.7	48.1
1975-76	36.1	48.6
1976-77	36.0	46.0
1977-78	35.0	42.7
1978-79	34.2	43.3
1979-80	35.1	43.5
1980-81	36.2	46.1
1981-82	38.7	46.6
1982-83	38.1	46.8
1983-84	37.7	45.9
1984-85	37.8	46.3
1985-86	37.1	44.5
1986-87	37.6	43.7
1987-88	37.7	41.5
1988-89	37.3	39.1
1989-90	37.3	38.9*

* rounds to 38¾

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Many thanks.
Contrive for charts to
show from 1978-79
only.

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Chart 1 Non - oil taxes and national insurance contributions

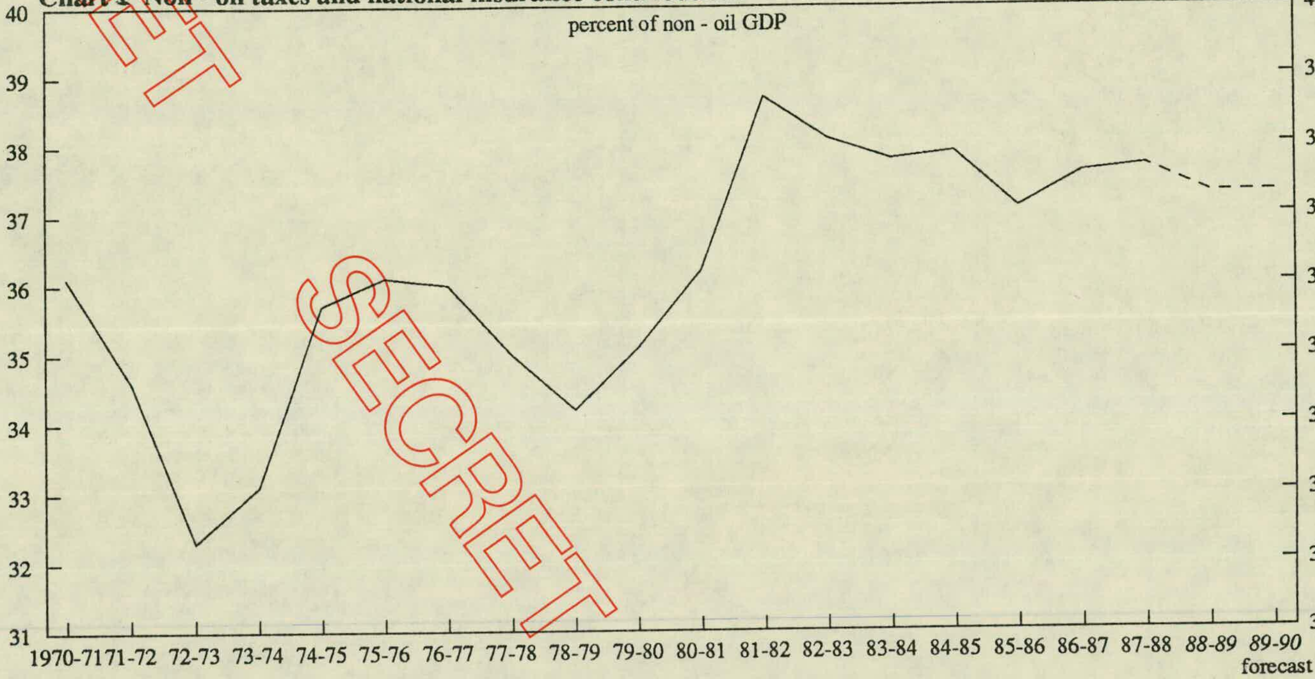

Chart 2 General government expenditure excluding privatisation proceeds

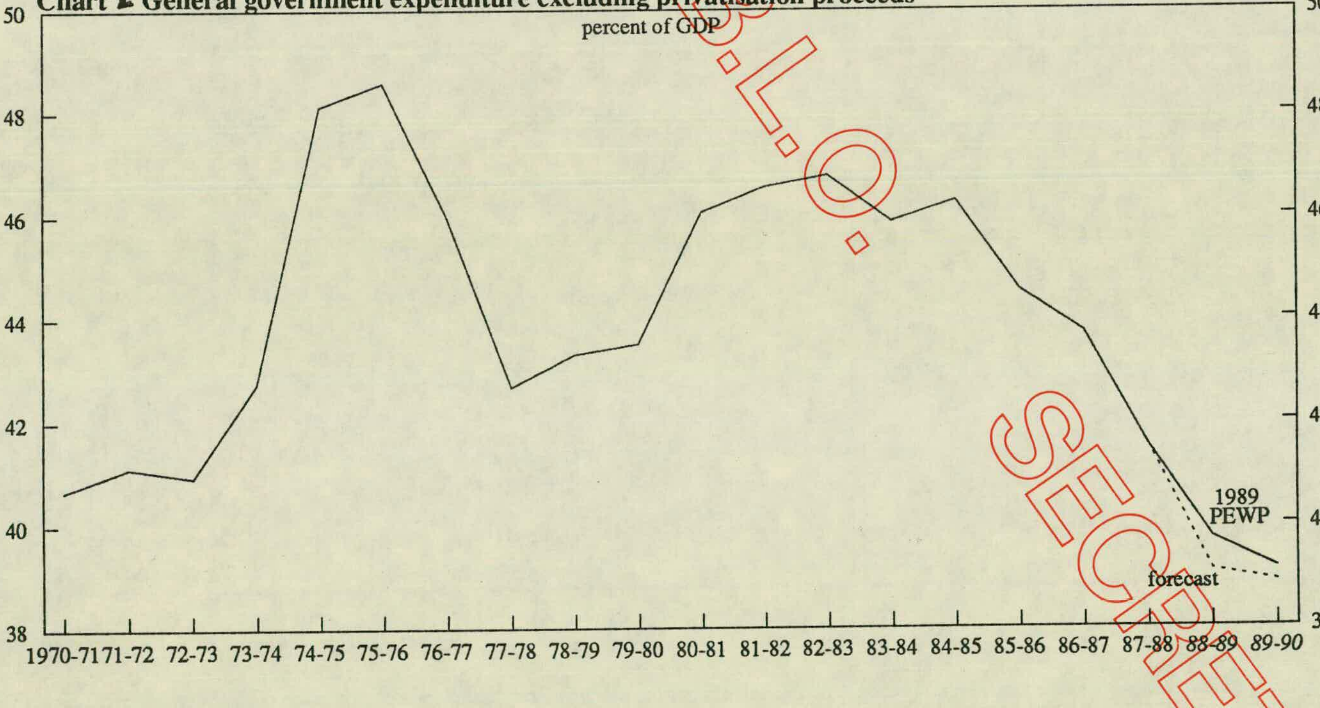

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Table 1.2 The finances of the Public Sector[1]

£ billion	1988-89 1988 Budget[2]	1988-89 Latest estimate	1989-90 Forecast
RECEIPTS			
Inland Revenue:			
Income tax	42.1	43.5	47.1
Corporation tax[3]	19.8	18.8	22.0
Petroleum revenue tax	1.2	1.3	1.3
Capital gains tax	2.0	2.4	2.1
Inheritance tax	1.0	1.1	1.1
Stamp duties	2.0	2.3	2.6
Total Inland Revenue	**68.0**	**69.4**	**76.1**
Customs and Excise:			
Value added tax	26.2	27.5	29.8
Petrol, derv duties etc	8.4	8.7	8.7
Tobacco duties	5.0	5.1	5.1
Alcohol duties	4.5	4.6	4.7
Betting and gaming duties	0.9	0.9	0.9
Car tax	1.3	1.4	1.4
Customs duties	1.6	1.7	1.8
Agricultural levies	0.1	0.2	0.1
Total Customs and Excise	**47.9**	**49.9**	**52.5**
Vehicle excise duties	2.8	2.8	2.9
Oil royalties	0.6	0.6	0.6
Gas levy	0.4	0.4	0.4
Local authority rates[4]	19.0	18.9	20.4
Other taxes and royalties	2.5	2.7	2.8
Total taxes and royalties	**141.2**	**144.8**	**155.7**
National insurance and other contributions	31.6	32.8	34.6
Interest and dividends	5.6	6.6	6.7
Gross trading surpluses and rent	3.5	3.3	3.5
Other receipts	2.9	3.3	3.3
General Government Receipts	**184.9**	**190.8**	**203.7**

£ billion	1988-89 1988 Budget[2]	1988-89 Latest estimate	1989-90 Forecast
EXPENDITURE			
Social security	48.5	47.4	51.0
Health	20.7	21.8	23.2
Defence	19.2	19.0	20.1
Education and science	18.0	18.4	19.6
Home office and legal departments	7.0	7.2	8.0
Transport	5.1	4.8	5.4
Scotland	8.5	8.7	9.0
Wales	3.5	3.6	3.8
Northern Ireland	5.1	5.6	5.5
Other departments	22.8	21.7	23.1
Privatisation proceeds	-5.0	-7.0	-5.0
Reserve	3.5	-	3.5
Public expenditure planning total	**156.9**	**151.1**	**167.1**
General government gross debt interest	17.5	18.2	16.6
Other adjustments	8.6	9.2	9.5
General Government Expenditure	**183.0**	**178.5**	**193.2**

Receipts, expenditure and debt repayment

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£ billion	1988-89 1988 Budget[2]	1988-89 Latest estimate	1989-90 Forecast
General government receipts	184.9	190.8	203.7
General government expenditure	183.0	178.5	193.2
General government debt repayment	2.0	12.3	10.5
Public corporations' market and overseas debt repayment	1.2	1.7	1.5
Public sector debt repayment	**3.2**	**14.0**	**12.0**

1 In this and other tables constituent items may not add up to totals because of rounding.
~~2 On current definitions.~~
3 Includes advance corporation tax (net of repayments): 5.3 6.0 6.4
- also includes North Sea corporation tax after ACT set off and corporation tax on gains.
4 In this and other tables community charge receipts in Scotland are included with local authority rates. ?

must be: ∴ [illegible]

This is traditional, but is it necessary / does it mean anything ?

deletes

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<chapter> 6 The public sector's finances

<side> The scope of this chapter

6.01. This chapter brings together revenue and spending and provides an analysis and forecast of the public sector's overall financial position in 1989-90, together with some explanation of the main differences between estimated outturn in 1988-89 and last year's forecast.

<side> Debt repayment

6.02 The latest estimate is for a public sector debt repayment (PSDR) of £14 billion in 1988-89, equivalent to 3 per cent of GDP, or £7 billion excluding privatisation proceeds. (ugly) Even this last represents ~~This is~~ a larger net repayment as a proportion of GDP than in any year since the beginning of the 1950s - the earliest date for which comparable figures are available. ~~- even if privatisation proceeds are excluded.~~ In 1988-89 ~~all the main fiscal indicators - the PSDR, the PSDR excluding privatisation proceeds,~~ Both the public sector financial ~~deficit~~ all balance ~~(PSFD)~~ and the general government financial ~~deficit - will be~~ Balance are also estimated to be in substantial surplus, in 1988-89.

6.03 The forecast is for a further substantial PSDR of around £12 billion in 1989-90. Excluding privatisation proceeds the PSDR is forecast to be the same in 1989-90 as in 1988-89.

Table 6.1 Public sector debt repayment

	£ billion and as per cent of GDP			
	1987-88	1988-89		1989-90
	Outturn	1988 Budget	Latest estimate	Forecast
Public sector debt repayment				
£ billion	3.5	3.2	14.0	~~12.0~~ 12.1
as per cent of GDP	¾	¾	3	2¼
PSDR excluding privatisation proceeds				
£ billion	-1.6	-1.8	7.0	~~7.0~~ 7.1
as per cent of GDP	-½	-½	1½	1¼ 1½??

6.04. The stock of net public sector debt has fallen from over 50 per cent of money GDP in 1979 to 38½ per cent (£171 billion) at the end of 1987-88. It is ~~estimated~~ forecast to be about £[157] billion, or [31½] per cent of GDP, at the end of 1988-89, the lowest figure ~~since 19..~~ for X years. There should be a further large fall in 1989-90, in both nominal terms and as a percentage of GDP.

[is this a place for "likely to be"?]

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<section> Changes since last Budget

6.05 The PSDR in 1988-89 is now estimated to be nearly £11 billion higher than forecast in last year's Budget. As table 6.2 shows the higher net repayment comes roughly equally from higher receipts and lower expenditure, including £2 bn additional privatisation proceeds, (see table 1.2 for a detailed comparison of the components). Much of the extra receipts reflects the higher than forecast growth of money GDP. Higher growth has also contributed to the lower than forecast expenditure, primarily through lower spending ~~than expected expenditure~~ on social security and improved finances of public corporations.

Table 6.2 Changes to receipts, expenditure and debt repayment since 1988 Budget[1]

	£ billion	
	1987-88	1988-89
Receipts		
Taxes, royalties and national insurance contributions	+0.8	+4.8
Other receipts	-0.7	+1.1
Total	+0.2	+5.9
Expenditure		
Privatisation proceeds	-0.1	-2.0
Other general government	+0.2	-2.4
Public corporations' market and overseas finance	-0.4	-0.6
Total	-0.3	-5.0
PSDR	+0.5	+10.8

1 + higher receipts, ~~or~~ higher expenditure; or higher debt repayment;
- lower receipts or lower expenditure.

6.06. The main contributors to the higher than expected receipts are income tax (£1½ billion), national insurance contributions (£1 billion), VAT (£1¼ billion) and interest receipts (£1 billion). The first two largely reflect higher total wages and salaries. Higher VAT receipts are the result of faster growth of consumer spending in total and a change in its composition towards those goods and services which are subject to VAT.

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6.07. Corporation tax receipts again rose strongly in 1988-89 but not by as much as forecast. Within the total, advance corporation tax (ACT) receipts were higher than forecast, reflecting high dividend payments in 1988, but other corporation tax receipts rose much less than expected. The latter is likely to be mainly the result of lower profits and higher investment in 1987 than shown by the recorded figures available at the time of the last Budget.

Is this true?

(the time of projection at the

Privatisation proceeds were £2 billion higher than ~~projected/forecast~~ in

6.08. ~~On the expenditure side higher privatisation proceeds reduced expenditure by £2 billion compared with~~ the last Budget. ~~But~~ Expenditure excluding privatisation proceeds ~~is also~~ was lower than forecast, largely as a result of lower ~~than projected~~ social security expenditure and higher ~~than expected~~ local authority capital receipts.

PM check

6.09. The public sector's finances can be analysed in a number of different ways: by type or activity, by sector and by economic category. The rest of this chapter sets out these three analyses in detail.

<section> **Public sector's finances: analysis by type or activity**

6.10. Table 1.2 analyses the public sector's finances by type or activity. The main receipts of general government (ie. central plus local government) are grouped according to the kind of activity which gives rise to them, while spending is shown by department, as in Chapter 5 and in the public expenditure White Paper.

<side> **Receipts**

6.11. General government receipts are estimated to have risen by 9½ to 10 per cent in 1988-89, just below the growth of money GDP. They are forecast to rise by 6½-7 per cent in 1989-90, a little less than the forecast growth of money GDP.

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6.12. North Sea revenues are forecast to fall by 15 per cent in 1989-90, mainly the delayed effect on corporation tax of falling profits in earlier years. Oil production is expected to be lower in 1989 than in 1988, due mainly to the continued effect of the Piper Alpha disaster and accidents in the Fulmar and Brent fields. The forecast assumes that North Sea oil prices will remain close to recent levels. PRT receipts are forecast to be the same in 1989-90 as in 1988-89 despite the projected fall in production because there were repayments of advance PRT in 1988-89 and none are forecast for 1989-90. ~~A $1 a barrel difference in the average oil price in 1989 would change revenues by about £210 million in 1989-90 and £270 million in a full year. A change of 1 million tonnes in oil production in 1989, spread evenly across fields, would alter revenues by about £35 million in 1989-90 and £40 million in a full year.~~

could omit: see cover note.

Table 6.3 North Sea revenues

	£ billion 1987-88 Outturn	1988-89 1988 Budget	1988-89 Latest Estimate	1989-90 Forecast
North Sea corporation tax[1]	1.4	1.5	1.3	0.8
Petroleum revenue tax[2]	2.3	1.2	1.3	1.3
Oil royalties	1.0	0.6	0.6	0.6
Total North Sea revenues	**4.7**	**3.3**	**3.2**	**2.7**
[1] before ACT set off of:	0.7	0.8	0.8	0.5

2 includes advance petroleum revenue tax

6.13. Excluding North Sea revenues general government receipts rose by over 10½ per cent in 1988-89 and are forecast to rise by about 7 per cent in 1989-90. Within ~~this~~ the overall increase forecast for 1989-90 there is:

an 8 per cent increase in income tax receipts;

an 18 per cent increase in non-oil corporation tax, with ACT growing more slowly than the rest;

an 8 per cent increase in VAT receipts, a little less than the increase in consumers' expenditure, reflecting relatively slow growth of ~~the component~~ spending subject to VAT;

little change in receipts from the excise duties on petrol, tobacco and alcohol; ~~following the freeze of duty rates announced in the Budget;~~

an 8 per cent increase in local authorities' net receipts of rates (and community charge in Scotland); ✓

a 5½ per cent increase in national insurance contributions, after allowing for the reforms to employees' contributions announced in the Budget.

<side> **Taxes as a share of GDP**

6.14. Table 6.4 shows total taxes ~~(including rates and community charge)~~ and national insurance contributions (NICs) as a percentage of GDP. Both the total and non-oil percentages are estimated to have fallen in 1988-89, by about ½ percentage point in each case, compared with a forecast of no change in last year's Budget. Given the payments lags in the tax system a fall in the percentage is likely when there is a pick-up in the growth of money GDP. Some taxes, such as mainstream corporation tax, are paid some time after the period for which the liability is incurred. For over 20 per cent of total tax receipts the payments lags are one year or longer; receipts of these taxes are therefore ~~invariant to~~ unaffected by changes in GDP in the same year. With other taxes, stamp duty for example, there is a variable relationship between changes in the tax base and changes in money GDP.

In other words, the changes in Budget measures offset real

6.15. The forecast is for non-oil taxes and NICs to be the same as a percentage of money GDP in 1989-90 as in 1988-89. Real fiscal drag - the tendency for average tax rates to rise

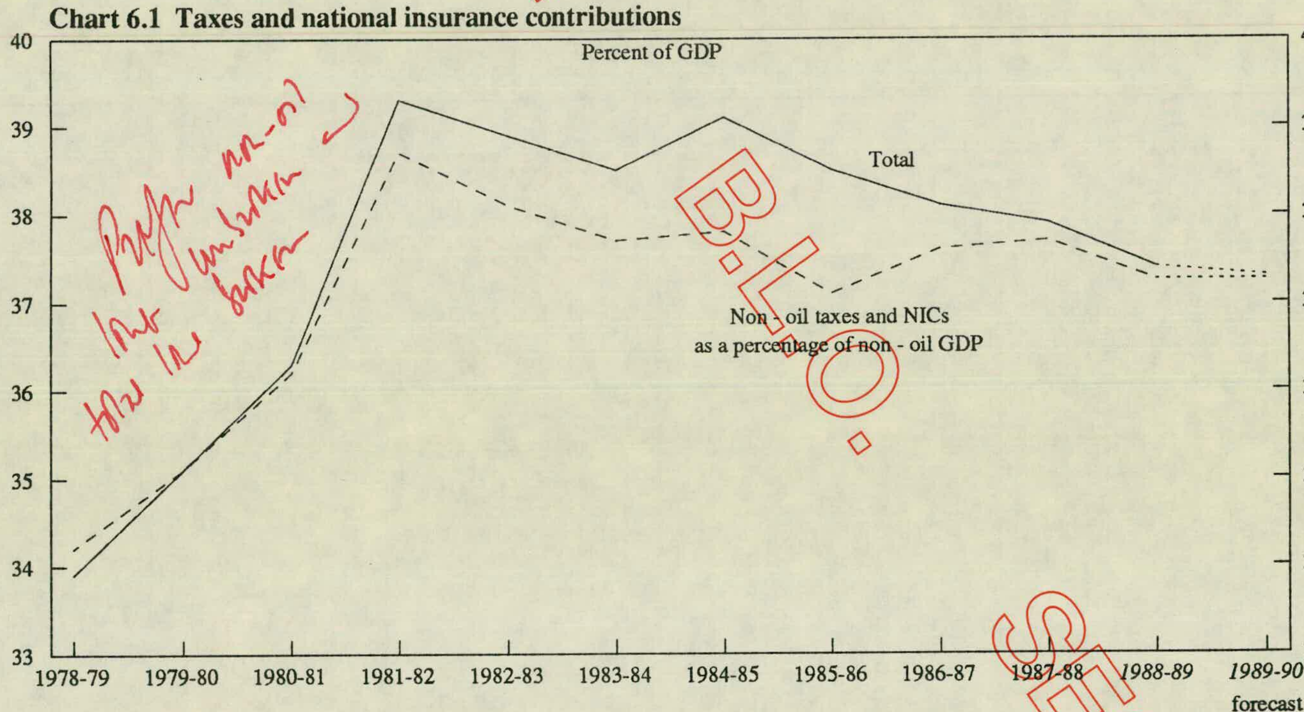
8774

~~in a progressive tax system indexed to price changes - would be expected to increase the percentage but in 1989-90 the effect of this is largely offset by the additional effect in 1989-90 of the 1988 Budget and by the tax changes in this year's Budget.~~ With the projected fall in North Sea revenues in 1989-90, total taxes and NICs are forecast to fall slightly as a percentage of GDP. ~~in that year.~~

Table 6.4 Taxes and national insurance contributions as a percentage of GDP

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89 Latest estimate	1989-90 Forecast
Total taxes and NICs as a share of total ~~money~~ GDP	38.5	39.1	38.5	38.1	37.9	37.4	37.2
Non-oil taxes and NICs as a share of non-oil ~~money~~ GDP	37.7	37.8	37.1	37.6	37.7	37.3	37.3

Chart 6.1 Taxes and national insurance contributions



<side> **Expenditure**

6.16. General government expenditure (GGE) excluding privatisation proceeds is now estimated to have increased by

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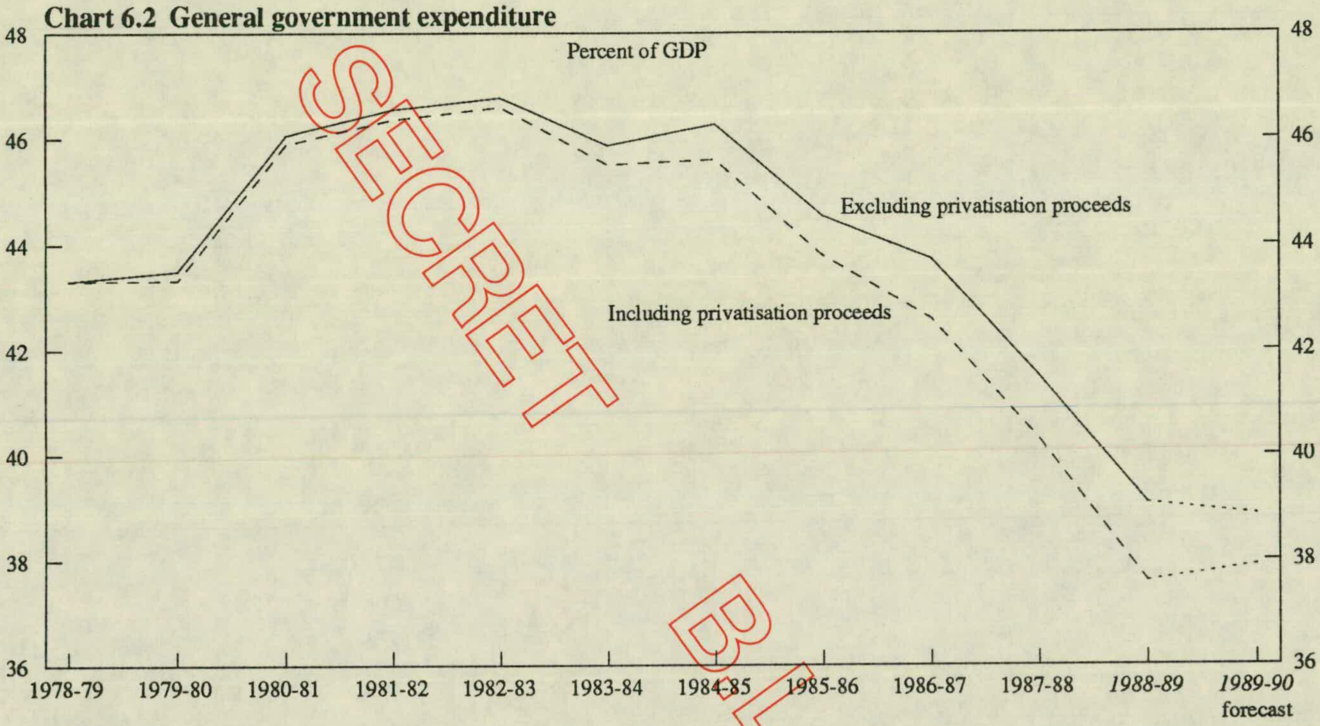
under 5 per cent in 1988-89, and is forecast to rise by nearly 7 per cent in 1989-90, below the growth of money GDP in both years. The ratio of GGE excluding privatisation proceeds to money GDP is therefore expected to fall in both years, as illustrated in chart 6.2.

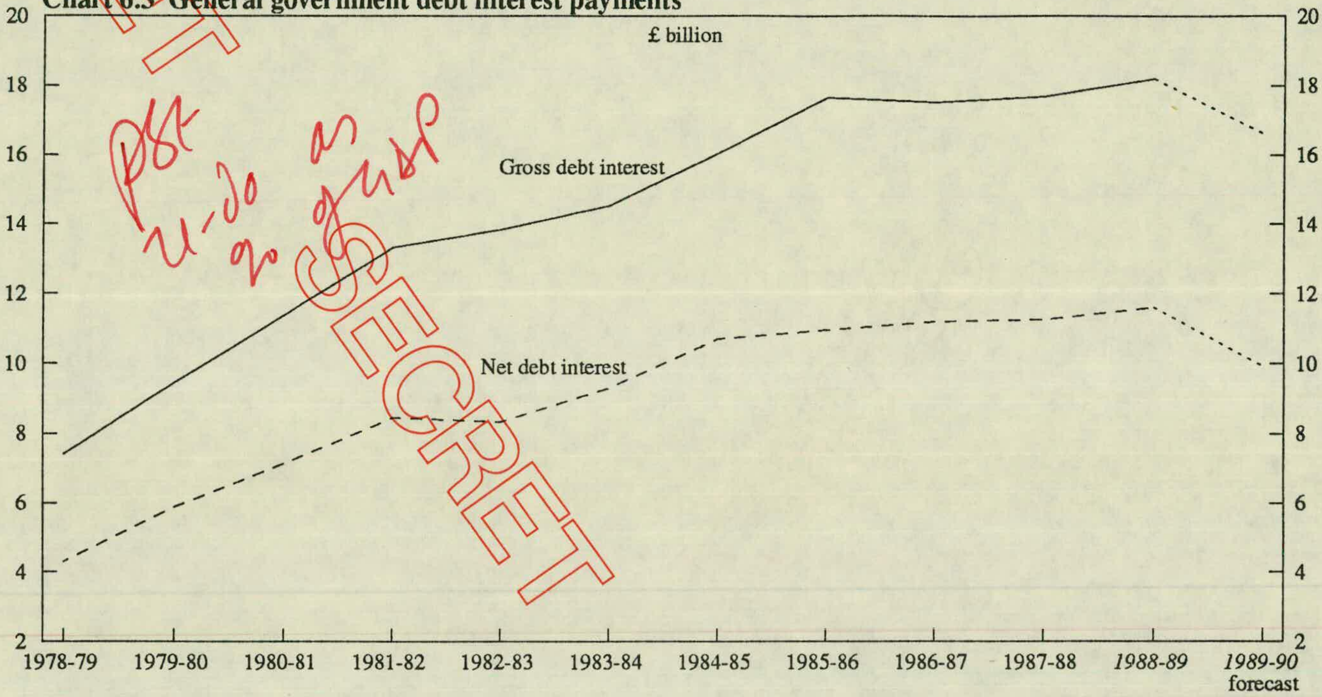
Chart 6.2 General government expenditure



6.17. Within GGE, gross debt interest payments rose in cash terms in 1988-89 partly because of higher interest rates and inflation (which raises the cost of servicing indexed debt). Net debt repayment reduces interest payments, other things being equal, but not immediately; and because of the rise in the foreign exchange reserves and other short-term assets in 1987-88 and early 1988-89 some of the effect has come through initially as higher interest receipts. Interest and dividend receipts rose by £½ billion in 1988-89, despite a fall in the dividend element following the sale of the Government's remaining shareholding in BP.

6.18. ~~Gross~~ debt interest payments are forecast to fall substantially in 1989-90, against a background of no change in interest and dividend receipts.

Chart 6.3 General government debt interest payments



PSBR u/do as debt repayment throughout (reversing all signs) to make consistent with rest of Chapter

<section> **Public sector's finances: analysis by sector**

6.19. Table 6.5 shows net borrowing in 1987-88 and 1988-89 by central government, local authorities and public corporations.

Table 6.5 Public sector borrowing requirement

	£ billion			
	1987-88 Outturn		1988-89 Latest estimate	
1 Central government borrowing on own account	**-3.2**		**-13.7**	
2 Local authority borrowing from central government		4.1		4.5
3 Local authority borrowing from market and overseas		-2.9		-3.9
4 Total local authority borrowing	**1.2**		**0.6**	
5 Public corporations' borrowing from central government		0.0		0.8
6 Public corporations' borrowing from market and overseas		-1.5		-1.7
7 Total public corporations' borrowing	**-1.5**		**-1.0**	
8 Public sector borrowing requirement	**-3.5**		**-14.0**	
Central government borrowing requirement (lines 1+2+5)		0.9		-8.5

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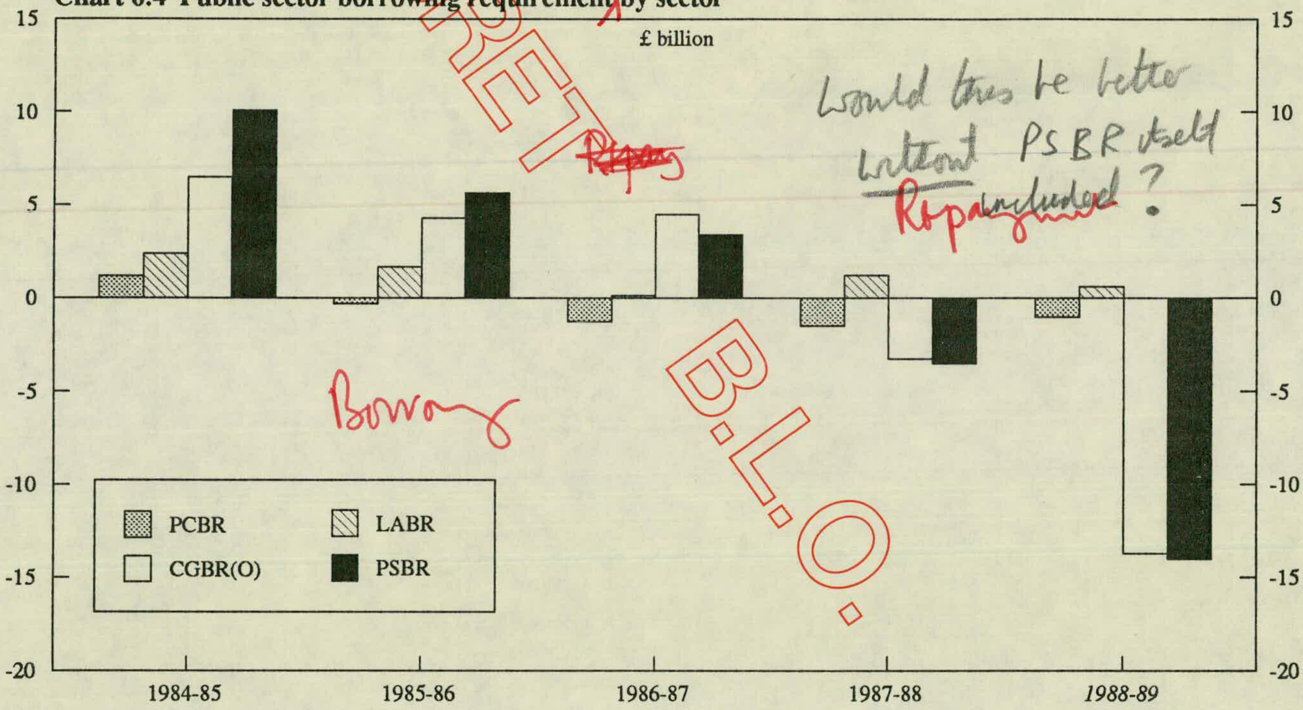
6.20. The ~~PSBR~~ PSDR in the first ten months of 1988-89, a net repayment of £15.5 billion, was substantially ~~lower~~ higher than in the same period of 1987-88, both including and excluding privatisation proceeds. The ~~larger~~ greater part of the ~~reduction~~ increase was ~~in~~ on central government own account ~~borrowing, but local authority and public corporations' borrowing were also lower than last year~~. Taking into account both further privatisation proceeds of about £1 billion due in March and the well established pattern of ~~positive net~~ high borrowing in March, the forecast for 1988-89 as a whole is a public sector net debt repayment of £14 billion. ~~a somewhat smaller net repayment than recorded for the first ten months of the year.~~

total repayment

Chart 6.4 Public sector borrowing requirement by sector[1]



1. including privatisation proceeds

Would this be better without PSBR itself included?

Borrowing

6.21. Tables 6.6 to 6.8 show estimated outturns and forecasts of receipts and expenditure in 1988-89 and 1989-90 for each of the three sectors. Expenditure in 1989-90 does not include an allocation of the Reserve, although the forecast of the PSDR assumes that the Reserve is fully spent.

Pls redo this completely, (a) turning upside down (so that repayment above the line & borrowing below it) (b) eliminate overall 'PSBR' columns (refer to chart shown graphically in Ch 2) (c) with area above the line labelled 'repayment' & that below the line labelled 'borrowing'.

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<side> Central government

6.22. Central government expenditure in table 6.6 includes grants and subsidies to local authorities and public corporations (including nationalised industries), which are included in the receipts of those sectors, shown in Table 6.7 and 6.8. The forecast large rise in 1989-90 in net lending etc is mainly the result of a lower level of privatisation proceeds.

Table 6.6 Central government transactions

	£ billion 1987-88 Outturn	1988-89 Latest estimate	1989-90 Forecast
Receipts			
Taxes and royalties	115.8	125.9	135.3
National insurance and other contributions	29.0	32.8	34.6
Other	10.4	11.4	10.8
Total receipts	**155.1**	**170.1**	**180.6**
Expenditure			
Current expenditure on goods and services	52.5	56.8	61.5
Current grants and subsidies	80.5	80.0	86.2
Interest	17.2	17.6	16.2
Net lending[1], capital expenditure, and cash expenditure on company securities	1.6	2.0	4.8
Total expenditure	**151.8**	**156.4**	**168.7**[2]
Consolidated Fund revenues	123.0	135.5	141.2

1 Excluding lending to local authorities and public corporations.
2 Excluding any allocation from the Reserve.

<side> Local authorities

6.23. Local authority receipts consist primarily of rate income plus grants from central government. The forecast increase in rate income (net of rate rebates) between 1988-89 and 1989-90 takes account of available information about rate decisions by local authorities and additions to rateable value. The forecast of receipts is consistent with the announced levels of community charge in Scotland. The forecast of expenditure in 1989-90 is lower than it would otherwise have been because of the transfer of polytechnics from the local authority to the private sector.

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local authority borrowing requirement

6.24. As chart 6.5 shows the sharp rise in the local authority borrowing requirement (LABR) in 1983-84 and 1984-85 was the result of rising net capital expenditure and a falling current surplus. The subsequent reduction in borrowing is partly associated with rising capital receipts which have reduced net capital spending. From information available about the first ten months it looks as if the LABR will turn out to be rather lower in 1988-89 than in 1987-88, ~~again~~ partly due to lower net capital spending, ~~associated with~~ as a result of rising capital receipts.

Table 6.7 Local authority transactions

	£ billion 1987-88 Outturn	1988-89 Latest estimate	1989-90 Forecast
Receipts			
Rates and community charge	17.0	18.9	20.4
Rate and revenue support grant	12.5	12.7	13.0
Other grants from central government	12.0	12.2	12.9
Other	5.4	5.9	7.0
Total receipts	**46.9**	**49.7**	**53.3**
Expenditure			
Current expenditure on goods and services	34.6	36.4	37.0
Current grants and subsidies	5.5	6.0	6.8
Interest	4.4	4.7	4.8
Net lending and capital expenditure	3.6	3.3	2.5
Total expenditure	**48.1**	**50.4**	**51.0**[2]

[1] Net of rate rebates: 1.9 1.6 1.6
[2] Excluding any allocation from the Reserve.

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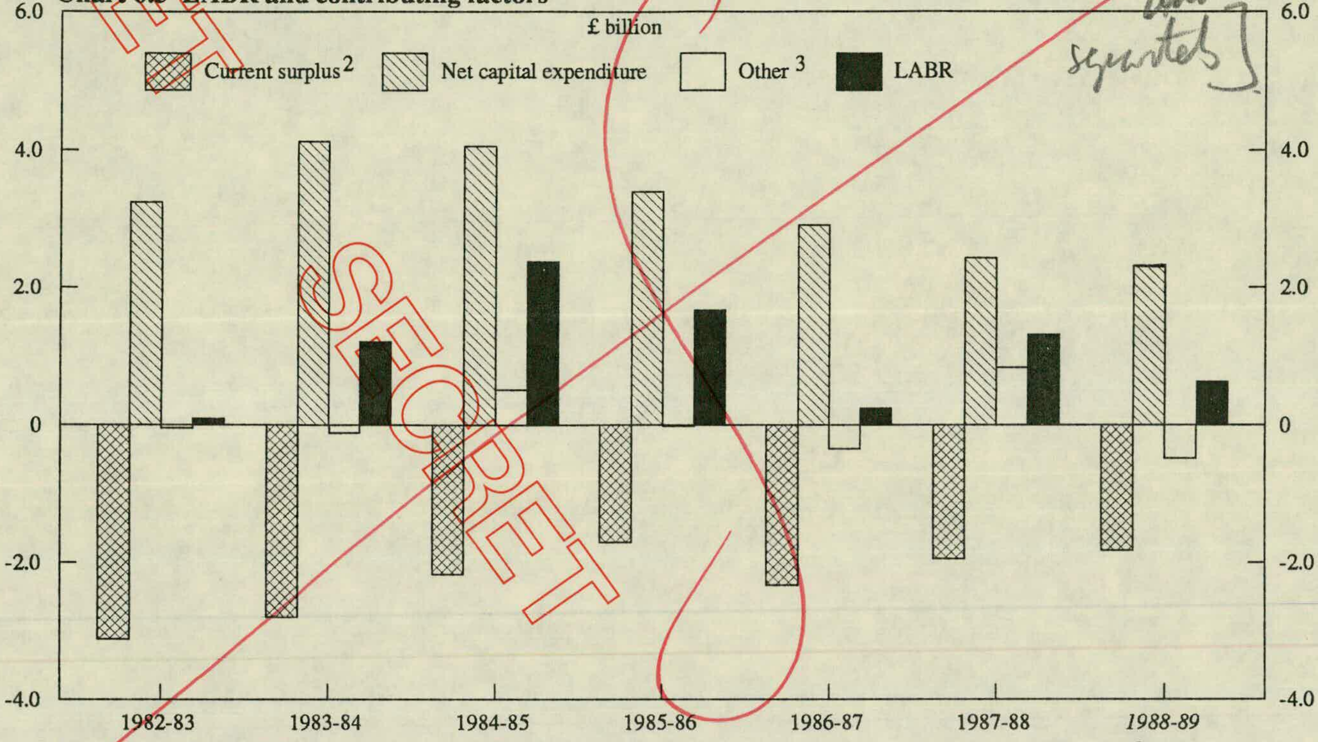
Omit?
[if we were doing this, better to show gross capital spend and receipts separately]

Chart 6.5 LABR and contributing factors[1]



1. on a national accounts basis
2. current surplus reduces LABR and is therefore shown as negative
3. mainly balancing item

<side> **Public corporations**

6.25. Table 6.8 shows public corporations' transactions. The public corporations' receipts include subsidies and capital grants from central and local government. Changes in public corporations' income and expenditure from one year to another are affected by privatisations which involve re-classifying privatised industries from the public to the private sector in the national accounts. For example the 12 per cent increase in gross trading surplus in 1988-89 would have been larger had British Steel not been excluded, following its privatisation. ~~from the figures for the last quarter,~~ [~~and gross trading surplus would have been forecast to increase more in 1989-90.~~]

(odd to give implicit forecast for BSC)

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Table 6.8 Public corporations' transactions

	£ billion		
	1987-88 Outturn	1988-89 Latest estimate	1989-90 Forecast
Receipts			
Gross trading surplus (including subsidies)	6.8	7.6	8.1
Other	2.4	2.0	2.6
Total receipts	**9.2**	**9.6**	**10.7**
Expenditure			
Interest, dividends and taxes on income	3.1	3.3	3.6
Net lending and capital expenditure	4.5	5.4	5.8
Total expenditure	**7.6**	**8.6**	**9.4**[1]

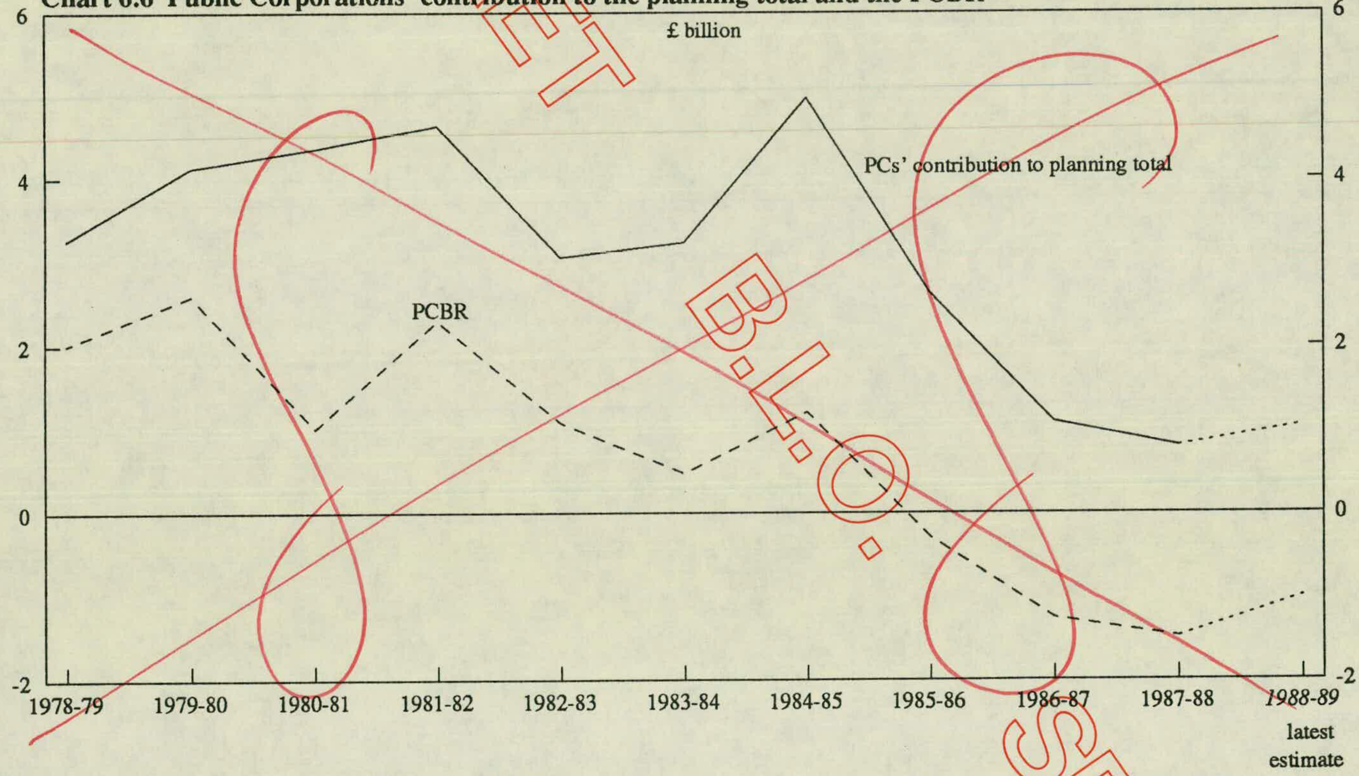
Public corporations' contribution to planning total:

nationalised industries' external finance	0.3	0.4	0.0
other public corporations	0.5	0.6	0.9

[1] Excluding any allocation from the Reserve

Boring?

Chart 6.6 Public Corporations' contribution to the planning total and the PCBR



<section> **Public sector's finances: analysis by economic category**

6.26. The full analysis of receipts and expenditure by economic category is shown in Table 6.9, with a breakdown between central government, local authorities and public

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corporations. This analysis, which distinguishes between current and capital transactions (and within the latter between physical and financial investment), shows the derivation of the public sector financial ~~deficit.~~ (surplus) The financial ~~deficit~~ surplus, unlike the ~~PSBR~~ PSDR, is not wholly a measure of cash transactions because certain items above line 24 in Table 6.9, for example some taxes included in lines 1 and 2, are measured on an accruals basis. An accruals adjustment is accordingly made in line 28.

6.27. The unallocated Reserve is assumed to be on current spending items or physical capital formation ie. in transactions that fall above the financial ~~deficit~~ surplus line. In practice allocations from the Reserve can affect financial transactions (lines 25 to 29).

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Table 6.9 Public sector transactions by sub-sector and economic category

might be better as footnote? yes

		£ billion				
		1988-89 Latest estimate				
		General government			Public corporations	Public sector
	Line[1]	Central government	Local authorities	Total		
Current and capital receipts						
Taxes on income, and oil royalties	1	62.8	-	62.8	-0.2	62.6
Taxes on expenditure, and community charge	2	57.9	18.9	76.7	-	76.7
Taxes on capital	3	5.2	-	5.2	-	5.2
National insurance and other contributions	4	32.8	-	32.8	-	32.8
Gross trading surplus	5	-0.5	0.7	0.2	7.6	7.9
Rent and miscellaneous current transfers	6	0.4	2.8	3.2	0.5	3.8
Interest and dividends from private sector and abroad	7	3.4	1.2	4.6	0.7	5.2
Interest and dividends within public sector	8	6.0	-4.0	2.0	-2.0	-
Imputed charge for non-trading capital consumption	9	1.3	1.6	2.9	-	2.9
Capital transfers from private sector	10	-	-	-	0.2	0.2
Total receipts	**11**	**169.4**	**21.2**	**190.5**	**6.7**	**197.3**
Current and capital expenditure						
Current expenditure on goods and services	12	56.8	36.4	93.2	-	93.2
Subsidies	13	4.0	1.0	4.9	-	4.9
Current grants to personal sector	14	49.2	5.0	54.2	-	54.2
Current grants paid abroad	15	2.9	-	2.9	-	2.9
Current grants within public sector	16	24.0	-23.9	-	-	-
Debt Interest	17	17.6	0.6	18.2	0.6	18.8
Gross domestic fixed capital formation	18	4.0	2.9	6.9	5.0	11.9
Increase in stocks	19	-0.3	-	-0.3	0.3	0.1
Capital grants to private sector	20	3.1	0.6	3.6	0.1	3.7
Capital grants within public sector	21	1.8	-1.0	0.8	-0.8	-
Total expenditure	**22**	**163.0**	**21.5**	**184.5**	**5.2**	**189.8**
Unallocated Reserve	23	-	-	-	-	-
Financial surplus	**24**	**6.3**	**-0.4**	**6.0**	**1.5**	**7.5**
Financial transactions						
Net lending to private sector and abroad	25	0.5	-0.3	0.3	-	0.3
Cash expenditure on company securities (including privatisation proceeds)	26	-7.1	0.1	-7.0	-	-7.1
Transactions concerning certain public sector pension schemes	27	-0.7	-	-0.7	-	-0.7
Accruals adjustments	28	-0.1	-0.2	-0.4	-	-0.3
Miscellaneous financial transactions	29	0.1	0.7	1.3	0.6	1.4
Debt repayment	**30**	**13.7**	**-0.6**	**13.1**	**1.0**	**14.0**

1 Financial surplus (line 24) = receipts (line 11) - expenditure (line 22) - Reserve (line 23).
Debt repayment (line 30) = financial surplus (line 24) - financial transactions (lines 25 to 29).

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£ billion
1989-90 Forecast

Line[1]	General government: Central government	General government: Local authorities	General government: Total	Public corporations	Public sector	
						Current and capital receipts
1	69.2	-	69.2	-0.6	68.5	Taxes on income, and oil royalties
2	60.8	20.4	81.2	-	81.2	Taxes on expenditure and community charge
3	5.3	-	5.3	-	5.3	Taxes on capital
4	34.6	-	34.6	-	34.6	National insurance and other contributions
5	-0.5	0.8	0.3	8.1	8.4	Gross trading surplus
6	0.3	3.0	3.3	0.7	4.0	Rent and miscellaneous current transfers
7	3.2	1.4	4.5	0.6	5.1	Interest and dividends from private sector and abroad
8	6.5	-4.2	2.3	-2.3	-	Interest and dividends within public sector
9	1.4	1.7	3.1	-	3.1	Imputed charge for non-trading capital consumption
10	-	-	-	0.2	0.2	Capital transfers from private sector
11	**180.8**	**23.0**	**203.8**	**6.7**	**210.5**	**Total receipts**
						Current and capital expenditure
12	61.5	37.0	98.5	-	98.5	Current expenditure on goods and services
13	4.4	0.9	5.3	-	5.4	Subsidies
14	52.9	5.8	58.8	-	58.8	Current grants to personal sector
15	4.0	-	4.0	-	4.0	Current grants paid abroad
16	24.8	-24.8	-	-	-	Current grants with public sector
17	16.2	0.4	16.6	0.5	17.1	Debt interest
18	5.0	1.9	6.9	5.6	12.5	Gross domestic fixed capital formation
19	-0.2	-	-0.1	0.2	-0.1	Increase in stocks
20	2.4	0.7	3.1	0.1	3.2	Capital grants to private sector
21	2.2	-1.1	1.1	-1.1	-	Capital grants within public sector
22	**173.3**	**21.0**	**194.3**	**5.2**	**199.5**	**Total expenditure**
23		22.5			3.5	Unallocated Reserve
24					**7.5**	**Financial surplus**
						Financial transactions
25	0.4	-0.2	0.2	-	0.2	Net lending to private sector and abroad
26	-5.0	-	-5.0	-	-5.0	Cash expenditure on company securities (including privatisation proceeds)
27	-0.3	-	-0.3	-	-0.3	Transactions concerning certain public sector pension schemes
28	-0.6	-0.2	-0.8	-	-0.8	Accruals adjustments
29	1.0	0.2	1.2	0.1	1.3	Miscellaneous financial transactions
30					**12.0**	**Debt repayment**

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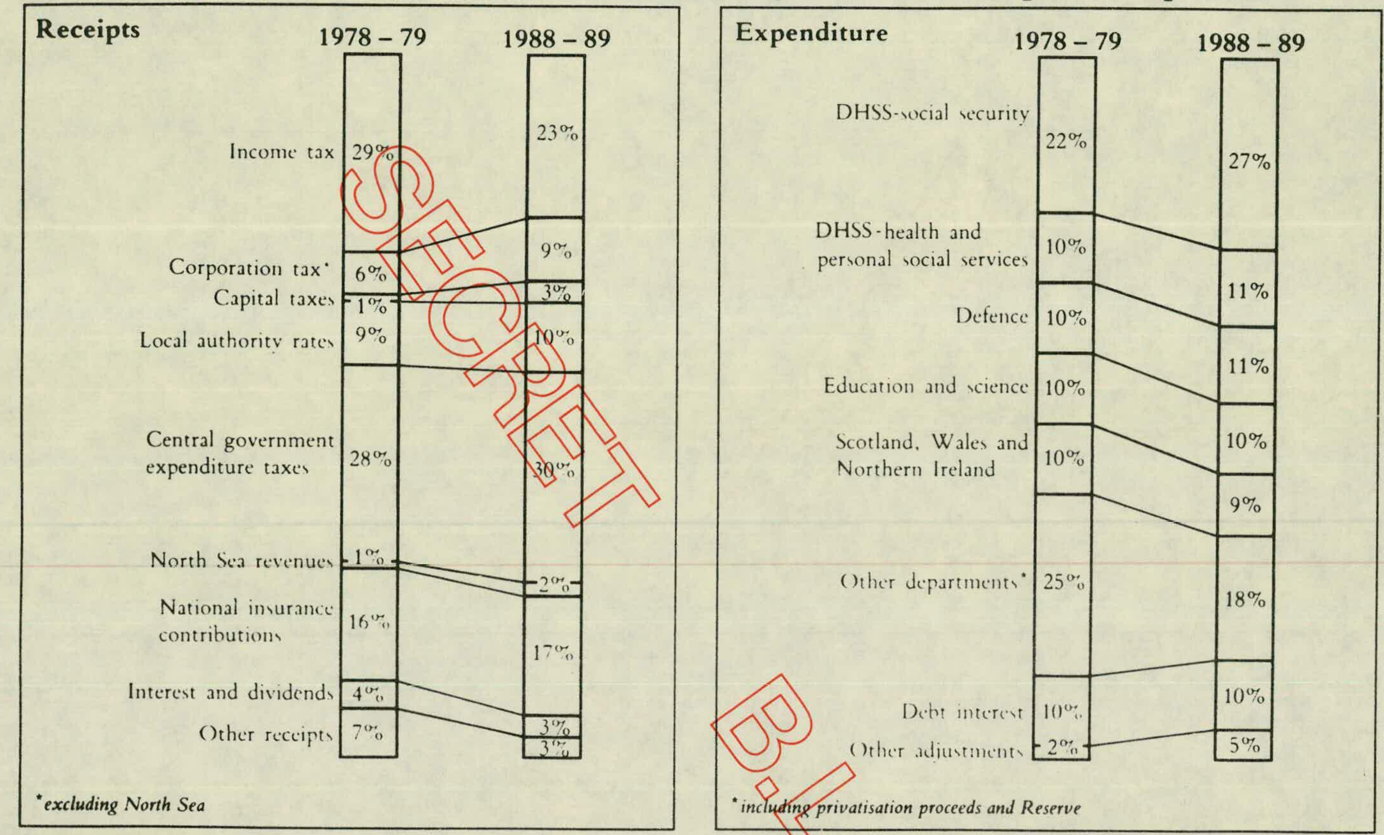
Omitted chart on structure of receipts and expenditure

1988 FSBR

6.17 Chart 6.2 shows the significant changes in the structure of general government receipts and expenditure which have taken place since 1978–79.

Chart 6.2 The structure of general government receipts and expenditure



58

Figures consistent with draft 1989 FSBR

	Percentage of total receipts 1978-79	1989-90
Income tax	29	23
Corporation tax	6	10
Capital taxes	1	3
LA rates	9	10
CG expenditure taxes	28	29
North Sea revenues	1	1
NICs	16	17
Interest and dividends	4	3
Other receipts	7	3

	Percentage of total expenditure 1978-79	1989-90
Social security	22	26
Health	10	12
Defence	10	10
Education and Science	10	10
Scotland, Wales and Northern Ireland	10	10
Other departments	25	19
Debt interest	10	9
Other adjustments	2	4

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BUDGET SECRET

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24th February, 1989.

CHANCELLOR

c.c. Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P. Middleton
Sir T. Burns
Mr. Wicks
Mr. Scholar
Mr. Culpin
Mrs. Lomax
Mr. Sedgwick
Mr. Riley
Mrs. Butler
Mr. S. Davies
Mr. Gilhooly
Mr. Mowl
Mr. Macpherson
Miss Simpson
Miss Wallace
Mrs. Chaplin
Mr. Tyrie
Mr. Call

Sir Anthony Battishill
Mr. Beighton
Mr. Isaac
Mr. Painter
Mr. Calder

Mr. Unwin
Mr. Jefferson-Smith

Mr. A.C.S. Allan

cc Mr. Anson
Mrs. Lomax
Mr. Culpin
Mrs. Butler.

I think variant 3 ought to be ruled out on the grounds that it doesn't give a total for the cost of the Budget measures including NICs. It would thus be very misleading.

CT
24/2

FSBR CHAPTER 1

Mr. Riley's submission of 23rd February offers 4 variants of Table 1.1. Could I cast my vote for variant 1 or 3. If an item is important enough to be shown in this table I think we have to show its cost and not just a row of dots. In that case, given that it would be misleading to add it to the other items, it is better to put it below the line as proposed in variants 1 or 3.

J. ANSON

a5/2

FSBR

BUDGET SECRET

COPY NO. 1 OF 32 COPIES

FROM: J. ANSON
24th February, 1989.

CHANCELLOR

c.c. Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P. Middleton
Sir T. Burns
Mr. Wicks
Mr. Scholar
Mr. Culpin
Mrs. Lomax
Mr. Sedgwick
Mr. Riley
Mrs. Butler
Mr. S. Davies
Mr. Gilhooly
Mr. Mowl
Mr. Macpherson
Miss Simpson
Miss Wallace
Mrs. Chaplin
Mr. Tyrie
Mr. Call

Sir Anthony Battishill
Mr. Beighton
Mr. Isaac
Mr. Painter
Mr. Calder

Mr. Unwin
Mr. Jefferson-Smith

Ch,
I feel obliged to show you this for completeness
Stick with variant 2?
AF 24/2

FSBR CHAPTER 1

Mr. Riley's submission of 23rd February offers 4 variants of Table 1.1. Could I cast my vote for variant 1 or 3. If an item is important enough to be shown in this table I think we have to show its cost and not just a row of dots. In that case, given that it would be misleading to add it to the other items, it is better to put it below the line as proposed in variants 1 or 3.

J. ANSON

rjb/462

Covering CONFIDENTIAL

I have suggested a revised version of paragraph 5.03, and a few other minor changes, in the interests of clarity. Paragraph 5.04 will be completed later.

A
21/2

FROM: MRS R J BUTLER
DATE: 21 February 1989

1. MR ~~ANSON~~

Copies attached for:

Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton

2. CHANCELLOR OF THE EXCHEQUER

Ch
A few other comments
AA

cc Sir T Burns
Mr Phillips
Mr Scholar
Mr Sedgwick
Mr Riley
Mrs Lomax
Mr Hibberd
Mr Mowl
Miss Simpson

FSBR: CHAPTER 5

The attached draft of the public expenditure chapter for the FSBR has been prepared on the same lines as last year's version.

2. The only change that has been made to the structure of the tables is the inclusion in Table 5.1 of some extra detail by departments to match the requested extension to expenditure detail in Table 1.2 (being circulated by Mr Mowl with Chapter 6). Two additional departments "Home Office and legal departments" and "Transport" have been included and the three territorial departments are now shown separately rather than as a group. This means that we are now identifying all departments with over £5 billion provision for 1989-90 plus Wales.

3. The figures for the estimated outturn for the 1988-89 planning total are based on GEP's February assessment and will, of course, continue to change over the next few weeks. As last year, GEP will send a submission to the Chief Secretary giving him the results of an early March re-assessment of the estimated outturn asking him to clear a planning total for publication in the FSBR. The figures for and references to individual departments will be cleared with departments nearer the time. The figures for debt interest, national accounts adjustments and GGE will also continue to change as the Budget figuring is finalised. At Mr Riley's suggestion, a footnote has been added to the real terms figures

and ratios lines of Table 5.1 cross-referring to Table 2.1 where the treatment of the community charge is explained.

4. Chapter 5 is due to go to the printer on Friday. It would therefore be helpful to have your comments as soon as possible.

R J Butler

MRS R J BUTLER

fsbr

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DRAFT
21/2/89

1989 FSBR

5. PUBLIC EXPENDITURE

5.01 The Government's expenditure plans for the next three years were set out in the 1988 Autumn Statement (HC 695) and in detail in the 1989 public expenditure White Paper (Cm 601-621). They are summarised in Table 5.1. [The Budget makes no change to these plans.]

(to be completed later)

Changes since previous Budget

the planning total for 1990-91 has been increased by £X billion. In both years,

5.02 The planning total for 1989-90 remains unchanged from the level shown in the last FSBR; [~~Over the Survey period,~~] extra resources have been [provided to meet the Government's priorities], including substantial additional sums for health, law and order, defence and roads. Provision for local authority current spending and the UK's net contribution to the European Communities is also higher.

Public spending trends

5.03 The fall in unemployment has made savings possible in the social security, employment and training programmes. These savings, together with the savings on debt

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Table 5.1 Public expenditure

	£ billion				
	1987-88 Outturn	1988-89 Estimated outturn	1989-90 Plans	1990-91 Plans	1991-92 Plans
Department					
Social Security	46.3	47.4	51.0	55.3	58.7
Health	19.7	21.8	23.2	24.4	25.4
Defence	18.9	19.0	20.1	21.2	22.1
Education and science	17.1	18.4	19.6	20.2	20.8
Home Office and legal departments	6.5	7.2	8.0	8.4	8.6
Transport	4.6	4.8	5.4	5.5	5.7
Scotland	8.1	8.7	9.0	9.1	9.7
Wales	3.3	3.6	3.8	3.9	4.0
Northern Ireland	4.9	5.6	5.5	5.7	5.9
Other departments	21.4	21.7	23.1	23.7	25.2
Privatisation proceeds	-5.1	-7.0	-5.0	-5.0	-5.0
Reserve			3.5	7.0	10.5
Public expenditure planning total	**145.7**	**151.1**	**167.1**	**179.4**	**191.6**
General government gross debt interest[1]	**[17.8]**	**[17.7]**	**[17.0]**	**[16.0]**	**[15.5]**
Other adjustments	**[8.3]**	**[9.3]**	**[9.5]**	**[9.5]**	**[9.0]**
General government expenditure	**[171.8]**	**[178.1]**	**[193.7]**	**[205]**	**[216]**
General government expenditure excluding privatisation proceeds					
In real terms (base year 1987-88)[2]	**[177.0]**	**[175.4]**	**[178.1]**	**[181.9]**	**185.8]**
As a percentage of GDP	**[41¾]**	**[39½]**	**[39¼]**	**[39]**	**[38¾]**

[1] 1990-91 and 1991-92 figures rounded to the nearest £½ billion
[2] Using GDP deflators and money GDP on the same basis as in Table 2.1

~~interest, lower costs of agricultural market support and the success of the Government's right to buy policy for local authority housing have made room for increases for priority programmes consistent with the Government's medium term objective that total government spending should decline as a proportion of the nation's income. General government spending excluding privatisation proceeds has fallen from 46¾ per cent of GDP in 1982-83 to [39½] per cent in 1988-89.~~

Public spending trends

5.03 General government spending, excluding privatisation proceeds, has fallen from 46¾ per cent of GDP in 1982-83 to [39½] per cent in 1988-89. The expenditure plans to 1991-92 are consistent with the Government's ~~medium-term objective that total government spending should continue to decline as a proportion of the nation's income.~~ The fall in unemployment has made savings possible in the social security, employment and training programmes. These savings, together with higher housing receipts and reduced ~~debt interest and~~ agricultural market support, have made room for increases in priority programmes within the declining trend of total expenditure relative to national income.

policy of reducing the share of national income taken by total government spending.

The move to Budget surplus has reduced the burden of debt interest, and

[Budget consequences 5.04]

1988-89 outturn

5.05 The latest estimates for the outturn for the planning total in 1988-89, which are still subject to some uncertainty, suggest that it is likely to be £[151.1] billion, £[5.8] billion below the plans shown in the 1988 public expenditure White Paper and the 1988 Budget and £[2.3] billion below the outturn figure shown in the 1989 public expenditure White Paper. A breakdown is shown in Table 5.2.

(of which £2 bn represents increased privatisation proceeds)

Table 5.2 Comparison of plans and estimated outturn for 1988-89

	1988-89 £ billion		
	Plans[1]	Estimated outturn	Outturn minus plans
Central government[2]	114.3	114.3	
Local authority[2]	42.6	42.9	+0.3
of which:			
relevant expenditure	33.2	34.5	+1.2
other current	5.4	5.3	-0.1
capital	4.0	3.1	-0.9
Nationalised industries and other public corporations	1.4	0.9	-0.5
Privatisation proceeds	-5.0	-7.0	-2.0
Reserve	3.5		-3.5
Public expenditure planning total	**156.9**	**151.1**	**-5.8**

[1] Plans from The Government's Expenditure Plans 1988-89 to 1990-91 (Cm 288) adjusted for classification changes

[2] Excluding finance for nationalised industries and other public corporations

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5.06 The major changes in 1988-89 between programme plans in the 1988 White Paper and the estimated outturn for the different spending authorities are:

increases in central government expenditure by the Department of Health (£0.9 billion - mainly reflecting NHS pay settlements), Trade and Industry (£0.4 billion - largely the grant associated with the sale of Rover to BAe) and Northern Ireland (£0.5 billion - largely to finance the recapitalisation of Shorts Brothers prior to privatisation) ~~are~~ have been offset by lower Social Security expenditure (£1.0 billion) due mainly to the fall in unemployment; lower payments by the Intervention Board for Agricultural Produce (£0.4 billion) reflecting effects of US drought and UK harvest; and lower expenditure by the Department of Employment (£0.4 billion) on Training Agencies, Community Programme and Redundancy Fund;

Could ask CST to polish up

Yes PSR

an overspend of £1.2 billion on plans for local authority current expenditure;

a net underspend of £0.9 billion on local authority capital expenditure, reflecting higher gross spending (£1.2 billion) offset by higher receipts (£2.1 billion);

ditto.

an improvement of £0.5 billion in the figures for nationalised industries and other public corporations mainly reflecting higher profitability of British Steel prior to privatisation (£0.3 billion) and British Rail (£0.3 billion) and the effect of increased capital receipts from new towns (£0.2 billion);

higher than expected privatisation proceeds (£2.0 billion) mainly due to the sale of British Steel and to the early payment of the final instalment from the Kuwait Investment Office for the shares which BP is repurchasing.

5.07 The main changes contributing to the drop of £[2.3] billion in 1988-89 since the 1989 ~~public expenditure~~ White Paper are

a decrease of £300 million in the estimated outturn for DOE - Other Environmental Services mainly due to lower local authority capital expenditure;

a decrease of £200 million in the estimated outturn of the Department of Trade and Industry partly reflecting higher profitability of British Steel;

a decrease of £200 million in the estimated outturn for the Department of Social Security;

a decrease of £200 million in the estimated outturn for the Ministry of Defence due to slippage on equipment procurement;

a decrease of £830 million due to the advance payment by the Kuwait Investment Office mentioned above.

(This is all very boring.)

Public expenditure by spending authority

5.08 Central government spending makes up about three quarters of the planning total. About 70 per cent of this is voted by Parliament through the annual Supply Estimates and covers the expenditure of government departments for their own activities as well as their funding of other bodies such as the National Health Service. Most of the remainder consists of social security payments paid out of the National Insurance Fund. Spending by local authorities accounts for about one quarter of public expenditure. Nationalised industries and other public corporations account for the remainder of the total. Table 5.3 gives outturn figures for the last two years and the plans as published in the public expenditure White Paper.

Table 5.3 Public expenditure by spending authority

£ billion	1987-88 Outturn	1988-89 Estimated outturn	1989-90 Plans	1990-91 Plans	1991-92 Plans
Central government[1]	109.4	114.3	123.7	131.2	136.9
of which:					
Voted in Estimates	76.9	80.7	86.9	92.2	96.4
other	32.5	33.5	36.8	39.0	40.5
Local authorities[1]	40.7	42.9	44.0	45.5	47.1
of which:					
relevant expenditure	32.0	34.5	35.2	36.5	37.5
other current	5.1	5.3	6.2	6.7	7.1
capital	3.6	3.1	2.6	2.4	2.5
Nationalised industries	0.3	0.4	-	-0.4	1.0[2]
Other public corporations	0.5	0.5	0.9	1.0	1.1
Privatisation proceeds	-5.1	-7.0	-5.0	-5.0	-5.0
Reserve			3.5	7.0	10.5
Public expenditure planning total	**145.7**	**151.1**	**167.1**	**179.4**	**191.6**

1 Excluding finance for nationalised industries and other public corporations

2 The increase in 1991-92 reflects the disappearance from the public expenditure figures, following privatisation, of the substantial negative external finance of the electricity industry

Supply Estimates

5.09 For 1989-90, the plans set out in the public expenditure White Paper have now been translated, where appropriate, into detailed control totals in Supply Estimates. The total Estimates provision for 1989-90 for which the Government is seeking Parliamentary approval is shown in Table 5.4. The main Estimates for 1989-90 are published in a series of booklets on [14] March 1989 with a Summary and Guide (Cm [ ]) which summarises the Estimates and explains how they relate to the public expenditure planning total. It also describes the Supply procedure.

5.10 Of the £[116.0] billion included in the Supply Estimates, £[90.2] billion is direct public expenditure. The remaining £[25.8] billion does not feature directly as public expenditure because it consists of grants to local authorities and finance for other bodies whose spending is counted as public expenditure. About two thirds of the money voted in Estimates is subject to cash limits, which provide the Government with greater control over its cash expenditure during the financial year.

Table 5.4 Supply expenditure

	£ billion			
	1987-88		1988-89	1989-90
	Expected outturn in 1988 Budget	Final outturn	Expected outturn	Provision
Main Supply Estimates	104.5	104.5	108.3	[116.0]
Supplementaries and net underspending	0.9	1.0	[2.2]	
Total Supply expenditure	105.3	105.5	[110.5]	
(public expenditure element)	(79.5)	(79.6)	([84.8])	

Bod

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Table 1.2 The finances of the Public Sector[1]

	1988-89 1988 Budget[2] (£ billion)	1988-89 Latest estimate	1989-90 Forecast
RECEIPTS			
Inland Revenue:			
Income tax	42.1	43.5	47.1
Corporation tax[3]	19.8	18.8	22.0
Petroleum revenue tax	1.2	1.3	1.3
Capital gains tax	2.0	2.4	2.1
Inheritance tax	1.0	1.1	1.1
Stamp duties	2.0	2.3	2.6
Total Inland Revenue	**68.0**	**69.4**	**76.1**
Customs and Excise:			
Value added tax	26.2	27.5	29.8
Petrol, derv duties etc	8.4	8.7	8.7
Tobacco duties	5.0	5.1	5.1
Alcohol duties	4.5	4.6	4.7
Betting and gaming duties	0.9	0.9	0.9
Car tax	1.3	1.4	1.4
Customs duties	1.6	1.7	1.8
Agricultural levies	0.1	0.2	0.1
Total Customs and Excise	**47.9**	**49.9**	**52.5**
Vehicle excise duties	2.8	2.8	2.9
Oil royalties	0.6	0.6	0.6
Gas levy	0.4	0.4	0.4
Local authority rates[4]	19.0	18.9	20.4
Other taxes and royalties	2.5	2.7	2.8
Total taxes and royalties	**141.2**	**144.8**	**155.7**
National insurance and other contributions	31.6	32.8	34.6
Interest and dividends	5.6	6.6	6.7
Gross trading surpluses and rent	3.5	3.3	3.5
Other receipts	2.9	3.3	3.3
General Government Receipts	**184.9**	**190.8**	**203.7** 8

	1988-89 1988 Budget[2] (£ billion)	1988-89 Latest estimate	1989-90 Forecast
EXPENDITURE			
Social security	48.5	47.4	51.0
Health	20.7	21.8	23.2
Defence	19.2	19.0	20.1
Education and science	18.0	18.4	19.6
Home office and legal departments	7.0	7.2	8.0
Transport	5.1	4.8	5.4
Scotland	8.5	8.7	9.0
Wales	3.5	3.6	3.8
Northern Ireland	5.1	5.6	5.5
Other departments	22.8	21.7	23.1
Privatisation proceeds	-5.0	-7.0	-5.0
Reserve	3.5	-	3.5
Public expenditure planning total	**156.9**	**151.1**	**167.1**
General government gross debt interest	17.5	18.2	16.6
Other adjustments	8.6	9.2	9.5
General Government Expenditure	**183.0**	**178.5**	**193.2**

Receipts, expenditure and debt repayment

	1988-89 1988 Budget[2] (£ billion)	1988-89 Latest estimate	1989-90 Forecast
General government receipts	184.9	190.8	203.7 8
General government expenditure	183.0	178.5	193.2
General government debt repayment	2.0	12.3	10.5 6
Public corporations' market and overseas debt repayment	1.2	1.7	1.5
Public sector debt repayment	**3.2**	**14.0**	**12.0** 1

1 In this and other tables constituent items may not add up to totals because of rounding.
~~2 On current definitions.~~
3 Includes advance corporation tax (net of repayments): 5.3 6.0 6.4
- also includes North Sea corporation tax after ACT set off and corporation tax on gains.
4 In this and other tables community charge receipts are included with local authority rates.

in Scotland

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1988 FSBR

Table 1.2 The finances of the public sector[1]

	£ billion		
	1987–88		1988–89
	1987 Budget[2]	Latest estimate	Forecast
RECEIPTS			
Income tax	40·0	41·5	42·1
Corporation tax excluding North Sea[3]	13·5	13·7	17·3
Capital taxes	3·3	3·7	4·7
Expenditure taxes:			
VAT	23·3	24·1	26·2
local authority rates	16·9	16·9	19·0
petrol, derv, etc.	7·8	7·8	8·4
cigarettes and other tobacco	4·9	4·8	5·0
spirits, beer, wine, etc.	4·3	4·4	4·5
stamp duties	2·1	2·4	2·0
other	8·5	8·9	9·4
Total expenditure taxes	67·8	69·3	74·4
North Sea revenues:			
North Sea corporation tax[4]	1·4	1·4	1·5
petroleum revenue tax	1·7	2·3	1·2
oil royalties	0·8	1·0	0·6
Total North Sea	3·9	4·7	3·3
Other[5]	−0·8	−0·6	−0·7
Total taxes and royalties	**127·8**	**132·3**	**141·2**
National insurance and other contributions	28·5	28·7	31·6
Interest and dividend receipts	5·7	6·3	5·6
Gross trading surpluses and rent	3·3	3·0	3·5
Other	3·5	3·4	2·9
General government receipts	**168·8**	**173·7**	**184·9**

	£ billion		
	1987–88		1988–89
	1987 Budget[2]	Latest estimate	Forecast
EXPENDITURE			
DHSS—social security	46·0	46·3	48·5
DHSS—health and personal social services	19·1	19·7	20·7
Defence	18·8	18·6	19·2
Education and science	16·6	17·1	18·0
Scotland, Wales and Northern Ireland	16·0	16·3	17·1
Other departments	33·6	33·0	34·9
Privatisation proceeds	−5·0	−5·0	−5·0
Reserve	3·5	—	3·5
Public expenditure planning total	**148·6**	**146·0**	**156·8**
General government gross debt interest	17·9	17·5	17·5
Other adjustments	7·0	8·3	8·6
General government expenditure	**173·5**	**171·8**	**182·9**

Expenditure, receipts and borrowing[6]

	£ billion		
	1987–88		1988–89
	1987 Budget[2]	Latest estimate	Forecast
General government expenditure	173·5	171·8	182·9
General government receipts	168·8	173·7	184·9
General government borrowing requirement	4·7	−1·9	−2·0
Public corporations' market and overseas borrowing	−0·8	−1·2	−1·2
Public sector borrowing requirement	**3·9**	**−3·1**	**−3·2**

[1] *In these and other tables, constituent items may not add up to totals because of rounding.*
[2] *On current definitions.*
[3] *Including advance corporation tax but excluding corporation tax on capital gains.*
[4] *Before advance corporation tax set off. See footnote [3] to Table 6B.3.*
[5] *Adjustments for advance corporation tax set off against North Sea corporation tax plus accruals adjustment.*
[6] *Net borrowing: positive; net debt repayment: negative.*

1988 FSBR

Annex to Chapter 6

Part A: relationship between tables in Chapter 6, and with Table 1.2; and outturn data

Relationship between tables

6A.1 Table 6.7 is based on the definitions used to compile the national accounts. In order to show the financial deficit for each sector, lending and other financial transactions are separated from the analysis of receipts and expenditure in lines 1–23 and shown in lines 25–29. These lines show the relationship between the financial deficit (line 24) and the borrowing requirement for each sector (line 30).

6A.2 Tables 6.4–6.6 are summary versions of the sectoral columns of Table 6.7. The information in Table 6.7 is rearranged so that, for example, central government grants to local authorities (which appear as negative expenditure in the local authorities column of Table 6.7, lines 16 and 21) appear as receipts in Table 6.5. Interest paid by local authorities to central government (which appears as negative receipts in the local authorities column of Table 6.7, line 8) appears as expenditure in Table 6.5. Finally, lending and other financial transactions (lines 25–29 of Table 6.7) are included in the receipts and expenditure of Tables 6.4–6.6.

6A.3 Table 1.2 in Chapter 1 uses the same information as Table 6.7, but again rearranges it. To derive general government expenditure, it starts by giving a departmental breakdown of the public expenditure planning total: that includes not only general government expenditure items in the third column of Table 6.7 (including the "financial transactions" in lines 25–26), but also borrowing or capital expenditure by public corporations in the fourth column. General government expenditure as shown in Table 1.2 is then obtained by adding general government debt interest from the third column of Table 6.7 and the national accounts adjustments already included in Table 6.7, and deducting public corporations' borrowing from the market and from overseas.

6A.4 Alternatively, general government expenditure in Table 1.2 (and Table 2.4) can be obtained from lines 22, 23, 25 and 26 (third column) in Table 6.7 and on-lending to public corporations in Table 6.3.

6A.5 To derive general government receipts, Table 1.2 takes the receipts shown in the third column of Table 6.7 (lines 11, 27, 28 and 29) and rearranges them according to the type of activity which gives rise to them. For example, oil revenues comprise North Sea corporation tax and petroleum revenue tax (included in "taxes on income" in Table 6.7) plus oil royalties. The sub-total "total taxes and royalties" is the same as the first line of Table 2.5 in Chapter 2.

Outturn data

6A.6 Outturns for the PSBR and the statutory central government accounts (as in Tables 6B.1–4 in Part B of the Annex) are compiled monthly and published by press notice 12 working days after the end of the month and then in more detail in Tables 2.5, 3.12 and 3.16 of the following issue of Financial Statistics. Details of the PSBR on national accounts definitions, as in Table 6.7, are compiled quarterly and published in sections 2 to 5 of Financial Statistics three months after the end of the quarter.

6A.7 The first outturn for the PSBR in 1987–88 will accordingly be published on 20 April. The first national accounts outturns for 1987–88 will appear in the June issue of Financial Statistics.

Part B: central government transactions

Commentary on the tables

6B.1 The tables in Part B of this Annex are confined to central government transactions, and are based on the statutory funds and accounts. Their relationship to the accounts of central government on a national accounts basis (as in Table 6.4) is described in the Financial Statistics Explanatory Handbook (1987 edition, p38). The receipts and payments in the Part B tables are all shown on a cash basis, not accrued. Table 1.2, however, shows the main categories of taxes on an accrued basis as in the national accounts: for instance the item "income tax" in Table 1.2 differs slightly from "income tax" in Table 6B.3.

Table 6B.1 **Summary of central government transactions**

	£ billion 1987–88 latest estimate
Consolidated Fund	
Revenue (Table 6B.3)	123·2
Expenditure (Table 6B.2)	121·0
National Loans Fund (Table 6B.4)	
Receipts	16·7
Payments	21·7
Surplus transferred from Consolidated Fund	2·2
Total net borrowing by the National Loans Fund	2·9
Surplus on other funds and accounts (net)	1·1
Central government borrowing requirement[1] (Table 6.3)	**1·7**

[1] *Including borrowing for on-lending to local authorities and public corporations.*

Table 6B.2 **Consolidated Fund expenditure**

	£ million 1987–88 latest estimate
Supply Issues[1]	105 100
Standing services	
Payment to the National Loans Fund in respect of service of the national debt	9 800
Northern Ireland—share of taxes etc.	2 220
Payments to the European Communities	3 770
Other services	100
Total standing services	15 900
Total Consolidated Fund expenditure	**121 000**

[1] *Supply Issues are monies paid from the Consolidated Fund to departments' cash accounts with the Paymaster General for spending on Supply. Supply expenditure (see Table 5.4) equates closely to total Supply Issues in most years, although there may sometimes be slight timing differences between the two.*

Table 6B.3 Consolidated Fund revenue

	£ million		
	1987–88		1988–89
	1987 Budget	Latest estimate	Forecast
Inland Revenue			
Income tax[1]	39 900	41 400	42 100
Corporation tax[2,3]	15 000	15 600	19 800
Petroleum revenue tax[4]	1 680	2 330	1 180
Capital gains tax	1 300	1 350	1 950
Development land tax	20	25	10
Inheritance tax[5]	1 100	1 070	1 000
Stamp duties	2 100	2 440	1 950
Total Inland Revenue	**61 100**	**64 200**	**68 000**
Customs and Excise			
Value added tax	23 300	24 100	26 200
Petrol, derv, etc.	7 800	7 800	8 400
Cigarettes and other tobacco	4 800	4 800	5 000
Spirits, beer, wine, cider and perry	4 300	4 400	4 500
Betting and gaming	800	810	890
Car tax	1 100	1 150	1 260
Other excise duties	20	20	20
EC own resources[6]			
Customs duties, etc.	1 350	1 470	1 550
Agricultural levies	230	190	120
Total Customs and Excise	**43 800**	**44 700**	**47 900**
Vehicle excise duties[7]	2 600	2 700	2 770
Gas levy	490	500	420
Broadcasting receiving licences	1 030	1 030	1 140
Interest and dividends	1 020	1 080	680
Other[8]	7 600	9 100	7 300
Total Consolidated Fund revenue	**117 500**	**123 200**	**128 200**

[1] See paragraph 6B.1.

[2] Includes advance corporation tax (net of repayments)	*4 700*	*4 950*	*5 250*
[3] North Sea corporation tax	*1 400*	*1 360*	*1 500*
of which satisfied by setting off ACT	*800*	*730*	*780*

Liability to corporation tax arising in respect of North Sea production may be satisfied by setting off ACT arising on dividends paid in previous periods in respect of both onshore and offshore activities. Dividends and ACT associated with North Sea activities alone cannot be identified.

[4] Includes advance petroleum revenue tax.

[5] Includes estate duty and capital transfer tax.

[6] Customs duties and agricultural levies are accountable to the European Communities as 'own resources'; actual payments to the Communities are recorded in Table 6B.2.

[7] Includes driving licence receipts.

[8] Includes the 10 per cent of 'own resources' refunded by the European Communities to meet the costs of collection, privatisation proceeds and oil royalties.

Table 6B.4 National Loans Fund receipts and payments

	£ million 1987–88 Latest estimate
Receipts	
Interest on loans, profits of the Issue Department of the Bank of England, etc.	6 800
Service of the National Debt—balance met from the Consolidated Fund	9 800
Total receipts	**16 700**
Payments	
Service of the National Debt:	
interest	16 500
management and expenses	170
Total service of the National Debt	16 700
Loans to:	
nationalised industries	−180
other public corporations	−170
local authorities	5 200
private sector and within central government	180
Total National Loans Fund lending[1]	5 000
Total payments	**21 700**

[1] On-lending to local authorities and public corporations in Table 6.3 includes, in addition to National Loans Fund lending, net lending from other funds and accounts (mainly Supply Issues in Table 6B.2).

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FROM: A C S ALLAN
DATE: 22 February 1989

pp

MRS R J BUTLER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Scholar
Mr Sedgwick
Mr Riley
Mrs Lomax
Mr Hibberd
Mr Mowl
Miss Simpson

The Chancellor was grateful for your minute of 21 February and the draft of Chapter 5.* I attach a copy with his comments marked.

2. He would be grateful if the Chief Secretary could consider whether paragraph 5.06 could be sharpened up. And he wondered whether we really needed paragraph 5.07 at all.

ACSA

A C S ALLAN

(* he agreed with Mr Anson's redraft of 5.03, subject to the drafting comments marked).

fsbr

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21/2/89

1989 FSBR

5. PUBLIC EXPENDITURE

5.01 The Government's expenditure plans for the next three years were set out in the 1988 Autumn Statement (HC 695) and in detail in the 1989 public expenditure White Paper (Cm 601-621). They are summarised in Table 5.1. [The Budget makes no change to these plans.]

Changes since previous Budget

the planning total for 1990-91 has been increased by £ x billion. In both years,

5.02 The planning total for 1989-90 remains unchanged from the level shown in the last FSBR; ~~Over the Survey period,~~ extra resources have been provided to meet the Government's priorities, including substantial additional sums for health, law and order, defence and roads. Provision for local authority current spending and the UK's net contribution to the European Communities is also higher.

Public spending trends

~~5.03 The fall in unemployment has made savings possible in the social security, employment and training programmes. These savings, together with the savings on debt~~

Table 5.1 Public expenditure

	£ billion				
	1987-88 Outturn	1988-89 Estimated outturn	1989-90 Plans	1990-91 Plans	1991-92 Plans
Department					
Social Security	46.3	47.4	51.0	55.3	58.7
Health	19.7	21.8	23.2	24.4	25.4
Defence	18.9	19.0	20.1	21.2	22.1
Education and science	17.1	18.4	19.6	20.2	20.8
Home Office and legal departments	6.5	7.2	8.0	8.4	8.6
Transport	4.6	4.8	5.4	5.5	5.7
Scotland	8.1	8.7	9.0	9.1	9.7
Wales	3.3	3.6	3.8	3.9	4.0
Northern Ireland	4.9	5.6	5.5	5.7	5.9
Other departments	21.4	21.7	23.1	23.7	25.2
Privatisation proceeds	-5.1	-7.0	-5.0	-5.0	-5.0
Reserve			3.5	7.0	10.5
Public expenditure planning total	**145.7**	**151.1**	**167.1**	**179.4**	**191.6**
General government gross debt interest[1]	[17.8]	[17.7]	[17.0]	[16.0]	[15.5]
Other adjustments	[8.3]	[9.3]	[9.5]	[9.5]	[9.0]
General government expenditure	[171.8]	[178.1]	[193.7]	[205]	[216]
General government expenditure excluding privatisation proceeds					
In real terms (base year 1987-88)[2]	[177.0]	[175.4]	[178.1]	[181.9]	185.8]
As a percentage of GDP	[41¾]	[39½]	[39¼]	[39]	[38¾]

[1] 1990-91 and 1991-92 figures rounded to the nearest £½ billion
[2] Using GDP deflators and money GDP on the same basis as in Table 2.1

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~~interest, lower costs of agricultural market support and the success of the Government's right to buy policy for local authority housing have made room for increases for priority programmes consistent with the Government's medium term objective that total government spending should decline as a proportion of the nation's income. General government spending excluding privatisation proceeds has fallen from 46¾ per cent of GDP in 1982-83 to [39½] per cent in 1988-89.~~

Public spending trends

5.03 General government spending, excluding privatisation proceeds, has fallen from 46¾ per cent of GDP in 1982-83 to [39½] per cent in 1988-89. The expenditure plans to 1991-92 are consistent with the Government's [~~medium term objective that total government spending should continue to decline as a proportion of the nation's income.~~] The fall in unemployment has made savings possible in the social security, employment and training programmes. These savings, together with higher housing receipts and reduced [~~debt interest and~~] agricultural market support, have made room for increases in priority programmes within the declining trend of total expenditure relative to national income.

policy of reducing the share of national income taken by total government spending.

The move to Budget surplus has reduced the burden of debt interest, and

[Budget consequences 5.04]

1988-89 outturn

5.05 The latest estimates for the outturn for the planning total in 1988-89, which are still subject to some uncertainty, suggest that it is likely to be £[151.1] billion, £[5.8] billion below the plans shown in the 1988 public expenditure White Paper and the 1988 Budget (of which £2 billion represent ~~pro~~ increased privatisation proceeds) and £[2.3] billion below the outturn figure shown in the 1989 public expenditure White Paper. A breakdown is shown in Table 5.2.

Table 5.2 Comparison of plans and estimated outturn for 1988-89

	1988-89 £ billion		
	Plans[1]	Estimated outturn	Outturn minus plans
Central government[2]	114.3	114.3	
Local authority[2]	42.6	42.9	+0.3
of which:			
relevant expenditure	33.2	34.5	+1.2
other current	5.4	5.3	-0.1
capital	4.0	3.1	-0.9
Nationalised industries and other public corporations	1.4	0.9	-0.5
Privatisation proceeds	-5.0	-7.0	-2.0
Reserve	3.5		-3.5
Public expenditure planning total	**156.9**	**151.1**	**-5.8**

[1] Plans from The Government's Expenditure Plans 1988-89 to 1990-91 (Cm 288) adjusted for classification changes

[2] Excluding finance for nationalised industries and other public corporations

[CST to consider]

5.06 The major changes between programme plans and estimated outturn for the different spending authorities are:

increases in central government expenditure by the Department of Health (£0.9 billion - mainly reflecting NHS pay settlements), Trade and Industry (£0.4 billion - largely the grant associated with the sale of Rover to BAe) and Northern Ireland (£0.5 billion - largely to finance the recapitalisation of Shorts Brothers prior to privatisation) are offset by lower Social Security expenditure (£1.0 billion) due mainly to the fall in unemployment; lower payments by the Intervention Board for Agricultural Produce (£0.4 billion) reflecting effects of US drought and UK harvest and lower expenditure by the Department of Employment (£0.4 billion) on Training Agencies, Community Programme and Redundancy Fund;

an overspend of £1.2 billion on plans for local authority current expenditure;

a net underspend of £0.9 billion on local authority capital expenditure, reflecting higher gross spending (£1.2 billion) offset by higher receipts (£2.1 billion);

an improvement of £0.5 billion in the figures for nationalised industries and other public corporations mainly reflecting higher profitability of British Steel prior to privatisation (£0.3 billion) and British Rail (£0.3 billion) and the effect of increased capital receipts from new towns (£0.2 billion);

~~higher than expected privatisation proceeds (£2.0 billion) mainly due to the sale of British Steel and to the early payment of the final instalment from the Kuwait Investment Office for the shares which BP is repurchasing.~~

5.07 The main changes contributing to the drop of £[2.3] billion since the 1989 public expenditure White Paper are

a decrease of £300 million in the estimated outturn for DOE - Other Environmental Services mainly due to lower local authority capital expenditure;

a decrease of £200 million in the estimated outturn of the Department of Trade and Industry partly reflecting higher profitability of British Steel;

a decrease of £200 million in the estimated outturn for the Department of Social Security;

a decrease of £200 million in the estimated outturn for the Ministry of Defence due to slippage on equipment procurement;

a decrease of £830 million due to the advance payment by the Kuwait Investment Office mentioned above.

Public expenditure by spending authority

5.08 Central government spending makes up about three quarters of the planning total. About 70 per cent of this is voted by Parliament through the annual Supply Estimates and covers the expenditure of government departments for their own activities as well as their funding of other bodies such as the National Health Service. Most of the remainder consists of social security payments paid out of the National Insurance Fund. Spending by local authorities accounts for about one quarter of public expenditure. Nationalised industries and other public corporations account for the remainder of the total. Table 5.3 gives outturn figures for the last two years and the plans as published in the public expenditure White Paper.

Table 5.3 Public expenditure by spending authority

	1987-88 Outturn	1988-89 Estimated outturn	1989-90 Plans	1990-91 Plans	1991-92 Plans
	£ billion				
Central government[1]	109.4	114.3	123.7	131.2	136.9
of which:					
Voted in Estimates	76.9	80.7	86.9	92.2	96.4
other	32.5	33.5	36.8	39.0	40.5
Local authorities[1]	40.7	42.9	44.0	45.5	47.1
of which:					
relevant expenditure	32.0	34.5	35.2	36.5	37.5
other current	5.1	5.3	6.2	6.7	7.1
capital	3.6	3.1	2.6	2.4	2.5
Nationalised industries	0.3	0.4	-	-0.4	1.0[2]
Other public corporations	0.5	0.5	0.9	1.0	1.1
Privatisation proceeds	-5.1	-7.0	-5.0	-5.0	-5.0
Reserve			3.5	7.0	10.5
Public expenditure planning total	**145.7**	**151.1**	**167.1**	**179.4**	**191.6**

1 Excluding finance for nationalised industries and other public corporations

2 The increase in 1991-92 reflects the disappearance from the public expenditure figures, following privatisation, of the substantial negative external finance of the electricity industry

Supply Estimates

5.09 For 1989-90, the plans set out in the public expenditure White Paper have now been translated, where appropriate, into detailed control totals in Supply Estimates. The total Estimates provision for 1989-90 for which the Government is seeking Parliamentary approval is shown in Table 5.4. The main Estimates for 1989-90 are published in a series of booklets on [14] March 1989 with a Summary and Guide (Cm [ ]) which summarises the Estimates and explains how they relate to the public expenditure planning total. It also describes the Supply procedure.

5.10 Of the £[116.0] billion included in the Supply Estimates, £[90.2] billion is direct public expenditure. The remaining £[25.8] billion does not feature directly as public expenditure because it consists of grants to local authorities and finance for other bodies whose spending is counted as public expenditure. About two thirds of the money voted in Estimates is subject to cash limits, which provide the Government with greater control over its cash expenditure during the financial year.

Table 5.4 Supply expenditure

	£ billion			
	1987-88		1988-89	1989-90
	Expected outturn in 1988 Budget	Final outturn	Expected outturn	Provision
Main Supply Estimates	104.5	104.5	108.3	[116.0]
Supplementaries and net underspending	0.9	1.0	[2.2]	
Total Supply expenditure	105.3	105.5	[110.5]	
(public expenditure element)	(79.5)	(79.6)	([84.8])	

bold

Pm

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FROM: C J RILEY
DATE: 23 February 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Wicks
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Sedgwick
Mrs Butler
Mr S Davies
Mr Gilhooly
Mr Mowl
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

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

Mr Unwin)
Mr Jefferson-Smith) C&E

[missing pages used as attachment for Allan -> Riley 27/2. ACS]

FSBR CHAPTER 1

I attach a draft of Chapter 1. The text follows the style used last year. Various different versions of table 1.1 are included, showing alternative ways in which the NICs change and the abolition of the earnings rule might be presented. Table 1.2 is essentially the version submitted yesterday by Colin Mowl.

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2. You will wish to consider the order of the measures in table 1.1, and the degree of aggregation. If the NIC package is included with the tax measures, you will want to consider whether it comes at the beginning or the end. You may also want to consider whether to put the excise duties (and VAT) nearer the end, after the savings measures, as in Chapter 4 and in last year's FSBR; but when they were frozen in 1987 they were placed near the beginning because of the relatively large numbers involved.

3. You will also wish to consider which measures should be mentioned in paragraph 1.05, and in what order. The present draft relates to a non-indexed base, mentioning the indexing of allowances but not the freezing of excise duties. Working from an indexed basis would mean mentioning the duties but not the allowances.

4. Four versions of table 1.1 are given, as follows:-

Variant 1

This includes the NIC package immediately after the tax measures, but before striking the total. The gross public expenditure cost of abolishing the earnings limit is placed immediately below the total, with a footnote indicating that it will be met entirely from the Reserve. It would clearly not be right to include the gross expenditure effects in the total cost of the package.

Variant 2

This includes abolition of the earnings limit __before__ striking the total. A row of dots is given for it in the table, but a footnote indicates that there will be gross public expenditure effects, met from the Reserve. Note that a line of zeros in the table would not indicate the true __net__ cost of this measure, since it would ignore tax flowbacks.

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Variant 3

In this variant, both the NIC package and the earnings limit are included under the title "other measures" after the total cost of the tax measures has been struck. Because the cost of abolishing the earnings limit is scored gross, it is not possible to add this to the cost of the NIC package to yield a grand total for the cost of the package.

Variant 4

This is the same as variant 3, except that a row of dots is given for abolishing the earnings limit, as in variant 2. The total cost of the budget measures is given in the final row of the table.

5. These variants are all consistent with inclusion of abolition of the earnings limit in Chapter 4, along with the NIC package. FP propose to include a description of the change, including a reference to gross public expenditure costs and tax flowbacks, at the end of the main text of Chapter 4, but no entry in table 4.1. The paragraph on "budget consequentials" in chapter 5 would presumably need to include a reference to the gross expenditure cost in any event, noting that this will be charged to the Reserve and not add to planning totals.

6. All the figures in table 1.1 are consistent with the figures in today's Scorecard. Those in table 1.2 take on board your preliminary comment on the version submitted yesterday.

CJR

C J RILEY

fp.nh/sf/41

VARIANT 1

TABLE 1.1 THE BUDGET MEASURES[1]

£ million			yield (+)/cost (-)
	1989-90		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	+ 10	+ 10	- 900
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
Other tax changes	- 70	- 35	+ 25
National Insurance Contributions	- 860	- 860	-2440
Total	**-2160**	**-1885**	**-4370**
Pensioners' earnings limit abolished[2]	- 125	- 125	- 250

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

2 Cost shown is gross public expenditure, which will be met from the Reserve. See Chapter 5.

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VARIANT 3

TABLE 1.1 THE BUDGET MEASURES[1]

£ million	1989-90 Changes from a non-indexed base	1989-90 Changes from an indexed base	1990-91 Changes from an indexed base
			yield (+)/cost (-)
Tax Measures			
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	+ 10	+ 10	- 900
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
Other tax changes	- 70	- 35	+ 25
Total	-1300	-1025	-1930

Other measures			
National Insurance contributions reformed	- 860	- 860	-2440
Pensioners' earnings limit abolished[2]	- 125	- 125	- 250

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

2 Cost shown is gross public expenditure, which will be met from the Reserve. See Chapter 5.

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VARIANT 4

TABLE 1.1 THE BUDGET MEASURES[1]

	1989-90		1990-91
£ million			yield (+)/cost (-)
	Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
Tax Measures			
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	+ 10	+ 10	- 900
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
Other tax changes	- 70	- 35	+ 25
Total tax measures	-1300	-1025	-1930
Other measures			
National Insurance contributions reformed	- 860	- 860	-2440
Pensioners' earnings limit abolished[2]	..	..	..
Total Budget measures	**-2160**	**-1885**	**-4370**

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

2 Public expenditure cost will be met from the Reserve. See Chapter 5.

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Table 1.2 The finances of the Public Sector[1]

	£ billion		
	1988-89		1989-90
	1988 Budget[2]	Latest estimate	Forecast
RECEIPTS			
Inland Revenue:			
Income tax	42.1	43.5	47.1
Corporation tax[3]	19.8	18.8	22.0
Petroleum revenue tax	1.2	1.3	1.3
Capital gains tax	2.0	2.4	2.1
Inheritance tax	1.0	1.1	1.1
Stamp duties	2.0	2.3	2.6
Total Inland Revenue	**68.0**	**69.4**	**76.1**
Customs and Excise:			
Value added tax	26.2	27.5	29.8
Petrol, derv duties etc	8.4	8.7	8.7
Tobacco duties	5.0	5.1	5.1
Alcohol duties	4.5	4.6	4.7
Betting and gaming duties	0.9	0.9	0.9
Car tax	1.3	1.4	1.4
Customs duties	1.6	1.7	1.8
Agricultural levies	0.1	0.2	0.1
Total Customs and Excise	**47.9**	**49.9**	**52.5**
Vehicle excise duties	2.8	2.8	2.9
Oil royalties	0.6	0.6	0.6
Gas levy	0.4	0.4	0.4
Local authority rates[4]	19.0	18.9	20.4
Other taxes and royalties	2.5	2.7	2.8
Total taxes and royalties	**141.2**	**144.8**	**155.7**
National insurance and other contributions	31.6	32.8	34.6
Interest and dividends	5.6	6.6	6.7
Gross trading surpluses and rent	3.5	3.3	3.5
Other receipts	2.9	3.3	3.4
General Government Receipts	**184.9**	**190.8**	**203.8**

	£ billion		
	1988-89		1989-90
	1988 Budget[2]	Latest estimate	Forecast
EXPENDITURE			
Social security	48.5	47.4	51.0
Health	20.7	21.8	23.2
Defence	19.2	19.0	20.1
Education and science	18.0	18.4	19.6
Home office and legal departments	7.0	7.2	8.0
Transport	5.1	4.8	5.4
Scotland	8.5	8.7	9.0
Wales	3.5	3.6	3.8
Northern Ireland	5.1	5.6	5.5
Other departments	22.8	21.7	23.1
Privatisation proceeds	-5.0	-7.0	-5.0
Reserve	3.5	-	3.5
Public expenditure planning total	**156.9**	**151.1**	**167.1**
General government gross debt interest	17.5	18.2	16.6
Other adjustments	8.6	9.2	9.5
General Government Expenditure	**183.0**	**178.5**	**193.2**

Receipts, expenditure and debt repayment

	£ billion		
	1988-89		1989-90
	1988 Budget[2]	Latest estimate	Forecast
General government receipts	184.9	190.8	203.8
General government expenditure	183.0	178.5	193.2
General government debt repayment	2.0	12.3	10.6
Public corporations' market and overseas debt repayment	1.2	1.7	1.5
Public sector debt repayment	**3.2**	**14.0**	**12.1**

1 In this and other tables constituent items may not add up to totals because of rounding.
2 On current definitions.
3 Includes advance corporation tax (net of repayments): 5.3 6.0 6.4
- also includes North Sea corporation tax after ACT set off and corporation tax on gains.
4 In this and other tables community charge receipts are included with local authority rates.

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FROM: N I MACPHERSON

DATE: 23 FEBRUARY 1989

1. MR GILHOOLY ✓ 23/2

2. CHANCELLOR

Missing pages used for Allan → Macpherson 27/2

cc Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Riley
Mr A C S Allan
Mr Matthews
Mrs Chaplin
Mr Tyrie

Sir A Battishill IR
Mr Calder IR

Mr Unwin C & E
Mr P R H Allen

FSBR CHAPTER 4

Attached is a redraft of Chapter 4.

2. The NIC and earnings rule changes have been included under a national insurance heading. Earnings rule abolition does not appear in table 4.1 since it is primarily a public expenditure measure. Its cost is therefore reported in the narrative section.

B.L.O.

3. Regarding the questions you asked on the first draft:

(i) Close companies pay corporation tax rather than income tax. We have therefore assumed up to now that the special higher rate would also be corporation tax. Mr Reid of the Revenue is going to send you a minute on this.

(ii) There are five classes of VED for buses and coaches. Including all the rates in the narrative section may give this change more emphasis than you want.

(iii) Taxis have always been central to the proposed changes to hackney VED classes. This is because it has

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seemed inequitable that taxis which spend a great deal of time on the road should pay less VED than the family car.

(iv) The pension proposals are revenue neutral in the short and medium term. They have a positive yield in the very long run - 20 years or so out. The reference to the long term effect in the annex has been dropped.

4. The Economic Secretary has yet to see the redraft of the ECJ judgement section provided by Customs and Excise.

Nick Macpherson

N I MACPHERSON

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4 The Budget Tax and National Insurance Proposals in Detail

4.01 The main tax and national insurance changes proposed in the Budget are summarised below. A full list of changes is given in Table 4.1.

Income tax

4.02 The main income tax thresholds will be increased in line with the statutory indexation provisions (based on the increase of 6.8 per cent in the RPI in the year to December 1988); the higher level of age allowance currently for those aged 80 and over will be extended to those aged 75 and over. This will mean that:

the single person's and wife's earned income allowances will rise from £2,605 to £2,785;

the married allowance will rise from £4,095 to £4,375;

the additional personal allowance and widow's bereavement allowance will rise from £1,490 to £1,590;

the age allowance for those aged 65 to 74 will rise from £3,180 to £3,400 (single) and from £5,035 to £5,385 (married);

the age allowance for those aged 75 and over will rise from £3,150 for those under 80 and from £3,310 for

those aged 80 and over to £3,540 (single), and from £5,035 for those under 80 and from £5,205 for those aged 80 and over to £5,565 (married);

the income limit for age allowance will rise from £10,600 to £11,400;

the basic rate limit will rise from £19,300 to £20,700 of taxable income.

4.03 The age allowance withdrawal rate will be reduced from £2 of allowances for each £3 of income to £1 for each £2 of income above the limit of £11,400.

Benefits in kind

4.04 Car benefit scale charges will be increased by 20 per cent from 6 April 1989.

Private medical insurance

4.05 Income tax relief will be given from April 1990 on private medical insurance premiums for those aged 60 and over.

Charitable giving

4.06 The limit on charitable donations qualifying for tax relief under the payroll giving scheme will be doubled from £240 to £480 a year from 6 April 1989.

Employee share ownership plans (ESOPs)

4.07 Tax relief will be given for payments by companies to qualifying ESOP trusts.

Approved employee share schemes

4.08 The annual limit for individual participation in 1978 employee share scheme will be increased to £2,000 or - if greater - 10 per cent of pay up to a maximum of £6,000. The 1980 SAYE share scheme limit will be increased from £100 to £150 per month. The maximum discount from the share price at which options may be

granted under these schemes will be doubled to 20 per cent.

Profit-related pay

4.09 The cash ceiling on the amount of profit-related pay attracting tax relief will be increased to £4,000. A number of other changes will simplify and improve PRP.

Personal equity plans

4.10 The annual limit on investment in Personal Equity Plans will be increased from £3,000 to £4,800. The annual limit on investment in unit and investment trusts will be increased to £2,400, irrespective of other holdings and restricted to unit and investment trusts which invest mainly in UK equities. The PEP rules will be greatly simplified.

Schedule E assessment

4.11 The basis of assessment for Schedule E (remuneration of employees and directors) will be changed from earnings to receipts. In practice, most employees are taxed on this basis already.

Relocation expenses

4.12 Payments an employer makes towards the additional housing costs of an employee transferred to a more expensive location will no longer be exempt from tax.

Pensions

4.13 The tax regime for pensions will be amended. For occupational schemes the main features will be:

employers will be able to set up "top up" schemes for their employees, with no limits on benefits, but without special tax reliefs;

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relief for expenses of acquiring new life assurance business (other than pension or general annuity business) will be spread over seven years: this change will be phased in gradually over the next four years;

the rate of tax charged on income and capital gains attributable to policy holders will be reduced to a rate equal to the basic rate of income tax (25 per cent);

life assurance policy duty will be abolished.

Stamp Duties

4.17 Stamp duties on share transactions will be abolished from 1 April 1990.

Unit trusts

4.18 A new tax regime will be introduced from 1 January 1990 for unit trusts investing in transferable securities which are freely marketable throughout the European Community under the UCITS directive. The rate of corporation tax charged on their income will be reduced to a rate equal to the basic rate of income tax (25 per cent).

COBO and deep discounted bonds

4.19 The new issues queue will be abolished by a general consent under the Control of Borrowing Order and the regime for deep discount bonds, including certain index-linked bonds, will be amended with effect from Budget day.

Business taxation

4.20 The profits limit for the small companies' corporation tax rate of 25 per cent for financial year 1989 will be raised

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ANNEX TO CHAPTER 4

Explanatory notes to Table 4.1

Table 4.1 gives the direct effects of changes in taxation. Estimates are rounded to the nearest £5 million. "Negligible" means less than £3 million.

The direct effect of a tax change is the difference between the yield of the tax which would arise on the basis of the rate of tax, allowances, etc prevailing before the Budget (the pre-Budget regime) and the yield after the changes proposed in the Budget (the post-Budget regime). The difference in yield is generally calculated by applying the pre- and post-Budget regimes to the same tax base. This base is the post-Budget base - that is, the levels of income, consumption, profits, etc forecast for future years on the assumption that all the measures proposed in the Budget take effect.

Tax changes may cause changes in taxpayers' behaviour, which in turn can alter the tax base and hence revenue. The direct effects are estimated subject to the constraint that, in general, total incomes and total expenditure are fixed at their post-Budget levels. Thus the estimates in the table do not include income effects - that is, effects arising solely from the impact of changes in taxes on disposable incomes. Nor do they include the effects of changes in the tax base arising from changes in pre-tax incomes, the general level of prices or other macro-economic variables which may result from the proposed tax change. But other behavioural effects are taken into account where it is thought that they will have a significant effect on the yield.

For Customs & Excise taxes and duties, all the estimates of yield incorporate the effects of the tax changes on relative prices and associated changes in the pattern of consumers' expenditure. Aggregate income and consumers' expenditure at factor cost are assumed not to change. This is a slight modification of previous practice in which nominal consumers' expenditure at market prices, rather than at factor cost, was held constant. Examples where behavioural effects are taken into account for Inland Revenue taxes include the abolition of stamp duties on share transactions and changes involving the take-up of a new or modified relief.

The post-Budget forecast of each tax given in Table 1.2 takes account of all the effects of the measures announced in the Budget, and not just the direct effects included in table 4.1.

The figures in the first column of Table 4.1 show the direct effect of the Budget proposals on receipts in 1989-90. Budget proposals are compared with a non-indexed base - that is, with the pre-Budget regime of allowances, thresholds and rates of duty at 1988-89 levels.

The figures in the second column show the direct effect of the Budget proposals on receipts in 1989-90, measured against an indexed base. The indexed base for 1989-90 is obtained by increasing 1988-89 allowances, thresholds and rates of duty by 6.8 per cent, the increase in the RPI over the year to December 1988.

The figures in the third column show the direct effect on receipts in 1990-91, also measured against an indexed base. For this comparison, both the Budget proposals and the indexed base for 1989-90 have been further indexed by the forecast movement in the RPI between the fourth quarters of 1988 and 1989 (shown in Table 3.12).

The remainder of this annex provides a commentary on the Budget proposals in Table 4.1; the paragraph numbers refer to

the lines in this table. Additional information is provided for those proposals where the effect on tax liabilities in the first complete year to which the change applies (full year effect) is substantially different from the effect on receipts in either 1989-90 or 1990-91; or where the impact of the proposal is expected to build up over a period of years.

Income Tax

1 to 6 The increases in the main personal allowances and the basic rate limit are in line with the statutory indexation provisions (based on the increase of 6.8 per cent in the RPI in the year to December 1988). The higher age allowance currently given to those aged 80 and over will be extended to those aged 75 years and over. The cost of indexation for those aged between 75 and 79 is included in line 3.

7 The age allowance withdrawal rate will be reduced from £2 of allowances for each £3 of income to £1 for each £2 of income above the limit of £11,400.

8 For 1989-90 the scales for taxing car benefits will be increased by 20 per cent from their 1988-89 levels.

9 The extra-statutory concession which has exempted from tax certain reimbursements by employers of additional housing costs incurred by their employees who have had to move with their jobs to more expensive locations will be withdrawn from 6 April 1989, subject to transitional arrangements.

A statutory relief will be introduced to replace the extra-statutory concession which has exempted certain job-related removal expenses from any charge to income tax.

10 Tax relief will be available (with basic rate relief given at source) for eligible premiums paid in 1990-91 and subsequent years for private medical insurance for those aged 60 years and over. The cost for 1990-91 assumes an increase in take-up in the region of 10 per cent as a result of the new relief. Eventual costs will depend, among other things, on the extent to which medical insurance for the over-60s is promoted and taken up.

11 The amendments to the tax rules for pension schemes will mean that:

for tax approved schemes, earnings over £60,000 will be ignored for the purpose of calculating benefits (consistent with a maximum pension of £40,000, or tax-free lump sum of £90,000). Other amendments will be made to the tax rules to improve early retirement benefits, to allow a two-thirds final salary pension on retirement after 20 years' service between ages 50 and 70 and to simplify calculation of tax-free lump sums. These changes apply to new schemes set up on or after 14 March 1989 and to new members joining existing schemes on or after that date;

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employers will be able to set up top-up schemes with no limits on benefits, but without tax privileges such as tax-free investment build-up;

new rules will allow surplus voluntary contributions to be returned to the member instead of reducing benefits from the employer's scheme. The voluntary scheme will deduct a 35 per cent charge from the refund to recoup the tax advantages enjoyed on contributions and build-up. There will be a further liability on higher rate taxpayers;

changes will be made to the personal pensions tax rules to increase from 1988-89 the age related contribution limits. The increased limit will be subject to the £60,000 earnings cap. And the rules for calculating tax-free lump sums will be simplified.

These measures are expected to have a broadly neutral revenue effects in the early years.

12 The limit on charitable donations qualifying for relief under payroll deduction schemes will be increased from £240 to £480 from April 1989. The cost will depend on take-up.

13 The conditions for relief for charitable covenants will be relaxed so that where a member of a heritage charity is given free entry to view the charity's property, that benefit will not disqualify the covenant payments from relief. The cost will depend on take-up.

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14 Amendments to the profit related pay (PRP) legislation will

abolish the "5 per cent test" on a PRP scheme's eligibility for registration;

increase to £4,000 the cash limit on the amount of PRP attracting tax relief;

allow scheme employers to alter, subject to conditions, the rules of PRP schemes which already registered;

enable PRP schemes to be registered for certain employment units using the profits of the whole business rather than of the employment unit itself.

15 The annual limit on the value of shares which may be given to an employee under an approved all-employee profit-sharing share scheme will be increased, with effect from 6 April 1989, from £1,250 (or 10 per cent of pay up to a maximum of £5,000) to £2,000 (or 10 per cent of pay up to £6,000). The limit on monthly savings made by an employee under an approved savings-related share option scheme (ICTA 1988 Section 185) will be increased, from a day to be appointed, from £100 to £150. The maximum discount on the share price at which options may be granted under these schemes will be increased from 10 per cent to 20 per cent. The use of consortium shares in an approved employee share scheme will be extended to any member of a consortium owning 5 per cent or more of the company's ordinary share capital in place of the previous 15 per cent limit.

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16 There will be relaxations in the conditions under which income tax relief is given to employees who benefit by virtue of their employment from priority in applying for a public offer of shares.

17 Changes will be made in the material interest tests relating to an employee's eligibility to participate in an approved employee share scheme or a registered profit-related pay scheme, and an individual's entitlement to close company interest relief. Subject to certain conditions, shares held by a trust of which the employee is a beneficiary will be disregarded when reckoning whether he has material interest.

18 Relief for interest on loans to acquire Business Expansion Scheme shares on or after 14 March 1989 will be abolished.

19 From 6 April 1989 Schedule E emoluments will be assessed for the year in which they are received instead of the year for which they are earned. There will be a transitional cost, but from 1992-93 when the transition is complete, there will be an annual yield of about £50 million.

20 A change will be made to the provisions which treat certain settlement income as the settlor's for higher rate tax purposes to ensure that income from outright gifts between husband and wife will be treated under Independent Taxation as the income of the recipient of the gift. For certain other settlements the present rule will be extended

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example by aggregation of small payments onto a single voucher.

Income tax and capital gains tax

27 The main changes are:

an increase in the overall annual limit on investment in a Personal Equity Plan to £4,800;

within that an increase in the limit for investment in authorised unit trusts and investment trusts to £2,400, coupled with a new requirement that the trust must invest mostly in UK equities;

significant simplifications for plan managers; and

the facility for new share issues to be brought within plans.

The costs assume take-up in the region of 400,000 in the first full year. The cost is likely to reach £30 million after 5 years.

28 After 5 April 1989, if an unincorporated trader makes a loss which can be set off against other income of the same and/or the following year, he will be able to set any unused loss against his capital gains. The estimated full year costs accrued in 1989-90 and 1990-91 are £50 million and £75 million respectively.

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Income tax, corporation tax and capital gains tax

29 In the light of recommendations of the Keith Committee, administrative changes will be made:

to update the system of monetary penalties for tax offences in line with inflation and remove obsolete penalties;

to introduce a uniform time limit of 20 years for recovery of tax lost through default;

to allow taxpayers further time to claim reliefs where an Inspector discovers that further tax is due;

to modernise the Inland Revenue's powers to obtain information about a taxpayer under enquiry, to allow questions to be put to the taxpayer, provide greater safeguards for the taxpayer and protect audit papers and tax advice from disclosure by his accountant;

to amend the Inland Revenue's search powers to provide greater safeguards for the taxpayer;

to create a new criminal offence for the deliberate destruction of documents called for under the Inland Revenue's information powers;

to change the filing date for returns of PAYE and NIC deductions by employers from 19 April to 19 May, tighten up the penal-

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marginal relief will be raised from £500,000 to £750,000

33 From 1 January 1990 all unit trusts that are UCITS (Undertakings for Collective Investment in Transferable Securities) under the relevant European Communities legislation will be subject to corporation tax on their income at a rate of 25 per cent, with no relief being given for interest paid by them. The cost will rise to about £20 million from 1991-92 onwards.

34 Payments made by a company to an ESOP trust will be deductible in calculating its corporation tax liability where the trust meets conditions aimed at ensuring the acquisition of shares in the company by its employees.

35 Various minor changes will be made to the advance corporation tax (ACT) rules concerning a company which is part of a group or consortium.

36 Measures will be introduced to counter avoidance of tax on disposals of subsidiaries in ways which could cause a substantial loss of tax.

Capital Gains Tax

37 The capital gains tax annual exempt amount will remain at £5,000 in the case of individuals and £2,500 in the case of most trusts.

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38 Capital gains tax gifts relief (which allows deferral on gifts) will be restricted to certain types of gift, the main categories being gifts of business and heritage assets and gifts on which there is an immediate charge to inheritance tax. The revenue yield in 1991-92 is estimated at £40 million. The change will not affect gifts to charities or between spouses.

39 The capital gains tax rules and rules about the transfer of securities applying to assets held by Lloyd's underwriters in their premiums trust funds will be amended to facilitate stock lending to market makers.

Capital Gains Tax and Corporation Tax

40 Changes will be made to the rules for the taxation of capital gains of foreign businesses with UK branches or agencies or with operations on the UK continental shelf. The main effect will be to counter possible developments which could lead to a significant loss of tax.

41 Technical changes will be made in relation to the application of the provisions in the Finance Act 1988 for rebasing the taxation of capital gains to 1982 in certain special situations.

42 Chattels with a disposal value of less than £3,000 are exempt from charges on capital gains. The limit will be raised to £5,000.

43 Certain sterling bonds will be exempted from capital gains tax and corporation tax on

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gains. The main effect will be to counter use of the indexation allowance in ways which could cause a significant loss of tax.

Capital gains tax and Inheritance Tax

44 Certain gifts to registered housing associations will qualify for capital gains tax deferral and inheritance tax exemption.

Inheritance Tax

45 The estimated full year cost of indexation attributable to taxable estates in 1989-90 is £80 million.

46 The facility for varying the disposition of a deceased person's assets will be limited to those variations making adequate provision for his or her dependants.

Stamp Duty

47 The following stamp duties will be abolished from 1 April 1990:

the ½ per cent ad valorem duty on the transfer of UK registered securities;

stamp duty reserve tax;

the 1½ per cent duties on the conversion of UK shares into depository receipts or their transfer into clearance services;

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associated charges on bearer shares and unit trusts units; and

certain fixed duties on share transfers.

Announcement of the abolition of these duties is expected to lead to some rise in the value of share transactions. That will mean an increased yield from stamp duty and value added tax in 1989-90 and from some other taxes, eg capital gains tax in later years. The cost figures in Table 4.1 take account of these additional yields.

48 Life assurance policy duty will be abolished from 1 January 1990. The cost in 1990-91 takes account of the consequential change in corporation tax liability

Value Added Tax:

49 The present VAT registration rules will be replaced by a single requirement based on turnover in the previous twelve months. The existing rules based on anticipated turnover will still apply, in modified form, to large businesses and short term events.

50 From 15 March 1989, the registration limit will become £23,600 a year.

51 A comprehensive system of VAT relief on all debts which are more than 18 months old and which have been written off in the trader's accounts will be introduced. Repayment of the relief, or part of it, will be required

where the debt is subsequently paid in whole or in part.

52 The maximum rate of default surcharge will be reduced from 30 per cent to 20 per cent for all appropriate VAT returns due on or after 31 March 1989.

53 The right of taxpayers to recover overpaid VAT, excise duty [and car tax] will be confirmed - subject to certain conditions - and procedures established which will enable VAT accounting errors to be corrected.

54 From 1 April 1989, VAT will be applied at the standard rate to the construction and sale of new non-residential buildings. From 1 August 1989, VAT at the standard rate will be applied, in certain circumstances, to building land; and landlords will be able to opt to charge tax on their non-residential property and land transactions. [Tenants whose landlords opt to tax existing leases will pay tax on only half of the rent in the first year. In the case of charities the phasing in period will be five years.] Transitional relief will allow zero rating to continue for certain developments where legal commitments had been entered into before 21 June 1988.

55 From 1 April 1989, VAT will be applied at the standard rate to news services (but not newspapers).

56 From 1 April 1989, VAT will be applied at the standard rate to protective boots and helmets supplied to employers.

57 From 1 July 1990, VAT will be applied at the standard rate to fuel and power supplied to businesses.

58 From 1 July 1990, VAT will be applied at the standard rate to water and sewerage services supplied to industry.

59 VAT relief for charities will be extended to charity and certain other fund-raising events, medical sterilising equipment and classified and certain other types of advertising.

60 From 1 May 1989, all cars used by manufacturers for research and development purposes will be relieved of VAT.

Car Tax

61 From Royal Assent, vehicles leased to the disabled will be relieved of car tax.

Excise duties

62-69 There will be no change in the rates of duty on alcoholic drinks, tobacco products and most hydrocarbon oils.

70 The duty arrangements for made-wine will be brought into line with those applicable to wine [of fresh grapes] by prohibiting duty-paid blending.

71 The rules for determining the original gravity of beer for duty purposes will be clarified.

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72 The duty on unleaded petrol will be reduced by the equivalent of 3.2p a gallon (0.7p a litre) including VAT.

73 A higher rate of duty will be introduced on 2 and 3 star leaded petrol. This will add 5p a gallon (1.1p a litre) including VAT to the tax charged on these grades. Cost of extra take-up of unleaded petrol exceeds yield from 2 star in 1990-91.

Vehicle excise duties

74 There will be no change in the duties on cars, light vans, motor cycles and most lorries.

75 From 15 March 1989, the number of duty rates for taxis, coaches and lorries will be reduced from over sixty to five and rates will be adjusted.

76 From 15 March 1989, the rates of duty on certain rigid lorries will be increased to bring them more into line with rates for articulated vehicles of similar gross weight. The rate of duty for special types capable of carrying very long, wide or heavy loads will be increased to £3,100.

Other

77 From 1 January 1990, the additional payments made by ITV programme contractors will be assessed on a mixture of net advertising revenue and profits.

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