TREASURY

Part A

FILE BEGINS 5-1-87

ENDS 15-2-87

FILE TITLE

PO-CH/NL/0795

Budget 1987

FILE NUMBER PO-CH/NL/0795

Part A

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T.R.1.

DEPARTMENT OF THE TREASURY

Washington

BUDGET SECRET

1. Consumer Credit Tax

The rate — for the purposes of further work — to be 15%, by analogy with VAT

2. CGT

To deal with the problem of lumpy assets, a form of spreading (over, say, 3 yrs) to be considered when appropriate.

NL.

2

CONFIDENTIAL

1 Tony
2 Alex

From: R B SAUNDERS
Date: 5 January 1987

MR SCHOLAR

cc PPS
Sir T Burns
Sir G Littler
Mr A Wilson
Mr Byatt
Mr Cassell
Mr Monck
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Turnbull
Miss Sinclair
Miss Evans
Mr Haigh
Mr Romanski

BUDGET SUBMISSIONS

Sir Peter Middleton would like it to be a general rule this year that all Treasury submissions on major Budget issues should be submitted through him. There may be occasions when pressure of time makes this impossible. In such cases, they should be copied to him in sufficient time for him to comment before Ministers take any decision on the point at issue.

RB

R B SAUNDERS
Private Secretary

29309/86

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

J A Bloxcidge Esq
Imperial Tobacco Limited
PO Box 244
Hartcliffe
Bristol
BS99 7UJ

CH/EX → IMP. TOBACCO 6/1

6 January 1987

Dear Mr Bloxcidge

Thank you for your letter of 3 December on the future taxation of tobacco. I am sorry you have not had an earlier reply.

I have noted the points you make about imported cigarettes and read with interest the information you enclosed on the UK Industry's attitude to own-label. I can assure you that your representations will be carefully considered in the run-up to the Budget. However I hope you will understand that I cannot comment further at this stage.

Yours sincerely
Nigel Lawson

NIGEL LAWSON

11

SECRET

BIF Alex 7/1

plug

From: R B SAUNDERS

Date: 6 January 1987

MISS C EVANS

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr A Wilson
Mr Anson
Mr Byatt
Mr Cassell
Mr Kemp
Mr Lavelle
Mr Monck
Mr Scholar
Miss O'Mara
Mr Dyer
Mr Walters
Mr K Sedgwick

Sir Peter Middleton has noted from Mr Sedgwick's submission of 29 December that we now appear to have firmed up on 17 March as Budget Day. He has asked what steps are proposed for announcing this.

RBS

R B SAUNDERS
Private Secretary

pmp

MANAGEMENT IN CONFIDENCE

From: R B SAUNDERS
Date: 7 January 1987

MR SCHOLAR

cc PPS
Mr F E R Butler
Miss Kelley
Mr Fox
Mr Dyer
Miss Evans
Mr Porteous
Mr Walters
Mr Cropper

BRIEFING FOR BACKBENCHERS

Mr Walters' minute of 28 November and your typescript addition to it discussed a number of questions raised following the comments in the House about the briefing provided to Conservative backbenchers on the Autumn Statement. Sir Peter Middleton discussed this with the Chancellor shortly before Christmas.

2. Their conclusion was that we should in future charge Central Office the full cost of producing such briefing for backbenchers, including the time of special advisers and secretarial support. This would avoid any possible criticism that the arrangements conflict with the terms of appointment of special advisers. It may however be necessary to look again at the terms of the letters of appointment sent to special advisers, in particular paragraphs 11(c) and 12, in view of the apparent inconsistency with the Heads of Departments Personal Handbook. Sir Peter Middleton would be grateful if you and EOG would consider whether this is a point which should be pursued with the MPO, with a view to possibly revising the standard letter after the Election.

RBS

R B SAUNDERS
Private Secretary

MANUAL OF ILLUSTRATIVE TAX CHANGES

Covering CONFIDENTIAL

Pup

FROM: R P SHORT
DATE: 8 JANUARY 1987

cc: As attached list

MANUAL OF ILLUSTRATIVE TAX CHANGES

I attach the 1987 edition of the tax and national insurance ready-reckoner. This provides information on the main taxes and gives estimates of the revenue effects of illustrative tax changes.

2. The estimates are based on the Autumn Statement forecast. An illustrative rate of inflation of 3¼ per cent has been used to show the effects of indexation and revalorisation. A revised edition will be issued once the actual figure for the December RPI becomes available.

3. The sections of the ready-reckoner have been prepared by the departments responsible for each tax. Detailed enquiries about the figures and requests for estimates of the costs of particular packages (as opposed to changes of individual taxes) should be addressed to the relevant department.

R P Short

R P SHORT
ETS DIVISION

MANUAL OF ILLUSTRATIVE TAX CHANGES

Circulation List: Revenue Pages

HM Treasury

1.	Chancellor of the Exchequer			12/ 2
2.	Chancellor's Principal Private Secretary	-	A C S ALLAN	12/ 2
3.	Chancellor's Second Private Secretary	-	A W KUCZYS	12/ 2
4.	Chief Secretary			36/2
5.	Financial Secretary			43A/2
6.	Economic Secretary			52/2
7.	Minister of State (Revenue)			49/2
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9.	Second Permanent Secretary	-	F E R BUTLER	120/2
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22.	Senior Economic Adviser MP2	-	C MELLISS	114/3
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30.	Economic Adviser MP1	-	H BREDENKAMP	88/3
31.	Statistician PSF	-	S J W BRISCOE	89/4
32.	Principal FP	-	K ROMANSKI	93/1
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34.	Principal FP	-	MS C EVANS	126/2
35.	Principal ST1	-	M GIBSON	24/2
36.	Special Adviser	-	A ROSS GOOBEY	117/2
37.	Special Adviser	-	P CROPPER	17/2

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57.	Principal Planning Unit	-	J BONE

MANUAL OF ILLUSTRATIVE TAX CHANGES

CONTENTS

HM TREASURY
ETS Division
JANUARY 1987

1. INCOME TAX

INDEXED LEVELS OF INCOME TAX ALLOWANCES AND THRESHOLDS

Allowances	1986-7 Current Levels £	1987-8 Indexed Levels(1) £
Single and wife's earned income allowances	2,335	2,415
Married allowance	3,655	3,775
Additional personal and widow's bereavement allowance	1,320	1,360
Single age allowance	2,850	2,950
Married age allowance	4,505	4,655
Aged income limit	9,400	9,800

Rates per cent	Bands of taxable income 1986-7 Current Levels £	1987-88 Indexed Levels(1) £
29	0 - 17,200	0 - 17,800
40	17,201 - 20,200	17,801 - 20,900
45	20,201 - 25,400	20,901 - 26,300
50	25,401 - 33,300	26,301 - 34,500
55	33,301 - 41,200	34,501 - 42,700
60	over 41,200	over 42,700

(1) Indexed by 3.25 per cent consistent with the Autumn Statement and following the rounding rules laid down in the Finance Act 1980.

Cost of 3.25 per cent indexation at 1987-88 and 1988-89 income levels

	1987-88 Revenue effect	1988-89 Revenue effect
	£m	£m
£80 increase in the single person's and wife's earned income allowance	250	325
£120 increase in the married man's allowance	280	355
£40 increase in the additional personal and widow's bereavement allowance	5	6
£100 increase in the Single Age allowance	24	31
£150 increase in the Married Age allowance	35	43
£400 increase in the Aged Income Limit	7	11
£600 increase in the Basic Rate Limit	51	93
Increase in the further higher rate thresholds	37	75
Total cost of indexation	690	940

GENERAL NOTE: The costs are based on the levels of allowances etc shown in the preceding table, and are estimated on the basis of the Autumn Statement NIF. The changes are cumulative, eg the cost of the increase in the aged income limit is on top of the increase in both the ordinary and age allowance immediately above. The estimates of the effects in 1988-89 assume the the 1987-88 indexed levels of allowances and thresholds continue to apply in 1988-89.

INDEPENDENT CHANGES	1987-88 Revenue effect £m	1988-89 Revenue effect £m
Rates		
Change basic rate by 1p (1)	1100	1450
Change all higher rates by 1p	65	140
Allowances		
Change single and wife's earned income allowance by £100	295	380
Change married allowance by £100	245	310
Change single age allowance by £100	23	31
Change married age allowance by £100	23	29
Change aged income limit by £200	4	6
Higher Rate Bands		
Change all higher rate thresholds by 1% of basic rate band:		
increase (cost)	22	43
decrease (yield)	23	44
Change all higher rate thresholds by 1%:		
increase (cost)	23	46
decrease (yield)	24	47
Change all higher rate thresholds by 10% of basic rate band:		
increase (cost)	200	390
decrease (yield)	265	495
Change all higher rate thresholds by 10%:		
increase (cost)	210	410
decrease (yield)	270	520

Costs of tax changes over and above indexation at 1987-88 and 1988-89 income levels

	1987-88 **Revenue effect**	1988-89 **Revenue effect**
PACKAGES	£m	£m
1% above indexation on all statutory allowances	175	230
1% above indexation on all statutory allowances and thresholds	200	275
10% above indexation on all statutory allowances	1735	2235
10% above indexation on all statutory allowances and thresholds	1935	2645

GENERAL NOTES: All absolute changes are calculated on top of the indexed levels of allowances and thresholds shown in table 1.1. Percentage changes unless otherwise stated are based on 1986-87 levels. Costs are based on the Autumn Statement NIF. Please refer to Inland Revenue for exact costs of packages and information on taxpayer numbers and staffing effects.

The estimated revenue effects are in most cases shown to the nearest £5 million (to avoid undue magnification of rounding errors when considering large changes), but the figures should not be assumed to be accurate to this degree.

(1) The effect would be smaller if introduced at the same time as an increase in one or more thresholds, but these amounts are broadly correct for rate changes on top of allowance increases up to 5 per cent above indexation. The costs include the effect of the change of receipts of Advance Corporation Tax and on consequent liability of Mainstream Corporation Tax; this effect is £15 million in a full year, £140 million in 1987-88 and £65 million in 1988-89.

G A KEENAY
Inland Revenue
Ext 7390

2. CORPORATION TAX

The 1984-85 Finance Act set a rate of 35 per cent for profits arising in the year 1986-87.

Advance corporation tax under the imputation system is due at the rate of 29/71 in respect of distributions made by companies during the year to 31 March 1987.

The estimated yield for 1986-87 is £12400 million (including £600 million on gains and £4100 million ACT).

The effect on corporation tax receipts of a reduction in the rates by 2 per cent to apply to profits arising in the 1986-87 financial year is estimated as:

£ million

	First Year 1987-88	**Second year 1988-89**
Main corporation tax rate	420	780
Small companies rate	40	80

Most of this change would affect tax payable on 1 January 1988 and paid for the most part in the following two months.

For the effect of a change in the rate of ACT see Section 1 (page 1.4).

The quarterly path of a 2 per cent change in the planned rate of Corporation Tax (including small companies rate)[1] from 1 April 1986 is estimated to be:

£ million

	Q2	**Q3**	**Q4**	**Q1**	**Total**
1987-88	5	25	110	320	460
1988-89	90	90	170	510	860
1989-90	110	100	180	570	960

A GREENSLADE
Inland Revenue
Ext 7423

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(1) These figures ignore any possible associated change in the imputation system.

3. CAPITAL GAINS TAX

There is a liability to tax, under CGTA 1979 and subsequent Finance Acts, on capital gains realised on the disposal of assets. Tax payable by companies is accounted for within corporation tax. Capital Gains Tax only comprises payments for individuals and trusts.

2. There are various types of exemptions and reliefs from the tax. Examples are:

Exemption of gains arising on the disposal of

- a person's only or main residence;
- gilt edged securities and qualifying corporate bonds;
- National Savings Certificates and such like;
- Chattels which are wasting assets, or whose value is less than £3,000 on disposal;
- life assurance policies.

Exemption of:

- gains accrued but unrealised on death;
- compensation or damages for wrong or injury;
- gains of approved pension schemes, charities, authorised unit trusts and investment trusts, other specified types of organisations.

Reliefs include:

- "rollover" reliefs eg on reorganisation of share capital, where gains are used to replace business assets, for various gifts (including transfers out of trust);
- deduction of up to £100,000 on disposal of a family business on retirement.

Capital losses (including such losses brought forward) can be offset against realised gains. Companies can offset trading losses against capital gains.

3. In calculating chargeable gains, acquisition costs are indexed (using the Retail Prices Index) from March 1982, or from the date of aquisition if later.

4. The rate of tax on net chargeable gains is 30 per cent.

5. For individuals and trusts, tax is calculated on the extent to which the net chargeable gains in any financial year exceed an indexed annual exemption - as follows:

Gains realised in	Exemption for	
	Individuals	**Trusts**
1985-86	£5900	£2950
1986-87	£6300	£3150
1987-88 (if fully indexed)	£6600	£3300

6. Estimated yields in 1987-88 are:

	£m
Capital Gains Tax (individuals and trusts)	1150 (1)
Company gains (within corporation tax)	825 (1)

7. For Capital Gains Tax (ie on individuals and trusts) the liability on gains realised during any financial year becomes payable, at the earliest, on 1st December of the following year. For practical reasons, however, assessments in respect of any year are finalised only over several subsequent years so that receipts "for" a particular year are slow (and receipts "in" a year are in respect of gains made in several preceding years).

8. In estimating the "full year" effects of changing CGT rules, the FSBR convention (see FSBR 1981-82, page 9, note 2) is to apply an estimated proportionate cost (derived from estimates of the eventual yield for the first year to which the change applies fully) to the forecast yield in the year in which the Finance Act containing the change is enacted. On this basis, if selected changes were enacted during 1987-88, revenue effects would be:

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(1) Not for publication at this stage.

Change	Estimated "full year" effect			Effect in 1987-88		1988-89
Annual exemption increased to £7,000 (from £6,600)	CGT cost		£20 m	nil		£ 8 m cost
There is no annual exemption for companies						
Rate changed ±5 per cent (ie to 35 per cent or 25 per cent)	CGT yield	±	£190 m	nil	±	£75 m
	CT yield	±	£140 m	nil	±	£80 m

R V S QUINN
Inland Revenue
Ext 6314

4. STAMP DUTIES

Stamp Duty is charged under numerous heads. The most important covers the ad valorem duty on conveyances of real property which is a straight 1 per cent (with low value transfers up to £30,000 subject to a nil rate), and transfers of stocks and shares, where the rate is now ½ per cent.

2. Estimated yield in 1987-88: £1750 million(1). The main components are:

		£m
(a)	Conveyances (1 per cent) of which duty on residential property £590 million	755
(b)	Transfers of stocks and shares (½ per cent)	660
(c)	Leases (various rates)	65
(d)	Companies' Share Capital Duty (1 per cent)	170
(e)	Other	105

3. Because of the effect on demand, doubling the duties itemised in paragraph (2) would in general less than double the yield shown in a full year; similarly halving the rates would not reduce the yield by as much as a half.

The cost of raising by £5,000 the threshold for exemption from duty for small conveyances would be £110 million in a full year. If the new thresholds took effect from March 1987 the cost in 1987-88 would be around £100 million.

4. Any increase in stamp duties on conveyances of property or transfers of shares will lead to some reduction in yield of capital gains tax partly since stamp duties are an allowance expense against capital gains tax but also because of the demand effects.

Note

(1) Not for publication

G A PAPE
Inland Revenue
Ext 6236

5. INHERITANCE TAX

Inheritance tax is charged, broadly, on transfers which reduce the value of the transferor's estate. The main occasions of charge are on death, and on events involving trusts and companies. The rate of tax on any transfer depends on the cumulative total of chargeable transfers made within the preceding 7 years. There are two scales of rates - one for transfers on death or within 3 years of death and another for lifetime transfers. The scales of rates applicable to chargeable transfers made on or after 13 March 1985 and those scales adjusted in line with statutory indexation are:

Bands of chargeable value 1985-86 £'000	1986-87 £'000	Indexation at 3½ per cent inflation	Rate on death per cent	Lifetime rate per cent
0 - 67	0 - 71	0 - 74	Nil	Nil
67 - 89	71 - 95	74 - 99	30	15
89 - 122	95 - 129	99 - 134	35	17½
122 - 155	129 - 164	134 - 170	40	20
155 - 194	164 - 206	170 - 213	45	22½
194 - 243	206 - 257	213 - 266	50	25
243 - 299	257 - 317	266 - 328	55	27½
over 299	over 317	over 328	60	30

2. The main exemptions are:

(i) all transfers of property between spouses (unless the recipient is not domiciled in the United Kingdom);

(ii) lifetime gifts made more than seven years before death;

(iii) gifts not exceeding £3,000 in a tax year;

(iv) gifts to any one person in a tax year up to a value of £250;

(v) gifts in consideration of marriage (up to certain limits);

(vi) lifetime gifts for the maintenance of children and dependent relatives;

(vii) gifts and bequests to political parties (up to certain limits);

(viii) gifts and bequests to charities and certain bodies concerned with the national heritage.

3. Relief of 50 per cent is given on business assets except for minority holding unlisted shares and loaned assets for which the relief is 30 per cent. There is also

50 per cent relief on agricultural assets held by working farmers and 30 per cent relief on let agricultural land owned by landlords.

4. Estimated yield in 1987-88 assuming statutory indexation of the scale: £1120 million[1]
of which tax on transfers on death: £1090 million [1]
The cost of statutory indexation in a full year is: £50 million (£17 million in 1987-88; £35 million in 1988-89).

Note

(1) Not for publication

C J C BROWN
Inland Revenue
Ext 6794

CONFIDENTIAL

Bryce Knox
15 Jan
EXCISE DUTIES

6. REVALORISATION

Full year revenue effects and price changes[1]

	VAT inclusive price change (p)	£m yield in[2] 1987-88	1988-89	RPI effect %
Beer				
(1 pint)	0.7	60	60	0.04
Spirit				
(75cl bottle of whisky)	17.7	25	30	0.02
Table Wine				
(EEC table wine) per 70cl bottle)	2.6	15	15	0.02
Fortified Wine				
- (Harvey's Bristol Cream per 70cl bottle)	4.4)			
- (Cockburn's Special Reserve per 70cl bottle)	) 5.1)	5	5	neg
Tobacco - specific duty only				
(20 King sized cigarettes)	3.0	90	95	0.09
Petrol				
(1 gallon of 4-star)	3.3	170	185	0.08
Derv				
(1 gallon)	2.8	45	45	neg(3)
Rebated oil				
(gallon of fuel oil)	0.2[2]	15	15	neg

Notes

(1) Revalorisation of specific duties for 1987-88 in line with assumed 3.25 per cent inflation for December 1986 on December 1985.

(2) Assuming implementation on 1 April 1987

(3) Fuel oil is not liable to VAT.

(4) Derv to be included in the RPI from January.

MRS L HAMILL
HM Customs and Excise
Ext 5044

7. TOBACCO DUTY

Tobacco Products duty is paid at the following rates:

	Present rate
Cigars	£47.05) per kg on manufactured weight of tobacco
Hand-rolling tobacco	£49.64)
Pipe tobacco	£24.95)
Cigarettes	Ad valorem tax: 21 per cent of recommended retail price including VAT. Specific tax: £30.61 per 1000

VAT is also paid at 15 per cent (three twenty-thirds of retail pice).

Effective burden

On a packet of 20 king size cigarettes retailing at 150p the total tax burden is: 112.3p

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	4650	4745	4865
VAT on tobacco	980	1010	1050

Specimen change

	Full year (including VAT)		
Price Increase	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
1p on an average packet of cigarettes*	30	30	30

(This increase can be achieved by several combinations of changes in the rates of individual tobacco taxes).

First Year Effect of a change

Close to full year effect multiplied by the fraction of the financial year remaining less one-twelfth of full year effect, but for a detailed estimate reference should be made to HM Customs and Excise.

Effect of a change on the Retail Price Index

1p on a packet, 0.03 per cent*.

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* These figures assume equivalent increases on other tobacco products.

Business Costs

The incidence of tobacco duty on businesses is negligible.

MRS L HAMILL
HM Customs and Excise
Ext 5044

8. BEER AND CIDER DUTIES

Present Rates

Beer - the present duty rate for beer is £25.80 per hectolitre plus 86p for each degree of original gravity in excess of 1030^{o} (the average strength of a pint is approximately 1037^{o}).

Cider - £15.80 per hectolitre on cider of a strength of less than 8.5 per cent of alcohol by volume. Cider of a strength of 8.5 per cent or more is chargeable with made-wine duty.

VAT is also paid at 15 per cent (three twenty-thirds of retail price).

Effective Burden

Beer - Duty 18.1p per pint on beer of average strength. On a pint costing 78p, 10.2p of VAT is also paid.

Cider - Duty 9.1p per pint. On a pint costing 83p, 10.8p of VAT is also paid.

Estimates **Beer**	**£m** **1986-87**	**£m** **1987-88**	**£m** **1988-89**
Duty (excluding revalorisation)	2010	2060	2115
VAT on beer	1130	1190	1260

Cider and perry	**£m** **1986-87**	**£m** **1987-88**	**£m** **1988-89**
Duty (excluding revalorisation)	50	50	50
VAT on cider	75	80	85

Price increase		**Full year (including VAT)**	
	£m **1986-87**	**£m** **1987-88**	**£m** **1988-89**
1p on an average pint	85	85	90

First Year effect of a change

Close to full year effect multiplied by the fraction of the financial year remaining less one-twelfth of full year effect, but for a detailed estimate reference should be made to HM Customs and Excise.

Effect of change on the Retail Price Index

1p on an average pint 0.06 per cent.

Business Costs

2 per cent of total beer duty receipts are assumed to be paid by businesses.

MRS L HAMILL
HM Customs and Excise
Ext 5044

9. WINE AND MADE WINE DUTIES

Excise duty rates on wine and made-wine -	Present rate Duty per hectolitre
Less than 15 per cent alcohol by volume	£ 98.00
15 per cent and over but not exceeding 18 per cent	£169.00
Exceeding 18 per cent but not exceeding 22 per cent	£194.00

Customs duty is also paid on non-EEC imported wine. VAT is also paid at 15 per cent (three twenty-thirds of retail price).

Effective burden

	Price (p)	Size (cl)	Strength band	Duty (p)	VAT (p)	Total effective burden (p)
EEC Table Wine "Hirondelle"	225	70	less 15%	68.6	29.3	97.9
"Harvey's Bristol Cream"	380	70	15% - 18%	118.3	49.6	167.8
"Cockburn's Special Reserve"	575	70	18% - 22%	136.4	75.0	211.4

Estimates	£m 1986-87	£m 1987-88	£m 1988-89
Duty (including made wine but excluding revalorisation)	700	765	840
VAT on wine	435	490	560

Specimen Change	Full year (including VAT)		
Price increase	£m 1986-87	£m 1987-88	£m 1988-89
5p on a bottle (70 cl, NE 15^{o}) and equal percentage changes in the other strength bands, including made-wine	35	35	40

About 60 per cent of the extra revenue would come from light wine (ne 15 per cent) of fresh grape.

First Year effect of a change

Close to full year effect multiplied by the fraction of the financial year remaining less one twenty-fourth of the full year effect, but for a detailed estimate reference should be made to HM Customs and Excise.

Effect of a change on the Retail Price Index

5p on a 70 cl bottle (NE 15^{o}) and equal percentage changes in the other rates, 0.04 per cent.

Business Costs

8 per cent of wine duty is assumed to be paid by businesses.

MRS L HAMILL
HM Customs and Excise
Ext 5044

CONFIDENTIAL

10. SPIRITS DUTY

Present rate

Excise rate on mature and immature spirits is £15.77 per litre of alcohol. VAT is also paid at 15 per cent (three twenty-thirds of retail price).

Effective burden

£4.73 duty on a 75 cl bottle of domestically produced spirits at 70^{o} (equivalent to 40 per cent alcohol by volume). On a bottle costing £7.90 (off-licence), £1.03 of VAT is also paid so that the total burden is £5.76 per bottle.

Estimates	£m 1986-87	£m 1987-88	£m 1988-89
Duty (excluding revalorisation)	1520	1600	1700
VAT on spirits	555	595	650

Specimen changes

Price Increase	Full year (including VAT) £m 1986-87	£m 1987-88	£m 1988-89
30p on a 75 cl, 70^{o} bottle	40	45	45

First Year effect of a change

Close to full year effect multiplied by the fraction of the financial year remaining less one twenty-fourth of the full year effect, but for a detailed estimate reference should be made to HM Customs and Excise.

Effect of a change on the Retail Price Index

30p on a bottle 0.04 per cent.

Business costs

8 per cent of spirits duty is assumed to be paid by businesses.

MRS L HAMILL
HM Customs and Excise
Ext 5044

11. OIL DUTY

(A) PETROL

Present rate

19.38p per litre. VAT is also paid at 15 per cent (three twenty-thirds of retail price). Petroleum substitutes and LPG are taxed at a related rate.

Effective burden

88.1p per gallon.

On a gallon of four-star petrol costing £1.69, VAT of 22.2p is also paid, and the effective burden for the private motorist is 110p. VAT is reclaimed on business use, which accounts for about a third of petrol consumption.

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	5720	6010	6310
VAT on petrol*	950	1015	1085

* Not including VAT reclaimed on business use

Specimen change

Duty increase	**Full year (including VAT)**		
	£m 1986-87	**£m 1987-88**	**£m 1988-89**
2p on a gallon (including VAT)	100	105	110

First Year effect of a change

As for spirits (page 10.1).

Effect of change on the Retail Price Index

2p on a gallon: immediate efect 0.05 per cent.

Business costs

About a third of petrol duty is assumed to be paid by businesses.

OIL DUTY

(B) DIESEL ENGINED ROAD VEHICLE FUEL (DERV)

Present rate

16.39p per litre. VAT is also paid at 15 per cent (three twenty-thirds of retail price) but this can be reclaimed by registered traders. The use of DERV by private motorists is negligible.

Effective burden

74.5p per gallon (the private motorist pays a further 20p in respect of VAT on a gallon of DERV selling at £1.53 (a VAT exclusive price of £1.33)).

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	1430	1500	1580

Specimen change

Duty increase	**Full year (excluding VAT)***		
	£m 1986-87	**£m 1987-88**	**£m 1988-89**
2p on a gallon (including VAT)*	30	30	30

First Year effect of a change

As for spirits (page 10.1).

Effect of change on the Retail Price Index

DERV is to be included in the RPI from January.

MRS L HAMILL
HM Customs and Excise
Ext 5044

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* DERV is normally purchased by registered traders who can reclaim any VAT charged as input tax, so the effective price increase to them would be 1.74p.

OIL DUTY

(C) REBATED OILS

Present rate

0.77p per litre. The duty on aviation kerosene and most lubricating oils was abolished in the 1986 Budget. The duty on kerosene used other than as aviation fuel was abolished in the 1984 Budget. All rebated oils are zero-rated except for lubricating oils which are chargeable at the standard rate of VAT.

Effective burden

3.5p on a gallon of fuel oil costing 37p.

Estimates	£m 1986-87	£m 1987-88	£m 1988-89
Duty (excluding revalorisation)	160	170	175

Specimen change

Duty increase		Full year	
	£m 1986-87	£m 1987-88	£m 1988-89
1.0p on a gallon on all rebated oil	45	45	50

First Year effect of a change

As for spirits (page 10.1).

Effect of a change on the Retail Price Index

1p on a gallon of all rebated oil. Immediate effect negligible.

Business costs

Over 90 per cent of rebated oil duty is assumed to be paid by businesses.

MRS L HAMILL
HM Customs and Excise
Ext 5044

12. BETTING AND GAMING

Present Rates

General Betting Duty	- Off-course	8 per cent on stakes
	- On-course	4 per cent on stakes
Pool Betting Duty		42½ per cent on stakes (33$^1/_3$ per cent for charity pools)

Taxes are also levied on Bingo Halls, Casinos and Amusement Arcades.

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
General Betting duty	335	365	395
Pool Beting Duty	250	270	295
Gaming Duties	195	210	230
All Betting and Gaming	780	845	920

Specimen Changes

An increase in the general betting duty may give a stimulus to the existing incentive for illegal betting posed by the current combined rates of duty and racing levy. It is not known by how much the revenue gain from increasing the rates would be eroded.

First Year effect of a change

This will depend on the date of operation of the change in rate and is complicated by the seasonality of the yield and the payment arrangements. Detailed estimates should be obtained from the Customs and Excise department.

Effect of change on the Retail Price Index

Negligible.

(No betting activity appears directly in the RPI. The effect of changes in pool betting duty on the price of admissions to football matches is expected to be negligible).

MRS L HAMILL
HM Customs and Excise
Ext 5044

13. VALUE ADDED TAX

Present rate

15 per cent

Zero-rated Items

Most foods; water supplies; books, newspapers etc; fuel and power (excluding road fuels); some building work; certain services to overseas traders; most commercial ships and aircraft; passenger transport (except taxis); residential caravans and houseboats; certain supplies of gold; bank notes; drugs and medical supplies on prescription; exported goods; certain supplies by certain charities; young children's clothing and footwear.

Exemptions

Land; insurance; postal services; sweepstakes and lotteries; financial services; most educational services; doctors, dentists and opticians; burial and cremation services; sports competitions.

For more detailed information on the zero-rated and exemption schedules see Customs and Excise Notice No 701. ("VAT Scope and Coverage")

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
1. Full year yields (accruals)	21300	23100	25150
2. Receipts	21300	23100	25050

Specimen change

		Full year effect	
	£m 1986-87	**£m 1987-88**	**£m 1988-89**
% change in rate including compounding on tobacco* +1 per cent (15 per cent to 16 per cent)	955	1040	1135

(exclusive of Central Government and Local Authorities)

First Year effect

This is affected by the pattern of collection. Customs and Excise will provide the estimates for specific times of change.

Effect of a change on the Retail Price Index

± 1 per cent change in rate =±0.5 per cent change in the RPI

Business Costs

VAT on inputs, other than cars and business entertainment, can be reclaimed by registered traders.

MRS L HAMILL
HM Customs and Excise
Ext 5044

* The tobacco products duty on cigarettes has ad valorem and specific elements. The ad valoren duty is levied on the VAT inclusive recommended selling price which will change if the VAT rate is changed.

14. CAR TAX

Present rate

10 per cent on the wholesale price of all new cars and motor cycles.

Effective burden

VAT is also paid at 15 per cent on the retail selling price, so taxes total about 19.7 per cent of the selling price of a new car.

Estimates

	Car tax			VAT on new cars		
	£m 1986-87	£m 1987-88	£m 1988-89	£m 1986-87	£m 1987-88	£m 1988-89
Accruals	1010	1105	1250	1965	2150	2430
Receipts	975	1080	1215	1895	2100	2365

Specimen change

	Full year (including VAT)		
	£m 1986-87	£m 1987-88	£m 1988-89
10 per cent to 12½ per cent	250	275	310

First Year effect

This is affected by the pattern of collection. Customs and Excise will provide estimates for specific times of change.

RPI effect

There is no direct effect on the RPI as the price index for all cars is based on the prices of second-hand cars. A change in car tax would be expected to affect the price of second-hand cares indirectly, however, so that there would be some eventual impact on the RPI.

Business Costs

About two-thirds of car tax duty is assumed to be paid by businesses.

MRS L HAMILL
HM Customs and Excise
Ext 5044

15. REGULATOR POWERS FULL YEAR REVENUE EFFECTS

EXCISE DUTIES

Group[1]			Change in price due to 10% Regulator p	Yield from Regulator 1986-87 £m	Yield from Regulator 1987-88 £m	Yield from Regulator 1988-89 £m	Change in Retail Price Index %
A	Tobacco 150p (20 king size) cigarettes)	Full Regulator	13.1	375	385	395	0.40
		10 per cent specific tax regulator only	9.3	265	275	280	0.28
B	Beer 78p (1 pint of beer)		2.1	175	180	185	0.12
	Spirit 775p (bottle of whisky off licence)		54.4	70	75	85	0.08
	Wine 225p (EEC Table wine per 70 cl bottle		7.9)				
	(Harvey's Bristol Cream per bottle) 380p		13.6)	50	55	65	0.06
	(Cockburn's Special Reserve per bottle) 575p		15.7)				
C	Road Fuel (Gallon of 4-star) 169.6p		10.1[2]	495	520	550	0.24
	(Gallon of Derv) 153.3p		7.5[3]	125	130	135	nil
C	Rebated Oil (Gallon of fuel oil) 37p		0.35	15	15	15	neg

NOTES

(1) Under the provisions of the 1982 Finance Act the taxes on each of the items in a group may now be changed by different proportions. The maximum changes are illustrated here.

(2) The business user who deducts VAT will in effect pay only 8.8p.

(3) For the business user; that is, excluding VAT. The private motorist would pay an extra 8.6p.

VAT[1]

Total Revenue Yield from 25 per cent Regulator, Full Year.

1986-87 £m	1987-88 £m	1988-89 £m	Change in RPI %
3530	3810	4170	1.9

NOTE

(1) The figures quoted are exclusive of Central Government and Local Authorities.

MRS L HAMILL
HM Customs and Excise
Ext 5044

16. MOTOR VEHICLE DUTIES ETC

	Gross Weight (Tonnes)	UK £pa
Present Rates		
Motor Cars and light goods vehicles		100
Illustrative Table		
Goods general taxed according to gross weight and wheel plan		
Rigid (without trailer):		
2 Axles	13	410
"	16½	1,030
Articulated (excluding concessionary rates)		
2 Axled tractive unit with any semi-trailer	16	590
	23	1,000
	32½	2,450
	38	3,100
3 axled tractive unit with any semi-trailer	16	440
	23	620
	32½	2,450
	38	2,730

Estimated Yield - United Kingdom 1987-88
(assumed current tax rates)

	UK £m	GB £m	NI £m
By class of vehicle:			
Cycles	20	20	-
Private, Light Goods Vehicles (including cycles)	2069	2020	49
Heavy Goods Vehicles	461	448	13
Tractors & Agricultural etc machines	8	8)	neg
Hackneys	10	10)	neg
Trade Licences	6	6)	neg
Grand Total	**2574**	**2512**	**63**
* Other receipts	13.9		
Driving Licence Receipts	18.8		

Specimen Changes	£m
For each £5 Private Light Goods Licence	103.5
For 5 per cent change in Goods licence	23.0
For 5 per cent change in Tractors, etc	0.4
For 5 per cent change in Hackneys	0.5
For 5 per cent change in cycles	1.0

* Includes mitigated penalties and fees for retention of cherished registration numbers, duplicate registration documents and duplicate licences.

DVL ACS

18 December 1985

ESTIMATED VED YIELD AND VEHICLE NUMBERS - UK

1. **Breakdown by Vehicle Category**

		1986-87 Yield £m	Number of Vehicles Licensed September 1986 '000
Schedule 1:	Cycles	21	1223
Schedule 2:	Hackneys	9	127
Schedule 3:	Haulage Machines	2	6
	Agric Machines	6	383
		8	**389**
	HGV (Farmers)	7	28
	Other HGV	448	544
		455	**572**
Schedule 5:	Private/Light Goods	2018	19055
	Light Goods Farmers and Showmen	4	44
		2022	**19099**
	Trade Licences	**4**	**92**
	GRAND TOTAL	**£ 2519**	**21502**

D J HALSTEAD
Dept of Transport
Ext 6414

DVL ACS

18 December 1985

17. NATIONAL INSURANCE CONTRIBUTIONS

There are four classes of NICs:

Class 1 (Employees) - If an employee earns more than the lower earnings limit (£39 per week in 1987-88) they pay primary Class 1 contributions and their employer pays secondary contributions. The rates of contribution in 1987-88 are at the following percentages of gross weekly earnings up to the upper earnings limit (£295 per week in 1987-88):

Not contracted-out

		Paid by employee	Paid by employer	Total
Normal :	Earnings £39 to £64.99	5%	5%	10%
:	Earnings £65 to £99.99	7%	7%	14%
:	Earnings £100 to £149.99	9%	9%	18%
:	Earnings £150 to £295	9%	10.45%	19.45%
Opted out married women		3.85%	As in normal schedule	
Persons over pensionable age		-	As in normal schedule	

For earnings above the upper earnings limit employer's contributions remain at 10.45 per cent of gross weekly earnings. However for employee s there is a maximum contribution of £295 x employee rate (at not contracted-out rates = £295 x 9 per cent = £26.55).

Where the employee is contracted-out the percentage rates are reduced by 2.15 per cent (primary/employee) and 4.1 per cent (secondary/employer) on the slice of earnings between the lower earnings limit and the upper earnings limit.

Class 2 (self-employed) - Flat-rate payment of £3.85 in 1987-88 by all self-employed persons over the age of 16 with earnings above £2,125 per annum.

Class 3 (Voluntary) - Voluntary flat-rate contributions may be paid by persons 16 and over to enable them to qualify for certain benefits. The rate is £3.75 in 1987-88.

Class 4 (Self-employed) - Earnings related contributions for the self-employed. They are paid if earnings are above the lower profits limit of £4,590 (in 1987-88) at the rate of 6.3 per cent of earnings above the LPL. There is no contribution payable on earnings above the upper profits limit of £15,340.

Specimen changes

1. Contribution rates in 1988-89

Yield of an additional 1 per cent on contribution rates:

		GB	UK
Standard rate employees:			
Weekly earnings:	£ 40 - £ 65	44	45
	£ 65 - £100	79	82
(UEL £305)	£100+	1561	1594
Reduced rate employees:		56	57
Employers:			
Weekly earnings:	£ 40 - £ 65	53	54
	£ 65 - £100	91	93
	£100 - £155	295	303
	£155+	1430	1458
Self-employed: (Class 4)		72	73
Yield of an additional £1 on flat-rate contributions			
Self-employed:	(Class 2)	109	112
Voluntary:	(Class 3)	7	7

These are contributions due in respect of the tax year+ (full year effect) and exclude Treasury Supplement*.

A 1 per cent increase is assumed for all contributors including those groups (eg HMF) paying at special rates.

2. Earnings ceilings for contributors

The effect on contributions in respect of 1988-89 of abolishing the upper earnings limit for employees (although retaining it for the calculation of contracted-out rebate) and the upper profits limit for the self-employed from their assumed levels of £305 pw and £15860 pa is:

National Insurance Fund

	£m			
	Employees		Self-employed	
	GB	UK	GB	UK
Excluding Treasury Supplement	945	955	230	235
Including Treasury Supplement	1010	1020	245	250

3. Rate of SSP+

The effect on contributions in respect of 1988-89 of increasing the main rate of SSP by £1, with proportionate change for the other rate, is to reduce contribution income to the National Insurance Fund by £15.8 million (£16.3 million for the UK). This excludes the effect of additional contributions payable by employees and the Treasury Supplement payable thereon; together these would amount to at most £1.4 million (£1.5 million for the UK).

4. Rate of SMP+

The effect on contributions in respect of 1988-89 of increasing the rate of SMP by £1 is to reduce contribution income to the National Insurance Fund by £6.5 million (£6.7 million for the UK). This excludes the effect of additional contributions payable by employees and the Treasury Supplement payable thereon; together these would amount to at most £0.6 million.

Notes

+ Class 1 contributions are collected with PAYE income tax. There is an initial delay of some six weeks before changes in contribution rates are reflected in receipts. There are longer delays in the collection of contributions from the self-employed and voluntary contributions.

* There is an automatic Treasury Supplement of 7 per cent of the total contributions paid to the National Insurance Fund. Contributions used are after adding back estimated contracted-out rebates and SSP and SMP reimbursement to employers but exclude state scheme premiums.

E I BATTERSBY
Government Actuary's Department
Ext 337

18. PROJECTED INCOME OF NATIONAL INSURANCE FUND

GB (£ million)

	April 1987 Rates and Limits		New Limits*	
	1987-88		1988-89	
CONTRIBUTIONS	Receipts	Contributions in respect of tax year	Receipts	Contributions in respect of tax year
Employees	10935	11032	11760	11866
Employers	12680	12785	13751	13892
Self-employed	645	672	696	739
Voluntary	21	21	20	21
Premiums[ø]	325	325	346	346
Total	24606	24835	26573	26864
SSP and SMP	888	916	989	996
Net Total	23718	23919	25584	25868
Treasury Supplement[+] Fund	2032	2051	2160	2179
Total NI Fund	25750	25970	27744	28047

(1) the figures shown in the table are on the basis of average numbers of employees in employment (including members of HMF) and the average earnings summarised below:

	Average gross earnings of employees in employment (£pa)	GB Employees in employment (000s)
1985-86	7937	21334
1986-87	8532	21410
1987-88	9087	21680
1988-89	9587	21734

It is the movement of these quantities since 1985-86 which is important rather than their absolute magnitudes, since our estimates are normalised on the actual 1985-86 contributions. Class 1 contributions are very nearly proportionate to the number of employees.

(2) The effect on contributions in respect of the tax years shown of average earnings 1 per cent higher or lower than has been assumed, with no effect on numbers, is:

	£m 1987-88
National Insurance Fund	
Excluding Treasury Supplement	245
Including Treasury Supplement	265

Because Class 4 contributions in respect of a tax year depend on earnings in a previous period it is assumed that self-employed contributions are unaffected except for those who have earnings from employment and are affected by the upper limit on contribution liability.

(3) The effect on contributions in respect of the tax year shown of ± 100,000 unemployed in GB, excluding school leavers and students, which would effect the number of employees in employment, is:

	£m 1987-88
National Insurance Fund	
Excluding Treasury Supplement	140
Including Treasury Supplement	150

Notes to the tables

* From April 1988 Class 1 lower and upper earnings limits are assumed to rise to £40 and £305 pw from their 1987-88 values of £39 and £295 pw. The earnings limits which determine the bands on which lower rates are paid are assumed to rise from £65, £100 and £150 pw to £65, £100 and £155 pw. Class 1 contribution rates are assumed to remain unchanged.

Where the employee is contracted out, the percentage rates of contributions in 1988-89 are assumed to be reduced by 1.85 per cent (primary/empoyee) and 3.55 per cent (secondary/employer) on the slice of earnings between the lower earnings limit and the upper earnings limit.

Classes 2 and 3 contributions are assumed to rise to £3.99 and £3.89pw respectively with the range for Class 4 contributions changing from £4590/£15340 to £4762/£15860 pa. The Class 4 rate is assumed to remain unchanged.

The standard rate of SSP is assumed to increase to £48.95 pw with a proportionate increase for the lower rate. The rate of SMP is assumed to increase to £34.10 pw.

\+ 7 per cent of contributions excluding state scheme premiums but before deducting contracting-out rebates.

ø for premiums the convention is adopted that contributions in respect of a tax year are the same as the receipt in the same period.

E I BATTERSBY
Government Actuary's Department
Ext 337

19. NATIONAL INSURANCE BENEFITS

Announced rates of benefit (from 6 April 1987)

1. National insurance flat rate retirement pension:

	£
single	39.50
married	63.25

Pensioners over 80 receive an extra 25p age addition

Pension is increased for each dependent child by:	8.05

A person who does not retire on reaching pensionable age becomes eligible for increased pension when they do retire. No further increase can accrue after the age of 70 (men) or 65 (women).

Since April 1979 pensions have been in two parts. As well as the flat-rate pension there is an earnings-related additional component (AC) based on contributions on earnings above the basic level in the relevant years. (Widows benefit and invalidity pension similarly attract an additional component).

2.

Widow's allowances	55.35
Widowed mother's allowance	39.50
Widow's pension (50+)	39.50
Invalidity pension: single	39.50
Dependency increase for wife of invalidity pensioner:	23.75
Dependency increases for children:	8.05

Invalidity allowance is payable if age of onset of illness is less than 60 (55 for women). The rate of invalidity allowance depends on the age of onset of illness.

3.

Sickness, and maternity benefit: single	30.05
Dependency increases for wife:	18.60

4.

Unemployment benefit: single	31.45
Dependency increase for wife:	19.40

Earnings related supplement was abolished in January 1982

COST IN 1988-89 OF A 1 PER CENT UPRATING IN APRIL 1988

GREAT BRITAIN **£ MILLION**

Benefits uprated	**NI Fund**	**Non means tested Non NI fund benefits**	**Supplementary Benefit**	**Housing Benefit (Rents only)**	**Net Cost**
Retirement pensions only	180		-40	-13	127
Retirement pensions, supplementary pension and housing benefit for pensioners	180		5	negligible	185
Long term benefits +(1)	220	17	32	-14	255
Short term benefits +(2)	18	6	52	-1	75
Additional component (3)	6.4				6.4
All benefits except child benefit, FIS, supplementary benefit and housing benefit	241	28	-52	-14	203
All benefits except child benefit and FIS	241	28	78	7	354

Effect of a £1 increase in Child Benefit and One Parent Benefit in April 1988

GREAT BRITAIN **£ MILLION**

		1988-89	**1989-90**
Cost	Child Benefit	615	635
	One parent benefit	35	35
Savings	Child Dependency Additions		
	- retirement pension only	2	2
	- long term benefits - NI fund (1)	20	20
	Non-fund	0.5	0.5
	Supplementary Benefits	140	150

\+ Excludes housing benefit

(1) Comprising: NI Fund: (RP (excluding AC), WB (excluding AC), IVB (excluding AC), Dis Ben, IDB,II old cases.
Non means tested, non NI Fund benefits: NCRP, AA, ICA, SDA, War Pensions Supplementary benefit: Supplementary pensions and long term allowances

(2) Comprising: NI Fund: UB, SB, MA
Non means tested, non NI Fund: Mob A
Supplementary benefit: Supplementary allowance - basic scale

(3) AC payable with RP IVB and WB

Effect of change in the number of wholly unemployed (GB)

£ million

	April 1987 rates		April 1988 rates 3¾ per cent uprating
	1987-88	**1988-89**	**1988-89**
± 100,000 in 1987-88 and 1988-89			
Supplementary benefit/housing benefit	120	155	160
Unemployment benefit	95	65	70
± 100,000 in 1988-89 only			
Supplementary benefit/housing benefit		120	125
Unemployment benefit		95	100

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DHSS
Ext 4202 (Friars House: GTN 2916)

psl/48A

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Pof 14/1

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

12 January 1987

D Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

1987 BUDGET DAY

As you know, we have been planning on the assumption that Budget day this year will be on 17 March.

It has become customary to announce the date of the Budget in the first business statement after the Christmas recess - ie this year on Thursday, 15 January.

I should be grateful to know if the Prime Minister - and the Lord Privy Seal and Chief Whip, to whose private secretaries I am copying this letter - is content for it to be announced in the business statement on that day that Budget day will be 17 March. If so, I would be grateful if Stephen Wood would put the necessary arrangements in hand.

Yours
Alex

A C S ALLAN
Principal Private Secretary

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Wilson
Mr F E R Butler
Mr Cassell
Mr Scholar
Ms Sinclair
Mr Culpin
Mr D N Walters
Mr Dyer
Mr Cropper

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

13 January 1987

CH/EXCHEQUER
REC. 13 JAN 1987
ACTION ~~MR SCHOLAR~~ 13/1
COPIES TO CST, FST, EST, MST
SIR P. MIDDLETON
SIR T. BURNS
MR F.E.R. BUTLER
MR CASSELL MRS LOMAX MR ROSS-GOOBEY
MR MONCK MR CROPPER PS/IR
MR BURGNER MR TYRIE PS/C&E

Dear Alex,

1987 BUDGET DAY

You sent me a copy of your letter to David Norgrove, asking for agreement that the date of the Budget should be announced by the Lord Privy Seal on 15 January.

I understand that the Prime Minister is content, and the Lord Privy Seal will do this. As last year, the appropriate form would be in answer to a supplementary from the Leader of the Opposition. We and the Chief Whip's Office will make the necessary arrangements.

I am copying this letter to David Norgrove and to Murdo Maclean.

Yours,

Steven.

S N WOOD
PRIVATE SECRETARY

A C S Allan Esq
Principal Private Secretary
HM Treasury
Parliament Street
London SW1P 3AG

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10 DOWNING STREET

LONDON SW1A 2AA

13 January 1987

From the Private Secretary

Dear Alex,

1987 BUDGET DAY

The Prime Minister has seen your letter to me of 12 January and is content now to go firm on 17 March as Budget Day this year. I imagine the Lord Privy Seal will now be announcing this on Thursday instead of the Chancellor tomorrow.

I am copying this letter to Steven Wood (Lord Privy Seal's Office) and Murdo Maclean (Chief Whip's Office).

Yours,

David

David Norgrove

A.C.S. Allan, Esq.,
HM Treasury.

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FROM: A C S ALLAN

DATE: 14 January 1987

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Wilson
Mr F E R Butler
Mr Cassell
Mr Culpin
Miss Sinclair
Mr Dyer
Mr Walters
Mr Cropper
Mr Ross Goobey
Mr Tyrie

DATE OF THE BUDGET

You and copy recipients may already know that the date of the Budget will not be announced at Business Questions tomorrow: it will instead be announced in the Chancellor's speech in the debate next week (probably Tuesday) - though no indication of that plan should be given.

ACSA

A C S ALLAN

DRAFT LETTER TO

Please type

Steven Wood Esq PS/Lord Privy Seal
Privy Council Office
Whitehall

1987 BUDGET DAY

Thank you for your letter of 13 January. As you know, it is now planned that the Chancellor should instead announce the date of the Budget in his speech in the Debate next Tuesday.

If the Lord Privy Seal is asked about it at Business Questions tomorrow, I suggest that the line to take is simply to say that the date of the Budget will be announced shortly. (For background, it has been the normal course since 1980 to announce the date of the Budget in the first business statement after the Christmas recess, but there is no commitment to do this. The 1985 Budget day was announced early in order to fit in with the timetable for the sale of British Aerospace shares.)

I am copying this letter to David Norgrove and Murdo Maclean.

A C S ALLAN

psl/65A

CONFIDENTIAL

cc Mr Scholar
Mr Culpin
Miss O'Mara
Miss Sinclair
Mr D N Walters

pws

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

15 January 1987

S Wood Esq
PS/Lord Privy Seal
Privy Council Office
Whitehall
LONDON SW1A 2AT

Dear Steven,

1987 BUDGET DAY

Thank you for your letter of 13 January. As you know, it is now planned that the Chancellor should instead announce the date of the Budget in his speech in the Debate next Tuesday.

If the Lord Privy Seal is asked about it at Business Questions tomorrow, I suggest that the line to take is simply to say that the date of the Budget will be announced shortly. (For background, it has been the normal course since 1980 to announce the date of the Budget in the first business statement after the Christmas recess, but there is no commitment to do this. The 1985 Budget day was announced early in order to fit in with the timetable for the sale of British Aerospace shares.)

I am copying this letter to David Norgrove and Murdo Maclean.

Yours sincerely,

Cathy Ryding

PP A C S ALLAN

RA3.14

BUDGET CONFIDENTIAL

FROM: A C S ALLAN

DATE: 15 January 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS AND EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
Mr Mace - IR
(item (iv))
Mr Wilmott - C&E
Mrs Boardman - C&E
(item (iii))

BUDGET OVERVIEW MEETINGS: AGENDA FOR FIRST OVERVIEW MEETING ON MONDAY 19 JANUARY

The agenda for the first overview meeting at 3.00pm on Monday, 19 January is as follows:

(i) Budget scorecard:
Mr Scholar's minute of 15 January.

(ii) <u>Excise duties (including VED)</u>

Mr Knox's and Mr Romanski's minutes of 15 January, updating Mr Knox's earlier minute of 18 December.

(iii) <u>Consumer credit tax</u>

Note of MST's meeting on 15 January to discuss Mr Jefferson Smith's note of 14 January.

(iv) <u>Higher rate tax options</u>

Mr Mace's minute of 15 January.

ACSA

A C S ALLAN

CONFIDENTIAL

RECORD OF DISCUSSIONS ON OVERSEAS MATTERS AT CHEVENING ON SUNDAY, 11 JANUARY

The Chancellor noted he would have to go to Brussels that afternoon for a Ministerial meeting on the EMS realignment. The details of the precise exchange rate changes in prospect were not of great importance to the UK: they involved at most 1 per cent movements in the minor currencies. But it was possible the French would use the opportunity to try to launch a new accord on intervention to support the dollar; a strong deutschmark and weak dollar almost inevitably brought pressure on the French franc within the EMS. The Germans would not be keen on massive intervention in which they would inevitably have to take the lead, but on the other hand would not want to see the dollar falling all that much further. The Chancellor asked for views on where our interests lay.

2. Sir T Burns said that he could not see it as in our interests to encourage a new initiative on intervention. He thought the problem was differences of policy stance. It would help us more if the Germans cut interest rates or else expanded their fiscal policy. The main pressure towards this came from the strength of the deutschmark and the weakness of the dollar, and so we should not take steps to get them off that particular hook. Sir P Middleton agreed, and commented that it was important to try to get the Americans to focus on problems with Japan as well as on problems with Europe. It was a disturbing development that the US seemed to regard its bilateral problems with Japan as solved, and to be concentrating on problems with Europe, on monetary, fiscal and trade policy. These views were widely shared by others present.

3. On another point, the Chancellor asked what work was in hand on allocating or reducing the world current account deficit (the 'global deficit'). Sir T Burns said that he had been pursuing this

in conjunction with the CSO; but he agreed that an approach via the IMF might carry greater weight. If we took action on our own it might be seen as fiddling the figures, but if the IMF did something for all countries, there could be genuine presentational gains. The Chancellor asked that work on this should be accorded a high priority.

ACSA

A C S ALLAN

Distribution

PS/EST
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Lavelle
Mr J P Evans
Mr Peretz
Mr Sedgwick
Mr Bottrill
Mr C W Kelly
Mr Ross Goobey

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 22 January 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr McGivern - IR (Item (iii))
Mr Houghton - IR (Item (iv))
Mr Jefferson Smith - C&E (Item (v))

BUDGET OVERVIEW MEETINGS: AGENDA FOR SECOND OVERVIEW MEETING ON MONDAY 26 JANUARY

The second overview meeting will be held on Monday, 26 January at 3.00 pm. The agenda is as follows:-

(i) **Budget scorecard:**

Circulated by Mr Scholar on 22 January;

(ii) **PRP:**

Mr Monck's minute of 22 January on estimated revenue costs;

(iii) **Enterprise measures:**

Mr Scholar's minute of 22 January covering a list of measures, and notes on CBI representations; Mr Walker's (IR) minute of 22 January on Lord Young's and Mr Trippier's proposals;

(iv) **Inheritance Tax:**

Mr Battersby's minute of 20 January on rates and bands;

(v) **Consumer Credit Tax:**

Report by MST, following his meeting on 23 January.

ACSA

A C S ALLAN

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN

DATE: 22 January 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
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MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr McGivern - IR (Item (iii))
Mr Houghton - IR (Item (iv))
Mr Jefferson Smith - C&E (Item (v))

BUDGET OVERVIEW MEETINGS: AGENDA FOR SECOND OVERVIEW MEETING ON MONDAY 26 JANUARY

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Mr Battersby's minute of 20 January on rates and bands;

(v) **Consumer Credit Tax**:

Report by MST, following his meeting on 23 January.

ACSA

A C S ALLAN

psl/89A

RESTRICTED

pmp

FROM: A C S ALLAN
DATE: 26 January 1987

cc PS/IR
Mr Wilmott - C&E

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
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MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

BUDGET OVERVIEW MEETINGS

There will be no overview meeting on Monday 2 February. Mr Scholar will circulate a new version of the Scorecard for information.

2. A separate meeting to discuss the forecast is being arranged for the slot reserved for the overview meeting.

ACSA

A C S ALLAN

covering
BUDGET CONFIDENTIAL

Reference PS/Chancellor

FROM : MISS C EVANS
DATE : 26 January 1986

PRIVATE SECRETARIES TO MINISTERS,
Sir Peter Middleton, Sir Terence Burns

cc other TSY recipients of
Mr Scholar's minute

OVERVIEW PAPERS : CORRECTION

I have just received the attached amendment to the paper on capital allowances attached to Mr Scholar's minute of 22 January. Could I ask you to amend Ministers' copies please.

CE

CODE 18-77

28a

PAPER ATTACHED TO MR SCHOLAR'S MINUTE TO THE CHANCELLOR OF 22 JAN

CAPITAL ALLOWANCES

CBI seek 100 per cent first year allowance on investment up to £25,000 a year for unincorporated businesses and firms paying corporation tax at small companies' rate.

Background

2. Rates of capital allowances are of general application. In general, no distinction is made in favour of particular categories of business in terms of size or status. The incentive element in the capital allowance system was phased out as an integral part of 1984 reforms designed to produce more neutral system of business taxation. First year allowances for machinery and plant and initial allowances for qualifying buildings ceased to be generally available on and after 1 April 1986. Relief is now given at rates more closely linked to economic depreciation.

Comment

3. Rates of capital allowance now generally applicable are more closely linked to actual asset life reflecting main purpose of system which is to take account of capital consumed in earning of business profits. To reintroduce a discriminatory system of allowances would run counter to business tax reform strategy. Average asset life is a common factor; difficult to justify speedier write-off for some businesses and not others. The proposal is not obviously helpful to loss-makers - problem of leased assets ie would assets leased to unincorporated and small companies qualify for special treatment? Proposal ~~not~~ applicable to all unincorporated ~~generally~~ businesses, but only to small companies. Would reintroduce distortion to investment decisions (eg deferrals of investment, splitting of partnerships and company trades).

4. There are a number of practical problems arising from the fact that qualification for the small companies' rate will not be clear until after the end of the financial year, and qualification itself is affected by the measure of capital allowances. This interaction would cause problems for both IR and companies.

Mrs Lester 12/2.

3/2

TOBACCO
Advisory Council

Glen House, Stag Place, London SW1E 5AG. Telephone: 01-828 2041/2803. Telex: 8953754 TOBCOM. Facsimile: 630 9638.

From Bryan C. Simpson
Chief Executive

cc Mr ... Mrs Lester ...

Mr McKenzie
MST

28 January 1987

The Hon. Mr. Peter Brooke, MP,
Minister of State,
HM Treasury,
Treasury Chambers,
Parliament Street,
London SW1P 3AG

Dear Minister,

We have written to the Minister for Health advancing reasons as to why his Department should encourage a moderate approach to taxation on cigarettes in the forthcoming Budget.

In view of our meeting next week with the Chancellor, we feel you should have a copy of our letter for your records.

Yours Sincerely
Bryan Simpson

TOBACCO
Advisory Council

Glen House, Stag Place, London SW1E 5AG. Telephone: 01-828 2041/2803. Telex: 8953754 TOBCOM. Facsimile: 630 9638.

TAC
→
DHSS
28/1

From Bryan C. Simpson
Chief Executive

28 January 1987

Tony Newton Esq., OBE, MP,
Minister of State for Health,
Department of Health & Social Security,
Alexander Fleming House,
Elephant & Castle,
London, SE11 6BY

We are disappointed that you have had to cancel again the meeting arranged for 27 January. In view of the short time between now and the presentation of the Budget, we have decided to place our concerns before you by means of this letter.

You will recall that in presenting the 1986 Budget, the Chancellor justified the heavy increase of 11 pence on 20 cigarettes by stating that he was taking account of the desire of the health lobby for a punitive increase, the inference being that this would achieve their objectives in reducing consumption.

Let me say at the outset that we are not anticipating that any of the points that we now make will deter your Department from seeking a reduction in cigarette consumption, but what we are very anxious to do is to request you most strongly to consider whether the use of the blunt weapon of price is an appropriate means of achieving your aims, particularly against the background of the many and far-reaching undesirable side-effects which would be the result of a duty increase.

When we negotiated the Advertising Voluntary Agreement with your Department, we stressed to the Secretary of State the vital importance of our continuing freedom to advertise as the only viable means open to us to compete with cheap imported cigarettes. Such cigarettes are to all intents and purposes marginally costed. They make no contribution to the overhead costs of running a business, such as research and development, retail selling and distribution, etc., and, in view of their price, they need no advertising. We are not willing, or able, to compete with such prices for the simple reason that we have overhead costs to recover and thus we need advertising as a competitive tool in the market place.

We are gratified that the Secretary of State noted our arguments and, as a result, the Voluntary Agreement does not require us to make any further significant reductions in our freedom to advertise.

So far as duty increases are concerned, many of the same issues apply, and this is why we sought the original meeting with you last month. Historically, the U.K. cigarette market was a price-segmented market. Prior to the change to an end product tax in 1978, U.K. smokers could "avoid" duty increases simply by switching to a slightly smaller, lower priced, cigarette. With the change in the duty system in 1978, these price differences were largely eliminated, and thus there was considerably less scope for smokers to avoid duty increases.

Over the last two or three years, however, circumstances have further changed and once again cheaper cigarettes are now available to British smokers, but this time they come largely from Continental European factories rather than British factories. A duty increase, therefore, will encourage smokers to turn to low price, foreign-made cigarettes, and whatever the effect of a duty increase on the total market, the effect on the market for British-made cigarettes will be at least twice as great, with a corresponding export of jobs from this country to Continental Europe, (mainly Germany).

Three years ago, these imported cigarettes had a negligible share of the market, but by the end of 1986 they were over 12%, having been 7.3% in 1985. In 1986, therefore, the effect of an 11p duty increase was to suppress the sales of British-made cigarettes by 6.5% and to provide growth for Continental European-made cigarettes of 27%. The net overall reduction in consumption was approximately 3% with more to come in a full year. We find it hard to accept that the Department of Health would wish to adopt a strategy which would imply a preference, for whatever reason, for British smokers to smoke foreign-made cigarettes rather than to smoke British-made cigarettes.

A look at the last three years causes us considerable alarm. In three successive Budgets the increase in taxation on cigarettes has totalled 27 pence against an inflation level of 9.5 pence and, as I have said, during the same period the market share held by cheap imports has gone from almost nothing to over 12%. British manufacturers have had to cope with that change through major factory rationalisations and closures. Such closures take time to implement and to plan, and the Industry desperately needs a period of stability during which time they can complete the rationalisation programme on which they have embarked. We have to implement a major programme of redundancies which includes informing large numbers of employees of the date when we will no longer be able to offer them jobs. Any further distortion of the market place in favour of imports will require us to go back to large numbers of these people and further aggravate their difficult situation by telling them that we are going to have to bring forward their redundancy date.

We would now like to turn to the regressive nature of tobacco taxation and the disproportionate effect that high levels of tobacco tax in general, and harsh tax increases in particular, have on the poorer sectors of the community. New research, commissioned by T.A.C. from London Economics, demonstrates that the degree of regressivity is worsening over time and is now higher than had been suspected. For example, the poorest 10% of households paid over 7% of their income in tobacco tax. Given that such smokers are most likely already buying the cheapest cigarettes available they are not able to trade down, and any duty increase will reduce their limited money even further.

Tobacco tax increases inflation if the rate of increase exceeds the rate of contemporary rises in the cost of living. Excessive tax increases can significantly add to the problems of inflation, setting up a chain reaction culminating in the payment of high wage increases, pensions and DHSS costs generally.

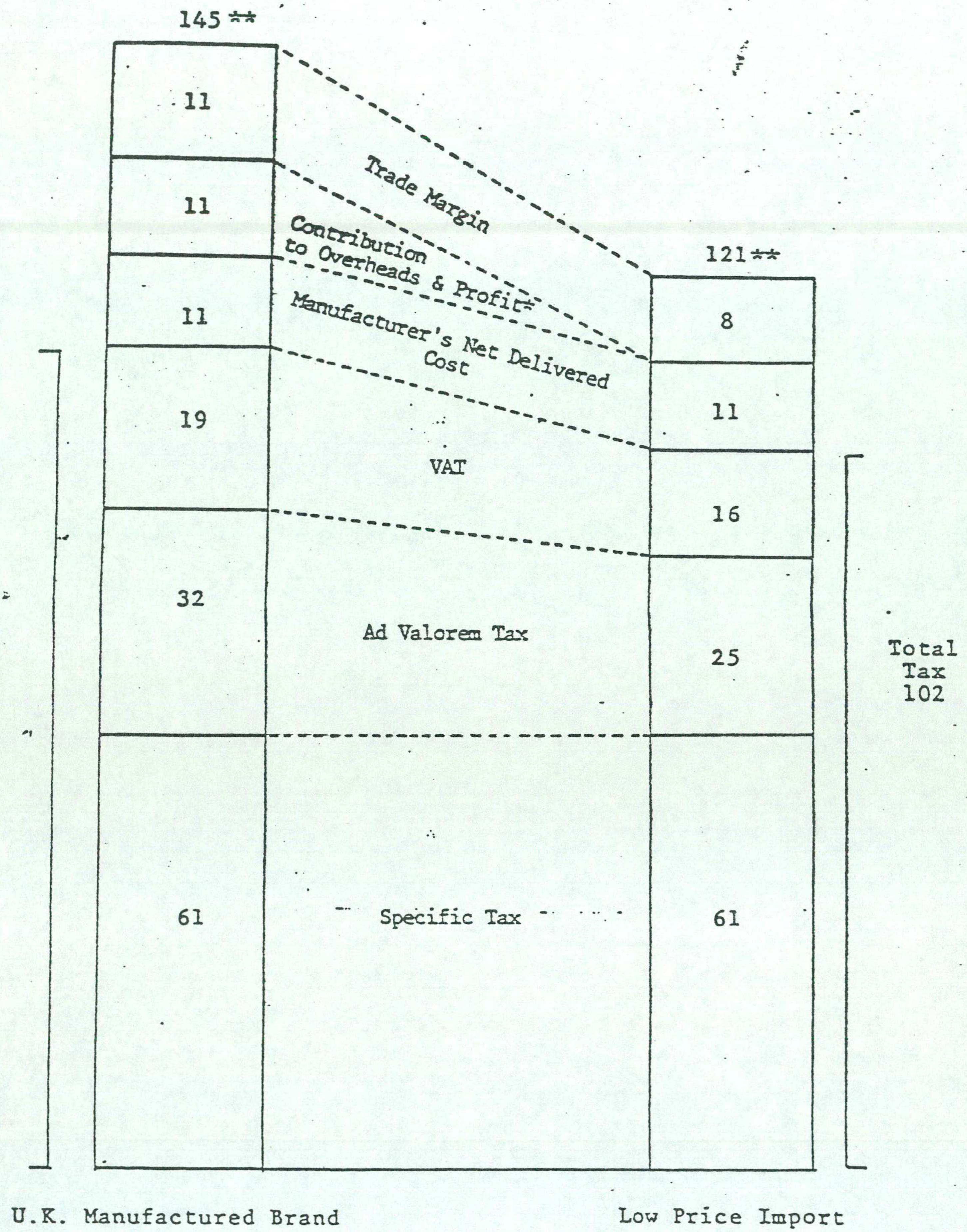
If one studies the trends in consumption of tobacco products worldwide, the UK has achieved reductions far greater than any other country, particularly any other EEC country. Higher taxation would not accelerate the rate of reduction because, as I have said, smokers are trading down to lower priced imports.

My members would therefore be grateful if, when advising the views of your Department to the Chancellor, you would take account of what is happening in the market place and of the drastic adverse effect that the last three years' duty increases are having on local production and employment opportunities, coupled with the major benefits that are being given to importers. I would also hope that you would take into account the effect that excessive tax increases are having on the less well off smokers in our society.

Finally, in order to illustrate more clearly some of the points we have raised, attached are a number of appendices. The chart showing the cost breakdown of a British-made brand of cigarette compared to a low cost, imported brand, amply demonstrates why British manufacturers are commercially unable to compete with the importers.

c.c. Secretary of State for Trade & Industry.

PENCE PER 20



*includes Selling, Retail Distribution, R & D, Advertising, Administration and Profit revenue [redacted] 1986-87 and 1987-88 arising from the introduction of new penalties for late value added tax returns.

Mr. Lawson [*pursuant to his reply*, 16 December, c. *488*]: When these changes were announced in 1985 it was expected that the introduction of default surcharge would result in an improved revenue flow of £60 million in 1986-87 and £350 million in 1987-88. However, receipts of value added tax have so far this year been running above expectations. Although it is too early to assess the reasons with confidence, it is possible that this is due in part to greater than forecast effects on revenue flow of the introduction of surcharge.

Unitary Tax

Mr. Grylls asked the Chancellor of the Exchequer if he will make a further statement on unitary tax.

Mr. Norman Lamont: The following statement is being issued today by Her Majesty's Government:

On 5 September 1986 the British Government issued a statement welcoming the passage of legislation in California to limit the use of worldwide unitary taxation. At the same time it expressed reservations about some aspects of the legislation and restated its objective of achieving a comprehensive solution to the problem.

Since then the Government has discussed developments in California with senior Parliamentarians and representatives of British industry. And the United States Administration, in testimony to Congress, has stated that, while a final resolution to the unitary tax problem has not yet been achieved, such significant progress has been made that federal legislation, or solution by amendment of the United States-United Kingdom Double Taxation Treaty, would not be appropriate at this stage.

The British Government shares the concerns of the United States authorities that, under the Californian legislation, a foreign company should have to pay a substantial election fee in order not to be taxed by the state on its foreign income; and, further, that in three states worldwide unitary taxation remains on the Statute Book. Over the coming months it will continue to work with British business interests for improvements in the Californian legislation, for acceptable arrangements for administering the new law and for legislative change in the remaining unitary states.

The British Government welcomes the support which the Federal Administration is giving (for example, through the filing of *amicus curiae* briefs) to companies presently involved in unitary tax court cases brought against the Californian tax authorities. It will itself continue to support such litigation.

In recognition of the progress which has been made in the past year towards resolving the unitary tax issue, the British Government is not proposing to take action under Section 54 of the Finance Act 1985 for the present. Equally, however, in view of the further progress that is necessary, it does not intend to recommend to Parliament that Section 54 should be repealed. Both the British Government and the United States Administration will continue to keep developments under careful review.

European Community (Duty-free Sales)

Mr. McCrindle asked the Chancellor of the Exchequer what discussions he has had with fellow European Community Ministers about the continuation of duty-free sales within member states; and if he will make a statement.

Mr. Brooke [*pursuant to his reply*, 16 December 1986, c. *488*]: I refer my hon. Friend to my answer to my hon. Friend the Member for Mid-Worcestershire (Mr. Forth) on 15 December, at column 421, which gave an account of the meeting at the Economic and Finance Council in Brussels on Monday 8 December at which this subject was discussed.

PQ56

Cigarettes

Mr. Nicholas Winterton asked the Chancellor of the Exchequer how much tax in total, including specific tax, ad valorem tax and value added tax, in pence per packet of 20 cigarettes is levied on (*a*) a packet of United Kingdom manufactured king size cigarettes retailing at £1·50 and (*b*) a packet of imported Virginia king size cigarettes retailing at £1·21.

Mr. Peter Brooke [*pursuant to his reply*, 17 December 1986]. The information is as follows:

	Total tax p
United Kingdom king size cigarettes	112·3
Imported Virginia king size cigarettes	102·4

ENVIRONMENT

Urban Regeneration Grants

Mr. Knox asked the Secretary of State for the Environment if he will make a statement on his planned annual expenditure on urban regeneration grants.

Mr. John Patten: Urban regeneration grant will be paid under the authority of part III of the Housing and Planning Act 1986 towards the cost of regeneration programmes carried out by the private sector. The explanatory and financial memorandum to the Housing and Planning Bill estimated that there would in 1987-88 be voted expenditure under part III by the Department of the Environment in the range £10 million to £20 million. The level of expenditure in later years will depend upon the success of the initial programmes and the public expenditure provision that can be made.

County and District Councils

Mr. Boyes asked the Secretary of State for the Environment if he will list the names of those district councils which have not yet commenced parish reviews; and what action he intends to take.

Mr. Chope: The duty of councils under section 48(8) of the Local Government Act 1972 to keep the parish arrangements in their districts under review does not extend to an obligation to carry out parish reviews under section 60. My right hon. Friend would not normally seek to question the exercise of their discretion in this. They are not required to notify him when they commence a review, and I am therefore unable to provide the list requested.

Mr. Boyes asked the Secretary of State for the Environment if he will list the number of electors per councillor in county and district councils in England and Wales.

Mr. Douglas Hogg: I have been asked to reply.

The table gives for each county in England and Wales, the number of electors per county councillor and the number of electors per district councillor, based on the number of local government electors on the 1986 electoral registers as shown in "Electoral Statistics — Local Government 1986" (OPCS Monitor EL 86/1).

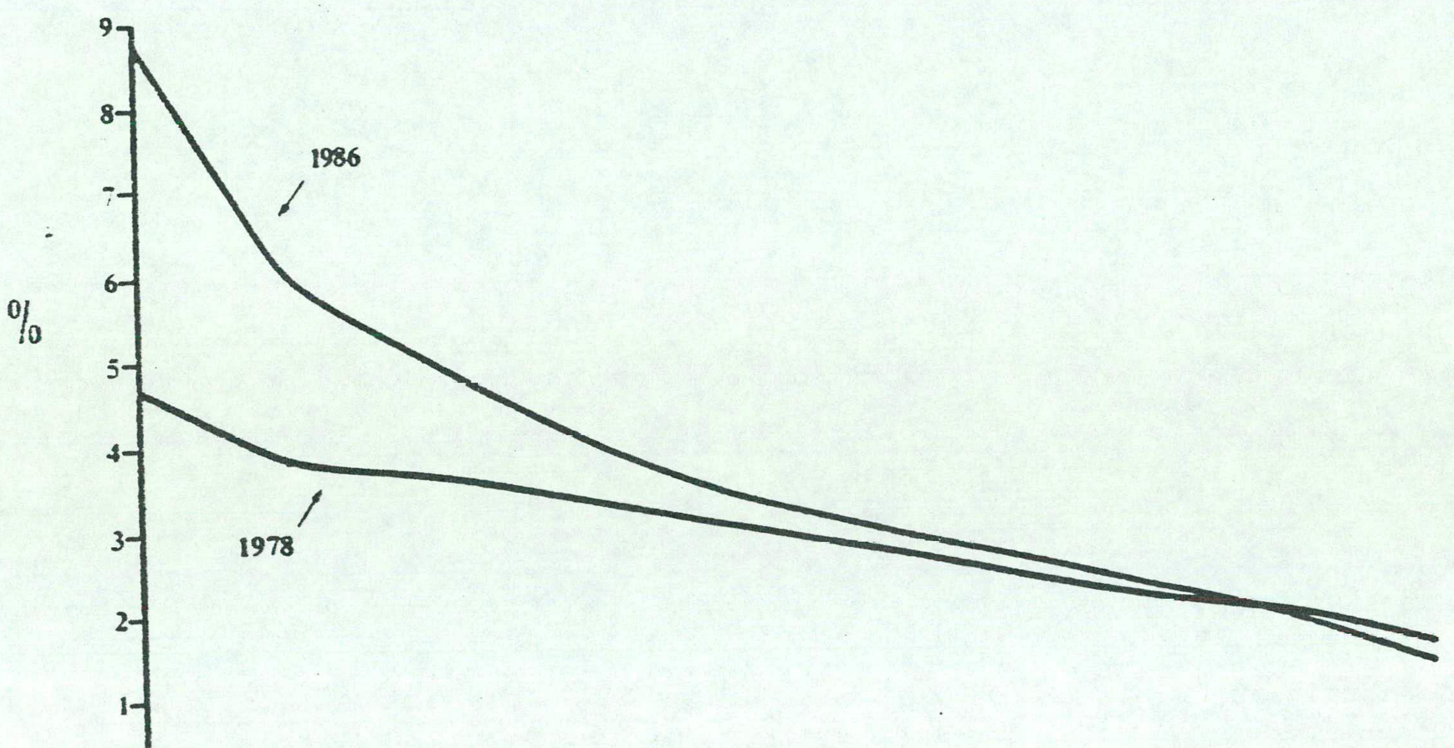
EXTRACT FROM SUBMISSION TO THE CHANCELLOR OF THE EXCHEQUER

Social Consequences of Cigarette Taxation

Tobacco taxation is one of the most socially-regressive central Government taxes and it is therefore of particular importance that, of the 15 mn. UK cigarette smokers, some 10 mn. are in the lower social groups. A recent study into various aspects of the Retail Price Index (carried out by the Institute for Fiscal Studies) highlighted the fact that, as a result of differences in purchasing patterns, movements shown by the RPI do not accurately reflect the actual inflationary effect on different income levels.

An extension of this research has illustrated, quite clearly, the highly regressive nature of tobacco taxation; and that the situation has worsened considerably since 1978 is also clear as the following chart shows -

TOBACCO TAXES - PROPORTION OF INCOME



INCOME OF TOP OF EACH DECILE BAND (£p.w.)

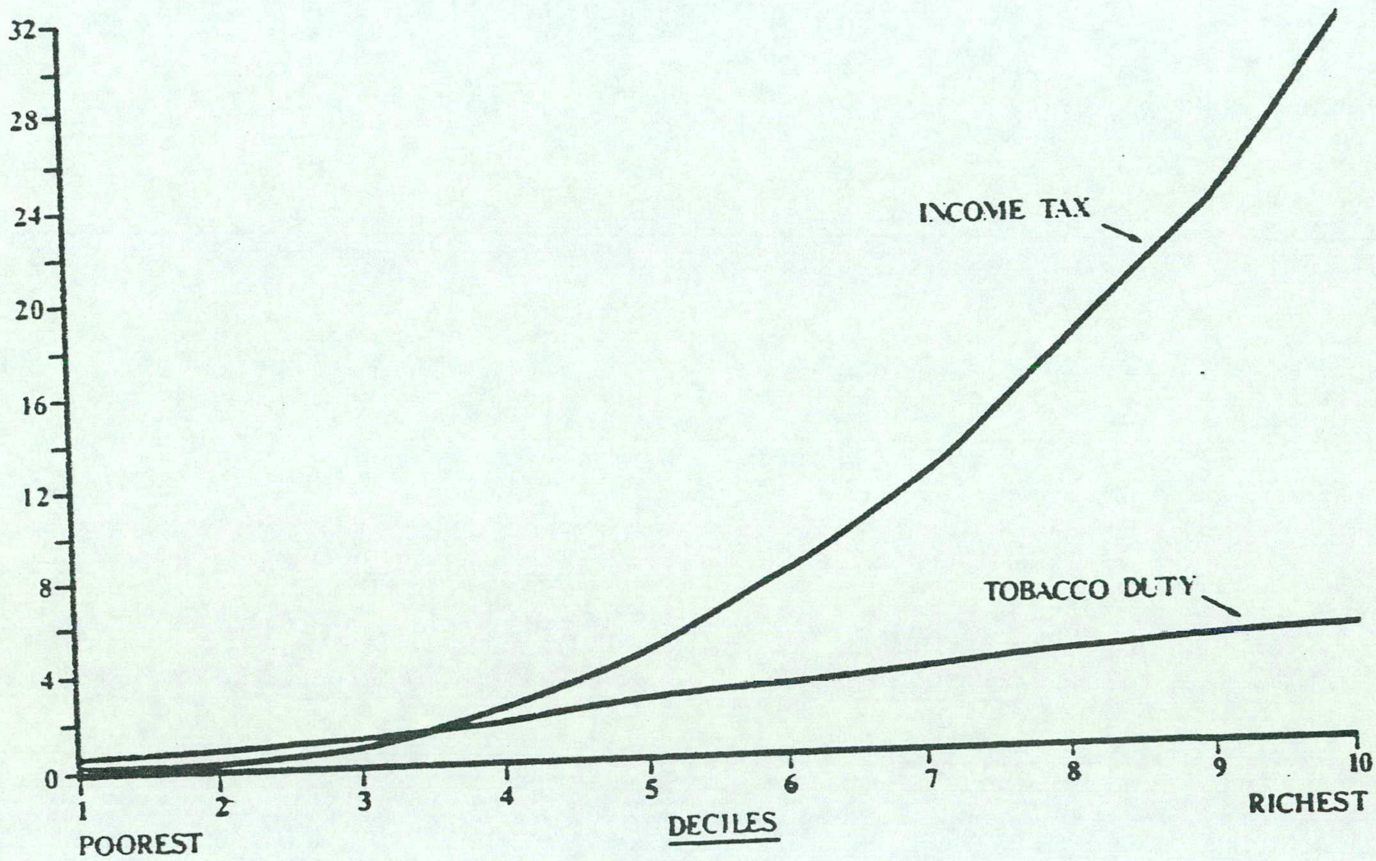
	1	2	3	4	5	6	7	8	9	10
Single	41	51	67	86	103	124	144	171	219	-
Double	67	83	109	139	167	201	233	278	356	-
Couple + 2 Children	101	125	165	210	253	304	352	420	538	-

While the proportion of income represented by tobacco tax has, for the highest income decile, fallen since 1978, the corresponding figure for the lowest income decile has increased significantly from 5% to almost 9%. The effect of the rises in tobacco taxes since 1978 has been to increase both the burden of the tax on the poor and the regressivity of the tax itself.

It is also interesting to consider the relationship between tobacco tax and income tax.

CUMULATIVE AMOUNTS OF INCOME TAX AND TOBACCO DUTY PAID BY EACH DECILE

£ BILLION – 1984



The tax payer is concerned about how much tax in total he pays, how he pays it and how much of his income remains for him to spend or to save at his own discretion. The burden of direct tax has been reduced and, even if indirect taxes had remained constant, this would have increased the importance to the taxpayer of indirect taxes. Tobacco taxes have, however, risen sharply and this has, for tax payers, accelerated the change in importance of tobacco tax in comparison with income tax. On average, approaching forty per cent of households pay more in taxes on tobacco than in income tax. An important minority of people, therefore, are now more sensitive to changes in tobacco taxes than they are to changes in income tax.

Taxes on tobacco are the most regressive of all major taxes. For alcohol, the income proportion accounted for by tax is more or less constant over the income range while, for VAT, the income proportion at the higher end is some five times the level of tobacco taxation compared with broadly similar proportions for the lower income deciles.

In the light of the above it is not surprising that -

a) some smokers in the lower income groups can no longer afford to smoke; and

b) those who continue to smoke are becoming increasingly price sensitive.

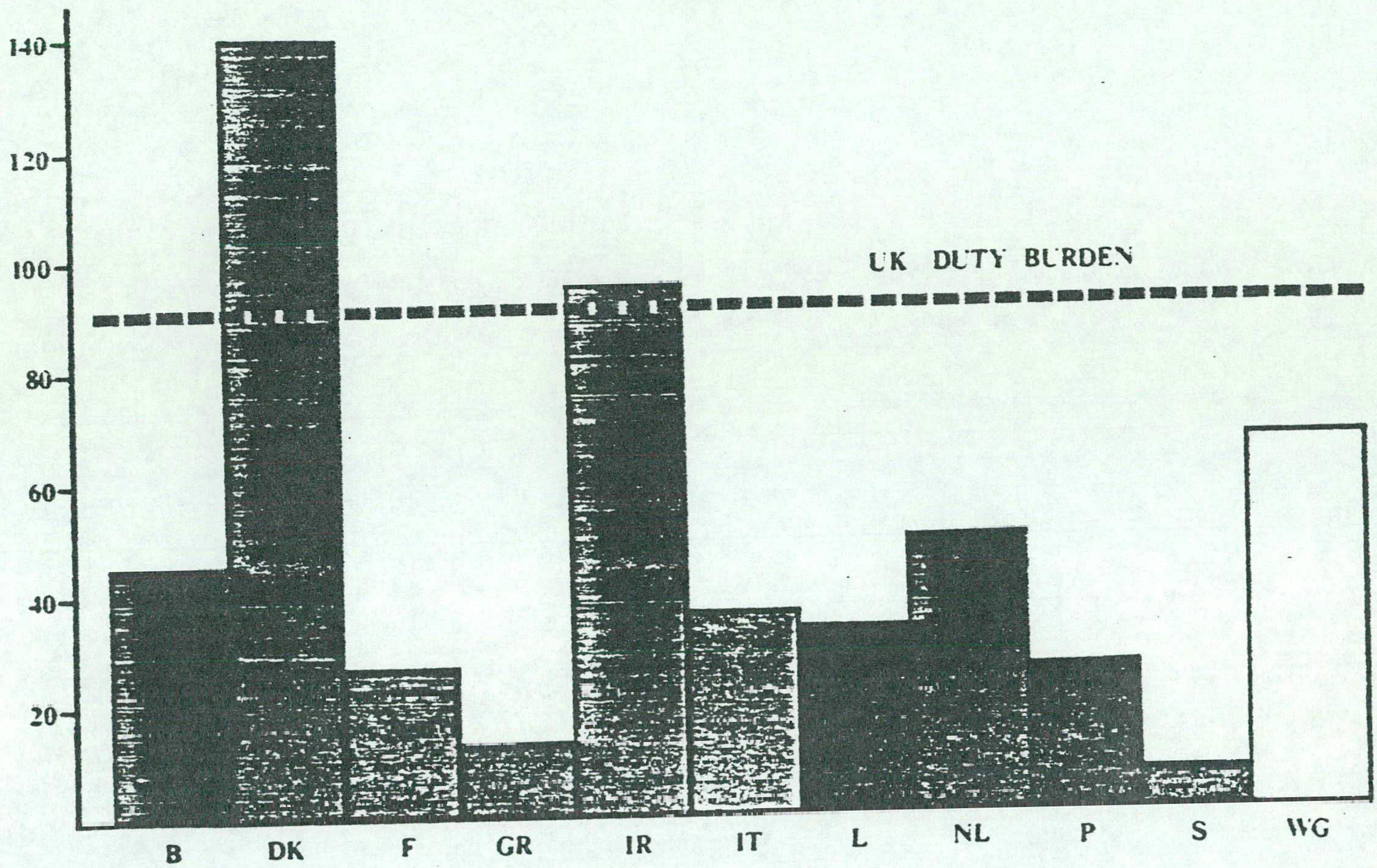
The increasingly regressive nature of tobacco taxation provides an unintended side effect from a Government policy which, explicitly or implicitly, is aimed at reducing consumption through higher tobacco tax. The policy means that, for more and more people, tobacco taxes are made increasingly important in relation to other forms of taxation. The policy is also highly inequitable in its impact, affecting the poor, who can least afford it, to a much greater degree than the rich.

EEC Taxation Levels

In addition to the high regressivity of tobacco taxation, cigarette smokers are further penalised by the high duty rate compared with almost all other EEC member states -

EEC DUTY BURDENS – CIGARETTES

ECUs PER 1000

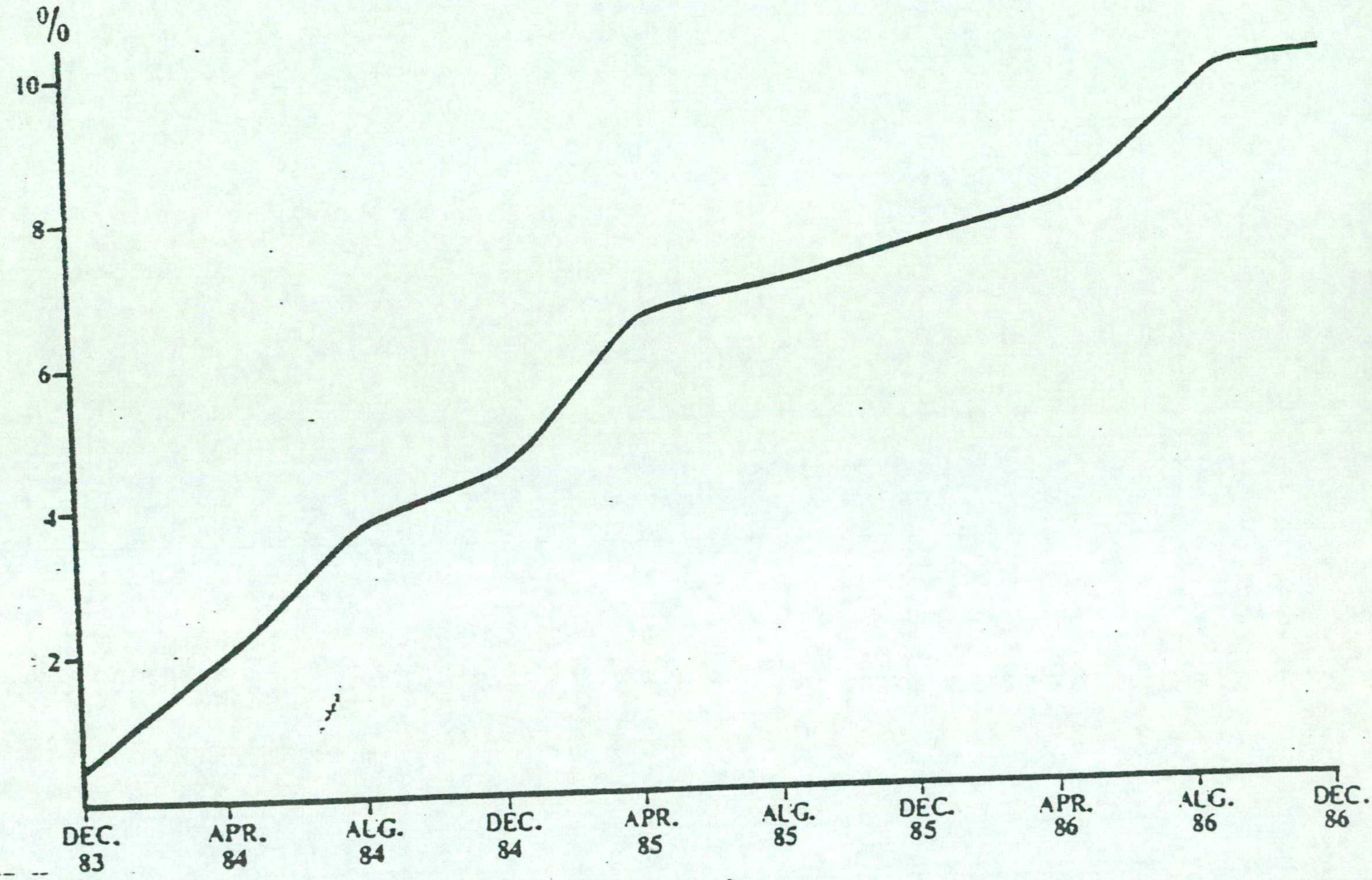


Not only is the UK cigarette duty rate higher than in all bar two of the remaining EEC states, but the difference, in many cases, is considerable.

IMPORTS This dramatic additional decline in sales of home produced cigarettes is, therefore, entirely due to the rapidly increasing level of cheap imported cigarettes, particularly from West Germany where a substantial cigarette duty increase at the 1982 Budget resulted in considerable excess capacity.

Faced with the prospect of high redundancy and factory closure costs, W. German manufacturers chose to export cigarettes at, or only slightly above, marginal cost, which, because of the ad valorem element in UK cigarette duty, created a very significant price advantage at retail level(currently 25p/30p per 20). The first such imports into the UK occurred at the end of 1983 since when the market share held by this sector has continued to grow even though the West German cigarette market has steadily recovered (mainly as a result of no subsequent increases in cigarette duty rates). The rate of growth of the cheap imports sector is shown below -

MARKET SHARE HELD BY CHEAP IMPORTS



psl/98A

CONFIDENTIAL

BF 3/2

ACSA to SCHOLAR 28/1

FROM: A C S ALLAN
DATE: 28 January 1987

RN overnight Monday

MR SCHOLAR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Miss Sinclair
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Wilmott - C&E

ADDITIONAL MEASURES FOR THE BUDGET

The Chancellor would be grateful if you could co-ordinate a lollipop trawl around officials in the Treasury, Revenue and Customs. It would be helpful if you could also cover any ideas which were put forward last year but not proceeded with then. The Chancellor would also be grateful for any suggestions from Ministers and advisers.

ACSA

A C S ALLAN

FROM THE PRIVATE SECRETARY

Debbie

Government Chief Whip
12 Downing Street, London SW1

Alex Allan Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

30 January 1987

Dear Alex,

I enclose copy letters from the BBC and IBA in which they offer the usual ten minute Budget broadcast to the Chancellor of the Exchequer on Tuesday 17 March.

I should be grateful if you would confirm that these arrangements are acceptable to the Chancellor.

CH/EXCHEQUER	
REC.	30 JAN 1987
ACTION	MR CULPIN 30/1
COPIES TO	

Yours ever,

Murdo

(Murdo MacLean)

Enc:

INDEPENDENT BROADCASTING AUTHORITY
70 Brompton Road London SW3 1EY Tel: 01-584 7011 Telex: 24345

RH/pr

Murdo Maclean Esq
Private Secretary to the
Government Chief Whip
12 Downing Street
London
SW1

28th January 1987

Dear Murdo

I am writing to confirm arrangements for the Budget broadcast by the Chancellor of the Exchequer on Tuesday, 17th March 1987. This will be a 10 minute broadcast on ITV at 10.30 p.m. following 'News at Ten'. We have made a similar offer to the Shadow Chancellor for the following evening and to the SDP/Liberal Alliance on Thursday, 19th January.

Yours sincerely

Robert

Robert Hargreaves
Chief Assistant Television

c.c. Miss Margaret Douglas - BBC
Tim Riordan - Thames
Programme Control Desk - TVTimes

BBC Broadcasting House London W1A 1AA

Telephone 01-580 4468 Telex: 265781 Telegrams and Cables: Broadcasts London Telex

from Chief Assistant to Director-General

19th January, 1987

Dear John,

This is to let you know that we wish to offer the usual 10' programme time for the Chancellor of the Exchequer to broadcast on his budget proposals on Tuesday, 17th March.

We would place the Chancellor's television broadcast immediately after the main news on BBC-1 at 9.25.p.m., with a repeat on BBC-2 just before Newsnight, at about 10.40p.m. We would also broadcast during the early part of The World Tonight on Radio 4.

A similar offer is being extended to the Shadow Chancellor for the following evening, and to the Alliance for the Thursday evening.

Yours sincerely,

Margaret

(Margaret Douglas)

Rt.Hon.John Wakeham M.P.,
Government Chief Whip,
House of Commons,
London SW1A 0AA

749/105

FROM: ROBERT CULPIN
DATE: 30 JANUARY 1987

CHANCELLOR

Agreed throughout - scissors & paste; revise a gt improvement. Colour must then essential.

P.S. We will need a first (internal) note on charts for Budget broadcast soon pls.

cc without attachments
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Odling-Smee
Mr Peretz
Mr Scholar
Miss O'Mara
Mr Pickford
Miss Edwards
Mr Cropper
Mr Tyrie
Mr Ross Goobey

BUDGET EPR

Do you want a Budget EPR?

2. No one thanked us much for doing one last year. It was largely wasted on the press. We got little if any feedback from the mailing list. And I am not sure we made much impression on MPs.

3. But, in the scale of things, it is no great sweat to produce - and we can certainly make a better job of it than last time. It does give us a self-contained summary which people can keep. And so long as we are going to have a Budget piece in the EPR at all, we might as well do it before it is stone cold.

4. So while the benefits are not great, the costs aren't either. And on the whole, I am inclined to do it and get it over with.

5. Last year we were reasonably content with the contents - text, charts and tables. But the finished product (attached:

top only) looked scruffy. That is largely because we over-estimated the scope for printing the EPR as a by-product of the FSBR, using the same tables and charts in the same layout.

6. If we are going to do it again, I want to make a number of improvements.

- The EPR should be on better paper - the same as for the FSBR.

- It should have purpose-printed tables and charts - the FSBR versions are too large.

- That should enable us to get a better alignment of text and visual aids. To illustrate, I attach a scissors and paste redesign of last year's.

- It should be taken through the printers by IDT as a largely separate operation - not combined with FP's FSBR.

- We should get the masthead in colour - though it would be too ambitious to carry colour through the rest.

- We should include the EPR in our standard Budget packs, so that everyone can collect it easily with the FSBR, the speech and the press notices.

I have established that all these improvements are feasible.

7. We can get charts and blank tables produced in advance. But I want to leave the text, as last year, until pretty near the last minute. It is far better to let the FSBR and speech settle down, and then recycle them, than to keep reinventing the wheel or revising umpteen documents in parallel. This isn't a complete recipe for success, because the EPR needs a fair bit of simplifying and popularising. But it is the least bad option.

8. I have checked that the printers do not need copy until we are within about a week of the Budget. The price is that we must be prepared to finalise it on the last weekend.

9. If we are going to have an EPR, I should dearly like to scrap the separate Budget Snapshot, which is IDT's other summary of the Budget. But this is aimed at a different audience. It gives the newspapers their quick guides to measures - income tax doubled, VAT abolished: that sort of thing. And they usually use it in their short column summaries. We might conceivably manage to build it into the EPR, perhaps in place of the big table of "Budget measures". If, as I expect, we can't do that, I want this year to keep it very short.

10. To sum up, I think we might as well decide now to have an EPR, make the improvements in paragraph 6 and work to the timetable in paragraph 8. The decision is not at all irrevocable: we could always scrub the EPR if we want to. But do you agree that we should plan on this basis?

RC

ROBERT CULPIN

Encs

Published by the Treasury

EPR Supplement

No. 183 March–April 1986

The Budget

For the last seven years, the Government's consistent objective has been to defeat inflation and establish a vigorous, enterprising, economy which will generate sustained growth and increased employment. Monetary and fiscal policy have been set to bring about lower inflation while providing for continued growth in output. Micro economic policies have been designed to enhance the prospect for output and employment by improving incentives, removing unnecessary controls, ensuring that markets work properly—and generally improving the adaptability of the economy. The measures in the Budget strengthen these policies and reduce the burden of taxation and the role of the State in the economy.

Medium Term Financial Strategy

The Budget follows the Medium Term Financial Strategy (MTFS) which the Government has pursued since 1980. The MTFS sets the framework of financial discipline within which economic policy decisions are taken. It has succeeded in bringing inflation down—Chart 1—and facilitating a sustained period of uninterrupted growth—Chart 2.

It has done so by steadily reducing the annual rate of increase, in cash, of total spending power in the economy, as measured by the money value of our national output (money GDP).

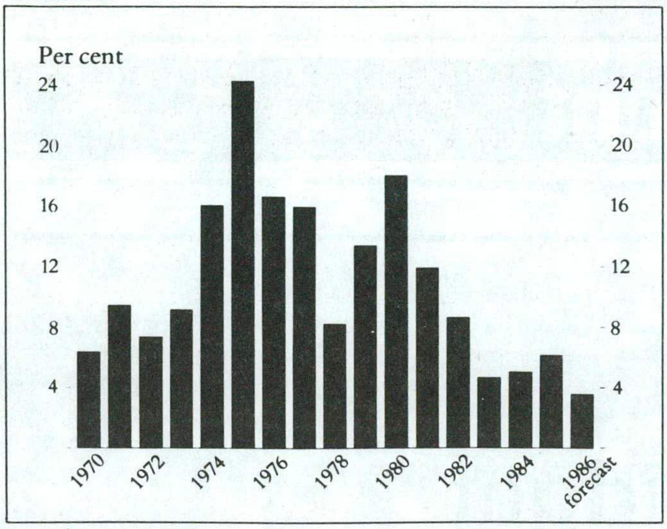
Table 1 **Budget measures**

£ million			yield(+)/cost(−)
Tax proposals:	1986–87 Changes from an indexed base	Changes from a non-indexed base	1987–88 Changes from a non-indexed base
Income tax basic rate[1]	−950	−950	−1 305
Income tax allowances & thresholds	+15	−1 125	−1 470
Excise duties—petrol/derv	+135	+465	+495
—VED	−135	+5	+5
—tobacco	+175	+315	+335
—alcohol	−175	Nil	Nil
—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	Neg	Neg	+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	Neg	Neg	+5
Total expenditure measures (gross)[2]	+195	+195	+290
Offsetting savings in social security benefits	−95	−95	−125
Net call on the Reserve	+100	+100	+165

[1] Figures include the effect of the consequential change in the rate of ACT.

[2] Including Northern Ireland consequentials.

Inflation **Chart 1**



Total national output **Chart 2**

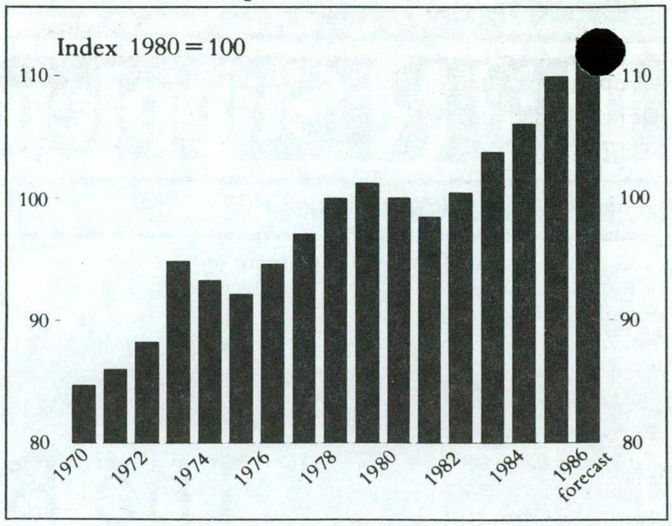


Table 2 sets out the Government's broad objective for money GDP in the medium term, and the chosen money supply targets consistent with that. Table 3 illustrates the possible split of money GDP between real growth and inflation.

Table 4 gives a path for the Public Sector Borrowing Requirement (PSBR). For 1986–87, the Budget sets the PSBR slightly below the level indicated in last year's MTFS.

Oil

The Budget has had to be framed in the unprecedented context of a dramatic fall in the world oil price. The Government's oil revenues are now expected to fall from about £11½ billion in 1985–86 to about £6 billion in 1986–87, assuming an average North Sea oil price of $15 a barrel for the rest of 1986.

Consumers and industry will benefit from lower oil prices. And lower oil prices will encourage higher world trade and output, with lower world inflation. The overall effects on both output and inflation in the UK are expected to be broadly neutral—if anything beneficial.

Forecast

These effects are taken into account in the forecast published with the Budget—Table 5. Inflation is set to fall further—to 3½ per cent in 1986. Output is expected to continue to grow by around 3 per cent, with further substantial growth in investment and exports. The balance of payments may be in surplus by £3½ billion in 1986 even though oil prices are low.

Table 2 **Growth of the money supply and money GDP**

	1985–86	1986–87	1987–88	1988–89	1989–90
Money GDP[1]	9½ (8¼)	6¾	6½	6	5½
M0[2]	3½	2–6	2–6	1–5	1–5
£M3[2]	14¾	11–15			

[1] Percentage change on previous financial year. See Table 3 for assumptions on output and inflation. The figure in brackets is adjusted for the coal strike. The figure for 1986-87 is a forecast; and in subsequent years the figures describe the Government's broad medium term objective.
[2] 1985–86: percentage change from mid-February to mid-February; 1986–87: target ranges; 1987–88 onwards: illustrative ranges for M0.

Table 3 **Output and inflation assumptions**

	Percentage change on previous financial year				
	1985–86	1986–87	1987–88	1988–89	1989–90
Real GDP					
Non-North Sea	3¾	3	2¾	2¾	2¾
Total	3½	3	2½	2½	2½
Inflation					
GDP deflator	6	3¾	3¾	3½	3

Table 4 **Public sector borrowing**

	£ billion, cash					
	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90
PSBR	**10·1**	**7**	**7**	**7**	**7**	**7**
PSBR as per cent of GDP	**3·1**	**2**	**1¾**	**1¾**	**1½**	**1½**

Table 5 The prospects: summary

	Forecast
A. Output and expenditure at constant 1980 prices	per cent changes 1985 to 1986
Domestic demand	3½
of which:	
Consumers' expenditure	4
General Government consumption	1
Fixed investment	5
Change in stockbuilding (as per cent of level of GDP)	0
Exports of goods and services	5
Imports of goods and services	6
Gross domestic product: total	3
manufacturing	3
B. Inflation	
Retail prices index	per cent changes
1985Q4 to 1986Q4	3½
1986Q2 to 1987Q2	3½
Deflator for GDP at market prices	per cent changes on a year earlier
Financial year 1985–86	6
Financial year 1986–87	3¾
C. Money GDP at market prices	per cent changes on a year earlier
Financial year 1985–86	9½
Financial year 1986–87	6¾
D. Balance of payments on current account	£billion
1986	3½
1987 first half (at an annual rate)	1½
E. PSBR	£ billion
Financial year 1985–86	7
Financial year 1986–87	7

Tax measures

The main income tax proposals in the Budget are:—

—A cut of 1p in the basic rate

—Indexation of personal tax allowances, by 5.7 per cent, rounded up; but less than indexation of the levels at which people start to pay tax at 45 per cent or above.

The Government believes that people should be left free to spend or save more of their own money. These changes will let people keep more of what they earn. Income tax will be reduced for all 24 million tax payers. A married man on average earnings will receive an increase in take home pay of some £2·60 per week; and the changes will reduce the marginal rate of tax for around 20 million tax payers of working age—95 per cent of the total, including the vast majority of unincorporated businesses and the self-employed. The adjustments made to the higher rate thresholds mean that the gain for those at the top of the income scale is roughly what they would have received under simple indexation alone.

Table 6 shows the income tax allowances for 1986–87.

The Chancellor is publishing with the Budget a Green Paper on the longer term reform of personal taxation. This discusses a range of options which will in due course be opened up by the computerisation of the personal tax system.

In particular, it outlines a possible reform of the present system of personal allowances. Everyone would have a tax allowance in his or her own right. A husband and wife would be taxed independently, but would be able to transfer unused allowances to each other. Married women would have the opportunity of privacy in their tax affairs; the tax penalties on marriage would be removed; and more tax relief would go to couples at the point when they are most likely to need it, when one of the partners is not in paid work.

The Budget introduces a radical new scheme for tax-free build up of investment in equities—Personal Equity Plans. This will encourage individuals to invest directly in equities and should, in time, bring about a further considerable extension of share ownership in Britain. Any adult will be able to invest up to £200 a month in quoted shares. As long as the investment is kept in a special account for a minimum period, all reinvested dividends and capital gains will be entirely free of tax.

The Budget extends considerably the tax reliefs available to people and companies who make donations to charities. And it relieves the charities themselves of VAT on things like distress alarms and lifts for the handicapped.

The other main tax proposals are:

—A halving of the stamp duty on share transactions, from 1 per cent to ½ per cent financed by a broadening of the base of the tax

—Abolition of capital transfer tax on lifetime gifts by individuals

—Clearer rules for dealing with excessive surpluses in pension funds

—Indefinite extension of the Business Expansion Scheme (described in the Economic Progress Report for November-December 1984)

Taken together these measures will help promote wider share ownership, help new and small businesses, and encourage charitable giving.

As a further measure of help for new and small businesses, the Loan Guarantee Scheme will be extended. This provides a Government guarantee for 70 per cent of qualifying bank loans.

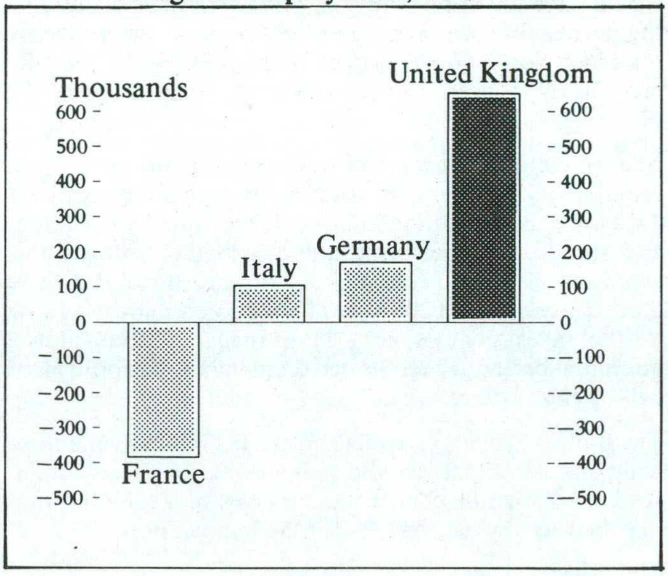
There is no change in the rate of VAT. Excise duties are being increased, in total, by about the amount required to keep pace with inflation. Within that, petrol and derv are increased by rather more; but the real tax burden on the motorist will be kept unchanged, with no general increase in vehicle excise duty on cars and lorries. There is a marked increase in the tax on cigarettes but no increase in the duties on pipe tobacco, cigars or any alcoholic drinks.

Table 6 Income tax allowances

	1985-86	1986-87
Single person's allowance and the wife's maximum earned income relief	£2205	£2335
Married allowance	£3455	£3655
Additional personal allowance and widow's bereavement allowance	£1250	£1320
Age allowance for the single person	£2690	£2850
Age allowance for the married person	£4255	£4505

Chart 3

Change in employment, 1983-1985



Employment and unemployment

Despite the persistence of high unemployment, which is a major problem throughout Europe, Britain has created more jobs since June 1983 than the rest of the Common Market put together. Chart 3 shows the record in the UK and that in some of our major competitors.

The Government believes that further progress on employment depends on two main things. The first is a sustained improvement in the performance of business and industry, and thus of the economy as a whole. The Budget is designed to assist this. The second is a lower growth of pay settlements which prices people into instead of out of jobs.

One way to make pay arrangements more flexible, and more sensitive to market pressures, might be to move to a system in which a significant proportion of an employee's remuneration depends directly on the company's profitability per person employed. This would help to preserve existing jobs when business was slack; and companies would generally be keener to take people on. The Government will therefore discuss with employers and others whether a workable scheme with a prospect of broad take up could be devised to give some temporary tax incentive to the development of such profit sharing agreements.

To give more immediate help to the unemployed, the Budget includes a number of direct measures:—

—Existing pilot schemes for the long term unemployed will be developed into a single programme (Restart) covering the whole country with counselling interviews and a Jobstart allowance of £20 a week for six months for those long term unemployed who take a job at less than £80 a week.

—The target for the expansion of the Community Programme, which offers the long-term unemployed work for up to a year on projects of benefit to the community, will be raised to 255 000 places by the end of 1986.

—A New Workers Scheme will help 18–20 year olds. It will provide a payment of £15 a week for a year to any employer taking on an 18 or 19 year old at not more than £55 a week, or a 20 year old at not more than £65 a week.

—The rate of entry into the Enterprise Allowance Scheme will be increased from about 65 thousand a year to 100 thousand a year by April 1987. This Scheme makes payments of £40 a week for up to a year to assist unemployed men and women to start their own business.

These measures come on top of the decision, announced in the 1985 Budget, to launch a new 2-year Youth Training Scheme, leading to a recognised vocational qualification. The new and expanded YTS will come into operation in April.

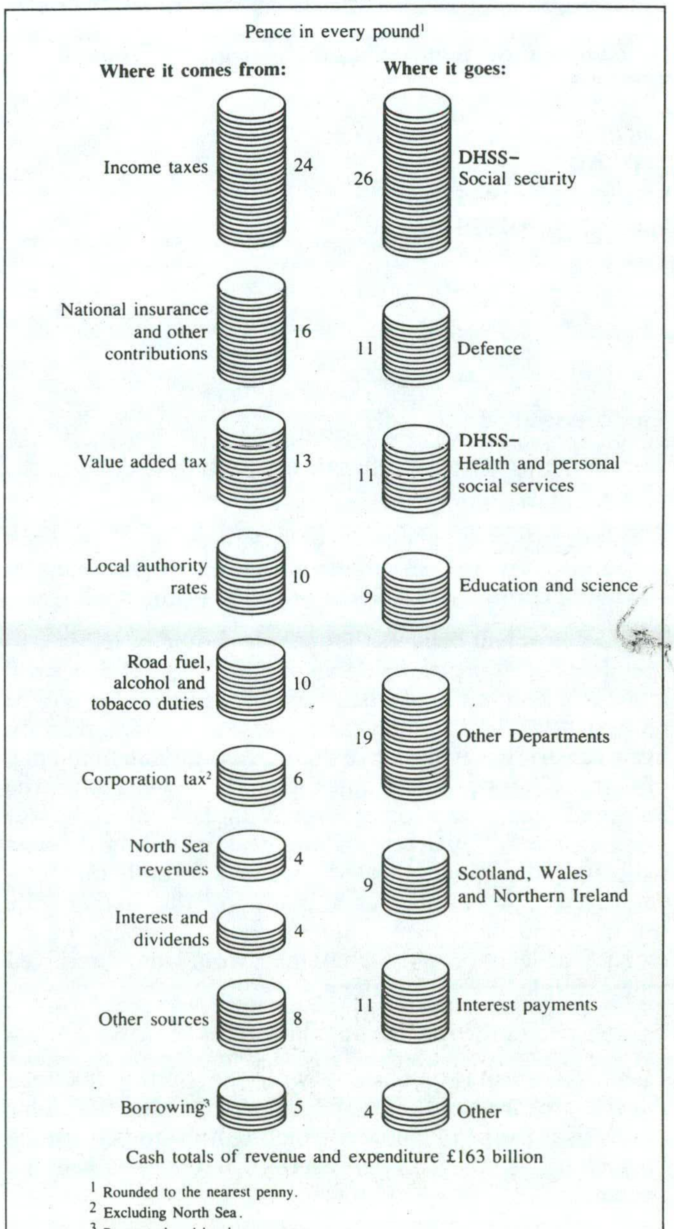
All of these measures to help the unemployed will have a public expenditure cost. This will be met from the public expenditure Reserve, and so will not add to the planning total for public expenditure.

Revenue and expenditure

Chart 4 shows the sources and uses of public money in 1986–87.

Chart 4

Public money, 1986-87



Cash totals of revenue and expenditure £163 billion

[1] Rounded to the nearest penny.
[2] Excluding North Sea.
[3] By central and local government.

Source: Derived from *Financial Statement and Budget Report 1986-87*, table 1.2.

Printed in the UK by Her Majesty's Stationery Office
Dd 8867080 75m 3/86 3165079

EPR Supplement
Published by the Treasury No. 183 March/April 1986

THE BUDGET

For the last seven years, the Government's consistent objective has been to defeat inflation and establish a vigorous, enterprising, economy which will generate sustained growth and increased employment. Monetary and fiscal policy have been set to bring about lower inflation while providing for continued growth in output. Micro economic policies have been designed to enhance the prospect for output and employment by improving incentives, removing unnecessary controls, ensuring that markets work properly—and generally improving the adaptability of the economy. The measures in the Budget strengthen these policies and reduce the burden of taxation and the role of the State in the economy.

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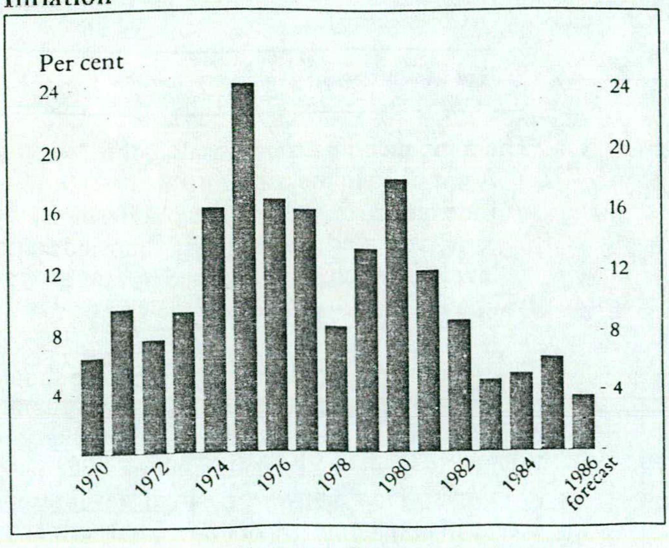
Inflation Chart 1



Total national output Chart 2

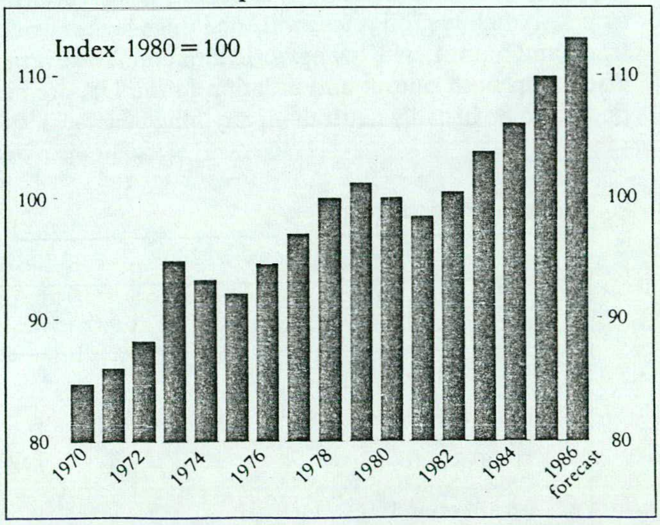


Table /
Growth of money supply and money GDP

	85/86	86/86	87/87	88/88	89/90
Money GDP[1]	9½(8¼)	6¾	6½	6	5½
MO[2]	3½	2–6	2–6	1–5	1–5
EM[3]	14¾	11–15			

[1] Percentage change on previous financial year. See Table 3 for assumptions on output and inflation. The figure in brackets is adjusted for the coal strike. The figure for 1986–87 is a forecast; and in subsequent years the figures describe the Government's broad medium term objective.

[2] 1985–86: percentage change from mid-February to mid-February; 1986–87 onwards: illustrative ranges for MO.

Table 2
Output and inflation assumptions

	Percentage change on previous financial year 85/86	86/86	87/87	88/88	89/90
Real GDP					
Non-North Sea	3¾	3	2¾	2¾	2¾
Total	3½	3	2½	2½	2½
Inflation					
GDP deflator	6	3¾	3¾	3½	3

Table 3
Public sector borrowing

	£ billion, cash				
	85/86	86/86	87/87	88/88	89/90
PSBR	10.1	7	7		7
PSBR as a per cent of GDP	3.1	2	1¾	1¾	1½

Table 3 gives a path for the Public Sector Borrowing Requirement (PSBR). For 1986–87, the Budget sets the PSBR slightly below the level indicated in last year's MTFS.

Oil

The Budget has had to be framed in the unprecedented context of a dramatic fall in the world oil price. The Government's oil revenues are now expected to fall from about £11½ billion in 1985–86 to about £6 billion in 1986–87, assuming an average North Sea oil price of $15 a barrel for the rest of 1986.

Consumers and industry will benefit from lower oil prices. And lower oil prices will encourage higher world trade and output, with lower world inflation. The overall effects on both output and inflation in the UK are expected to be broadly neutral—if anything beneficial.

Table 4
The prospects: summary

	FORECAST
A Output and expenditure at constant 1980 prices	% change 1985–86
Domestic demand	3½
of which:–	
consumers expenditure	4
General Government comsumption	1
Fixed investment	5
Change in stockbuilding (as a % of level of GDP)	0
Export of goods and services	5
Importsof goods and services	6
Gross domestic product total	3
Manufacturing	3
B Inflation *Retail prices index*	% changes
1985Q4 to 1986Q4	3½
1986Q2 to 1987Q2	3½
Deflator for GDP at market prices	% changes on a year earlier
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Financial year 1986–87	3¾
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D Balance of payments on current account	£ billion
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Financial year 1985–87	7

Budget measures

Tax proposals	£million (Yield(+) Cost(−))
Income tax basic rate[1]	
Income allowances & thresholds	
Excise duties • petrol/derv	
• tobacco	
• alcohol	
• gas oil	
• other minor oil duties	
Stamp duties • reduction in rate	
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Capital transfer tax (inheritance tax)	
Charities • package of reliefs	
• anti-abuse measures	
Pension fund surplus rules	
Other tax changes	
Total tax measures	

Expenditure measures	(Cost(+) Saving(−))
Counselling initiative and Jobstart allowance	
Community Programme	
New Workers Scheme	
Enterprise Allowance Scheme	
Loan Guarantee Scheme	
Total expenditure measures (gross)[2]	
Offsetting savings in social security benefits	
Net call on the Reserve	

[1] Figures include the effect of the consequential change in the ra

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− 25	− 20	− 20
− 70	− 70	− 75
+ 70	+ 70	+ 85
− 35	− 55	− 100
− 10	− 10	− 70
Neg	Neg	+ 20
+ 20	+ 20	+ 120
− 25	− 225	+ 65
− 985	− 1350	− 1865

+ 100	+ 100	+ 70
+ 60	+ 60	+ 120
+ 25	+ 25	+ 50
+ 5	+ 5	+ 5
Neg	Neg	+ 5
+ 195	+ 195	+ 290
− 195	− 195	− 125
+ 100	+ 100	+ 165

ACT. [2] Including Northern Ireland consequentials.

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Other proposals

The other main tax proposals are:

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- Clearer rules for dealing with excesive surpluses in pension funds
- Indefinite extension of the Business Expansion Scheme (described in the Economic Progress Report for November-December 1984)

Taken together these measures will help promote wider share ownership, help new and small businesses, and encourage charitable giving.

Small firms

As a further measure of help for new and small businesses, the Loan Guarantee Scheme will be extended. This provides a Government guarantee for 70 per cent of qualifying bank loans.

Indirect tax

There is no change in the rate of VAT. Excise duties are being increased, in total by about the amount required to keep pace with inflation. Within that, petrol, and derv are increased by rather more; but the real tax burden on the motorist will be kept unchanged, with no general increase in vehicle excise duty on cars and lorries.

Table 5
Income tax allowances

	85/86	86/86
Single person's allowance and the wife's maximum earned income relief	£2205	£2335
Married allowance	£3455	3655
Additional personal allowance and widow's bereavement allowance	£1250	£1320
Age allowance for the single person	£2690	£2850
Age allowance for the married person	£4255	£4505

Employment and unemployment

Despite the persistence of high unemployment, which is a major problem throughout Europe, Britain has created more jobs since June 1983 than the rest of the Common Market put together.

Performance and pay

The Government believes that further progress on employment depends on two main things. The first is a sustained improvement in the performance of business and industry, and thus of the economy as a whole. The Budget is designed to assist this. The second is a lower growth of pay settlements which prices people into instead of out of jobs.

Profit sharing

One way to make pay arrangements more flexible, and more sensitive to market pressures, might be to move to a system in which a significant proportion of an employee's remuneration depends directly on the company's profitability per person employed. This would help to preserve existing jobs when business was slack; and companies and companies would generally be keener to take people on. The Government will therefore discuss with employers and others whether a workable scheme with a prospect of broad take up could be devised to give some temporary tax incentive to the development of such profit sharing agreements.

Help for unemployed

To give more immediate help to the unemployed, the Budget includes a number of direct measures:–

- Existing pilot schemes for the long term unemployed will be developed into a single programme (Restart) covering the whole country with counselling interviews and a Jobstart allowance of £20 a week for six months for those long term unemployed who take a job at less than £80 a week.
- The target for the expansion of the Community Programme, which offers the long-term unemployed work for up to a year on projects of benefit to the community, will be raised to 255,000 places by the end of 1986.
- A New Workers Scheme will help 18–20 year olds. It will provide a payment of £15 a week for a year to any employer taking on an 18 of 19 year old at not more than £65 a week.
- The rate of entry into the Enterprise Allowance Scheme will be increased from about 65 thousand a year to 100 thousand a year by April 1987. This Scheme makes payments of £40 a week for up to a year to assist unemployed men and women to start their own business.

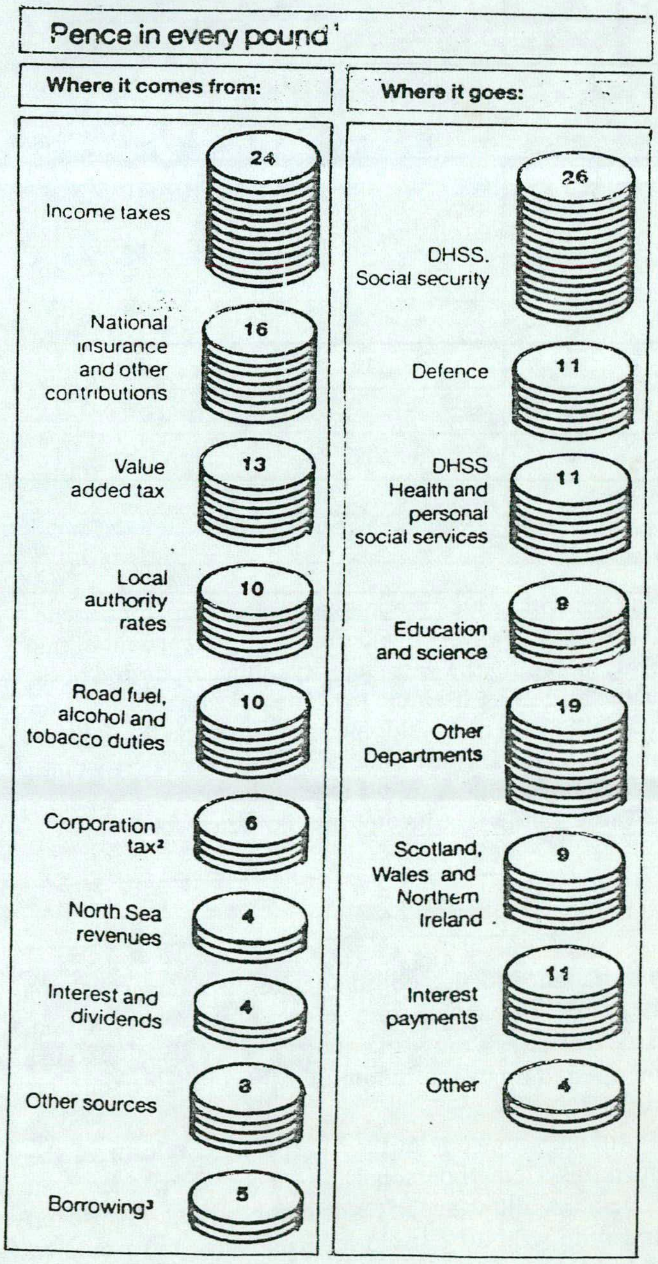
These measures come on top of the decision, announced in the 1985 Budget, to launch a new 2-year Youth Training Scheme, leading to a recognised vocational qualification. The new and expanded YTS will come into operation in April.

All of these measures to help the unemployed will have a public expenditure cost. This will be met from the public expenditure Reserve, and so will not add to the planning total for public expenditure.

Revenue and expenditure

Chart 3 shows the sources and uses of public money in 1986–7.

Chart 3
Public money, 1986–87



Cash totals of revenue and expenditure £163 billion

[1] Rounded to the nearest penny.
[2] Excluding North Sea.
[3] By central and local government.

Source: Derived from *Financial Statement and Budget Report 1986–87*, table 1.2

Rachel Rup

	CHANCELLOR'S DIARY	PARLIAMENTARY TIMETABLE (EXC FINANCE BILL)	BUDGET AND FINANCE BILL TIMETABLE	JUNE FORECAST + PESC TIMETABLE	KEY ECONOMIC INDICATORS: Date known in HMT	KEY ECONOMIC INDICATORS: DATE PUBLISHED
	APRIL					
-7		7-Further meeting of Ministers & officials to consider CST's Report (Roskill) 7-B.S. Bill Report Stage				
	8-IMF Washington 11					8-Prov.Money
-14	14 NEDC		11-Bill to House		*11	16-PSBR+unemploym
	17+18-[OECD?]	17-1st Order PQs	16-Bill published		*16	17-Money (Full) 17-Production 18-RPI
-21						
-28			28/or 29-2nd Reading		*28	25-Trade
	MAY					1-Unemployment 2-Reserves
-5	3-Tokyo Economic Summit-6	5-(Bank Holiday)			2	6-Prov. Money
-12	12 NEDC		6 Committee of whole House 13 Standing Committee (Begins)		*14	15-Money (Full) 15-Production 16-RPI
		15-1st Order PQs				
	16 Birmingham visit				*16	19-PSBR
-19						
-26	23 ECOFIN		WHITSUN RECESS		*27	28-Trade
		28		*29 - Exchequer Prospects I		
	JUNE			*30 PES report to Ministers + last day for additional bids		30-Unemployment
-2	4 NEDC					3-Reserves
-9	9 or 10) ECOFIN				6	10-Prov. Money
				*11-Exchequer Prospects II *12-Real Forecast Finalised *13-Preliminary advice to Ministers on Forecast *17 PSF Forecast finalised *18-Financial Forecast finalised	*11 *13	13-RPI 17-PSBR 18-Production 19-Money (Full)
-16		19-1st Order PQs	19-26 Standing Committee (ends)			
	20-Welsh Party Conference			*20-Report circulated		
-23						26-Trade
-30					*30	
	JULY					2-Reserves 3-Unemployment
7	7-ECOFIN 9-NEDC		9-1st day Report Stage 10-2nd day & 3rd Reading	*10-PES Cabinet	4	8-Prov.Money
					*9	11-RPI
-14	16) EC Budget Council 17)	17-1st Order PQs			*11	15-Production 16-PSBR 17-Money (Full)
-21			W/B 21-House of Lords		*25	25-Trade
-28		28-Social Security uprating				31-Unemployment
	AUGUST					
-4					*1	4-Reserves 5-Prov.Money
	6-NEDC		5 Royal Assent not later than this			
-11					*13	13-Production 14-Money (Full) 15-RPI
-18					*15	18-PSBR
-25						27-Trade

Mr Walters - FP

would it be possible to produce a more up-to-date version of this going up to the Autumn? It may already have been done and we have mislaid it!

Cathy Ryding

*Provisional Date

P J Edwards. 14

Rd

CHANCELLOR OF THE EXCHEQUER

C/

You asked how much the unleaded petrol concession would cost. On the assumption of a 5p differential, the cost could rise to £5m by 89-90 (negligible before that), but depending on the spread of vehicles able to use unleaded petrol could rise to hundreds of millions in the longer term

Th

CR 5/2

CHANCELLOR OF THE EXCHEQUER

C/ You asked about the position on cash accounting for VAT and unleaded petrol.

On cash accounting, C+E will be sending over a note tomorrow. But the basic message is that they would recommend against an increase by instalments.

Flag A shows where we are on unleaded petrol. Legislation is now in draft.

CR 4/12

Thanks. What of the cost of the unleaded petrol concession?
N

CX FST MST EST cc. Mr Scholar
Mr Cropper
Mr Tyrie
Mr Ross Goobey

NOTES ON CHIEF SECRETARY'S PRE-BUDGET DISCUSSIONS

28th January 1987

Debbie –
Personal folder pse

Those present: Chief Secretary, Michael Lord, Carol Mather, Jeremy Hanley, Tony Marlow, Norman Miscampbell.

Carol Mather - Most important to continue reducing tax - basic rate not threshold.

Tony Marlow - Wants basic rate down as much as possible - not threshold.

Carol Mather - Is it possible to ease further the earnings rule for pensioners.

Jeremy Hanley - Increase thresholds at level of inflation or perhaps slightly more.

1p off minimum rate.

Favoured reduced rate band for specific groups, eg pensioners.

Increase blind persons relief. Other reliefs increased in line with inflation.

Is it possible to project P.E.P. proposals eg level will be £3,600 in two years time - £5,000 in four years time to further sell the idea.

Wants road fund licence scrapped and cost added to petrol. £3 simple car registration fee for record purposes, (nb everyone else thought this last proposal disastrous)

Tony Marlow - Wants 2p off Income Tax and fit the rest of the budget around it. Anything left to go to pensioners.

Also wants encouragement for mothers to stay at home.

Norman Miscampbell - Not sure straight reduction in basic rate best way. Would not risk anything to get this. Would rather be seen as 'prudent' and helping the old etc.

To go to 25p basic rate in one go would be seen as electioneering and counter-productive.

Jeremy Hanley - Wants to up the amount for charitable pay-roll giving to £200 wants the House of Commons to be involved 'in a blaze of publicity'!

He also thought capital allowances for industry should not be increased.

All present - Felt public expenditure was about right. Tony Marlow thinks we must get better value for money spent.

Jeremy Hanley - X Wanted cheaper road fund licences for cars using un-leaded petrol. This led to a general discussion on this topic. It wold be extremely attractive to the conservation and environmental lobby if the use of lead-free petrol could be encouraged in some way.

ML.

Michael Lord

H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515

1. Mr Jefferson Smith [signature] 2/2/87

2. Chancellor

FROM: W F McGUIGAN
DATE: 30 JANUARY 1987

cc Minister of State
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Miss Sinclair
Mr Romanski
Mr D Walters
Mr McKenzie
Mr Cropper

BUDGET DEPUTATION : TOBACCO ADVISORY COUNCIL (TAC)

I attach briefing, in the standard format, for your meeting, together with the Minister of State, with the TAC on 3 February at 10.30am. Mr Jefferson Smith and Mr Boardman will provide official support at the meeting.

[signature]

W F McGUIGAN

Internal Circulation:

CPS MR KNOX MR JEFFERSON SMITH MR WILMOTT MR BOARDMAN

TOBACCO ADVISORY COUNCIL: 1987 BUDGET DEPUTATION

ORGANISATION

1. The TAC represents the UK tobacco manufacturers. Their delegation will be lead by Mr Vernon Brink (Chief Executive of Rothmans International plc) as Chairman of the TAC. He will be accompanied by Mr John Bloxcidge (Chief Executive of Imperial Tobacco Limited), Mr Peter Wilson (Chief Executive, Gallaher Tobacco (UK) Limited) and Mr Bryan Simpson (Chief Executive, TAC).

OBJECT OF MEETING

2. The TAC is on the "core list" of organisations normally seen by Ministers before the Budget.

WRITTEN REPRESENTATIONS

3. The TAC's written representations urge

(a) exceptionally, nil duty increases for cigarettes and hand-rolling tobacco to stem the growth of import penetration, and give the industry "a chance of coping with the necessary factory closures" in a falling market, and

(b) nil duty increases on cigars (as in 1985 and 1986) and pipe tobaccos (as in the last four Budgets).

In addition, in a letter of 28 January to the Health Minister, Mr Newton, the TAC emphasise that in their view the tobacco duty is increasingly regressive, and that a duty rise is a blunt instrument in limiting consumption on health grounds, since home sales are depressed more than those of cheaper imports.

POINTS LIKELY TO BE RAISED

UK Taxation

4.1 The UK tobacco industry is deeply concerned about increases in duty, the effect on cigarette consumption, and the fact that health arguments are now being deployed to justify repeated real increases in duty levels. The heavy increases in 1981 (adding 17p to the price of a packet of 20), 1984 (adding 10p) and 1986 (adding 11p) caused consternation and were bitterly attacked as excessive (several times the amount required to revalorise) and discriminatory (some other excise duties were increased proportionately less or not at all). The industry welcomed, however, the continuation in 1986 of the standstill on cigars and pipe tobacco. This year they have made a special effort to secure a freeze on tobacco taxes in the 1987 Budget, by analogy with the freeze on alcoholic drinks duties in the 1986 Budget.

Consumption

4.2 Cigarette consumption has fallen by about 20 per cent from 1980 to 1985. In the first 9 months to September 1986, clearances fell a further 7.5 per cent compared with the corresponding period in 1985. This may well have been caused in part by duty increases, but also reflects a long term trend against smoking, which began considerably earlier. Employment (down about 30 per cent from 1980 to 1985) has fallen at a faster rate than production (whether for home consumption or for export) and this reflects streamlining by manufacturers, and investment in more efficient equipment. At this time of year the industry normally takes a price increase, but competition has intensified somewhat and Imperial have instead announced a cut of 5p in the price of John Player Specials. Gallaher have launched a new brand at 5p below the intended price, while Rothmans have frozen most prices, limiting a 2p increase to selected "top of the range" lines. These measures are probably to fight for UK market share generally, rather than as a direct counter to imports.

Duty Regressive?

4.3 The tobacco duty is undoubtedly regressive, but the elaborate TAC studies of this point are flawed. In 1984 only 36 per cent of men and 32 per cent of women smoked cigarettes. We do not know what proportion of households contain smokers, but it is unlikely to exceed 50 per cent. So while it is true that on average the bottom 30 per cent of households ranked by income pay more tobacco tax than income tax, perhaps half of those individual households never pay any tobacco tax at all. This point is not mentioned in the studies, nor do they consider whether the proportion of non-smoking households varies with income, which would affect the regressivity as respects smoking households.

Pipe Tobacco and Cigars

4.4 The market for pipe tobacco remains in gradual decline though the cigar market has stabilised. Their manufacture is principally based in Northern Ireland, Scotland, Wales and Liverpool. The health arguments for increases are less strong than for cigarettes. Nevertheless there are revenue arguments against allowing the presumption to become established that these products will be automatically excluded from normal indexation.

Imports

4.5 UK manufacturers claim that increases in taxation, although superficially neutral, worsen the position of UK manufacturers against cheap imported brands. Until recently imported cigarettes were of little concern to UK manufacturers but they have now captured about 11.5 per cent of the market (first 9 months to September 1986) compared with 10.6 per cent in 1985. Imports come mainly from W Germany, principally Berlin where manufacturers are claimed to receive assistance because of the special position of the city. They are made mainly for sale under supermarket "own labels" and are cheaper than UK products. The industry argue that UK firms cannot compete because of subsidised and marginal cost production in Berlin. They also claim that smokers are less loyal to particular brands and that when there are major increases in cigarette taxation, they turn to cheaper imported brands. However, competition with imports has to be seen in the context of the unwillingness of UK tobacco majors to compete in the "own label" market. In a recent note to the Chancellor, Imperial argued that if a company with established branded products entered the "own label" market, it would erode its profits overall. A recent weakness of the £ against the W German mark may be of greater help to the UK industry than a duty standstill, and a smaller UK manufacturer has recently captured some "own label" trade from importers.

could not find copy - will find one morning

EC Harmonisation

4.6 The tobacco industry as a whole are concerned about the impact of further EC cigarette tax harmonisation. The present second stage of harmonisation, recently extended indefinitely, requires that cigarettes bear, in addition to VAT, an excise duty which is partly specific and partly ad valorem; and that the specific element should be not less than 5 per cent nor more than 55 per cent of the total tax burden including VAT. Present specific proportion in the UK is close to the maximum, and the whole UK industry feels strongly that final harmonisation at a much lower specific proportion would greatly damage its interests by putting a premium on cheapness. The UK government has consistently supported the industry case in Brussels. The present impasse over cigarettes is quite acceptable to the UK industry, and Commission proposals, informal as yet, for a harmonised ad valorem duty structure for minor products such as cigars, smoking and chewing tobacco, which the industry dislike, are unlikely to make any progress until it is resolved. The industry fear however that the Government will come under increasing pressure to give ground in the wider context of tax approximation and completing the internal market. Very recently the Commission published a "Europe Against Cancer" Action Programme which contemplated the unification of cigarette tax rates at the highest Community rate (Denmark) rather than at an average rate. Whether this view will prevail over that of Lord Cockfield, who favours approximation at average rates is not yet clear, but the proposal has already alarmed the industry.

4.7 Government support for the industry, particularly in relation to the structure of the duty, could be pointed out, but on approximation of duty rates, UK government interests may differ from those of the industry.

POINTS TO RAISE

5. None. The TAC will not expect detailed comment in advance of the Budget judgement.

749/106

Typist
pl type for Alex's
signature

FROM: ROBERT CULPIN
DATE: 2 FEBRUARY 1987

c
Content with the
PS reply?
D
3/2

MR ALLAN Delphie (cnt yn?) Alex

BUDGET BROADCAST

Murdo MacLean's letter of 30 January is completely standard. It only needs a brisk reply - say:

> "Thank you for your letter of 30 January enclosing the traditional Budget broadcast offers from the BBC and IBA. I confirm that the arrangements are acceptable."

Rc

ROBERT CULPIN

Murdo Maclean
Private Secretary
Government Chief Whip
12 Downing St

ps2/31R

UNCLASSIFIED

R

FROM: CATHY RYDING

DATE: 3 February 1987

MR CULPIN

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Peretz
Mr Scholar
Miss O'Mara
Mr Pickford
Miss Edwards
Mr Cropper
Mr Tyrie
Mr Ross Goobey

BUDGET EPR

The Chancellor was grateful for your minute of 30 January, and agrees with all your suggestions. He thought the "scissors and paste" redesign of last year's EPR was a great improvement. He thinks that a coloured masthead is essential.

2. The Chancellor would also like a first (internal) meeting on the charts for the Budget broadcast soon, and Mrs Lester will be in touch to arrange this.

CR

CATHY RYDING

RD5.56

Pup

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

4 February 1987

Murdo Maclean Esq
Private Secretary
Government Chief Whip
12 Downing Street
LONDON
SW1

Dear Murdo,

Thank you for your letter of 30 January enclosing the traditional Budget broadcast offers from the BBC and IBA. I confirm that the arrangements are acceptable.

Yours
Alex

A C S ALLAN
Principal Private Secretary

CONFIDENTIAL

CE22a

FROM: MISS C EVANS
DATE: 4 FEBRUARY 1987

MR ALLAN

cc Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Turnbull
Mr Riley
Miss Sinclair
Mrs Butler
Mr Mowl
Mr Davies
Mr Culpin
Miss O'Mara
Mr Saunders
Mr Dyer
Mr Kuczys
Mr Cropper
Mr Woodall
Mr Pickering
Mr Porteous
Mr Rawlings
Mr Pickford
Mr McManus - IR
Mr Bone - C&E

BUDGET TIMETABLE

... I attach a draft timetable which we propose to submit to the Chancellor on Friday. We will then expand this into a more detailed operational timetable for officials which will be updated regularly. I should be grateful for your comments and those of copy recipients by close tomorrow please.

2. I should be grateful for views on the following:

(a) We are assuming that no meetings with the Chancellor will be needed to discuss the drafts of Chapters 4, 5 and 6 of the FSBR. Is this OK? If not, we shall need to slot in meetings and bring forward the date for submission of first drafts.

(b) It was suggested last year there should be a central timetable which included EB's briefing timetable. Do EB want to merge their timetable with the attached?

(c) We are proposing no change to the style and layout of the FSBR this year. Could authors let Mr Walters know separately if you are planning to introduce new tables or charts, or significant changes to last year's tables and charts, please.

3. There are a couple of points I should mention.

(a) All chapters will be going to the printers on disc this year. We will be building into subsequent timetables the arrangements and time needed for getting drafts to FP for transfer to disc.

(b) As recommended in last year's post-mortem we are cutting out a proof stage this year. The plan is to send the FSBR to the printer for the first time on Monday 2 March. The text sent to the printer will reflect the Chancellor's comments on the individual chapters submitted to him the previous week, and over the weekend of the 28 February-1 March. We hope that as a result the first proof we receive from the printer will be virtually up to date and will need few amendments before being submitted to the Chancellor on Friday 6 March. This should make the proof much more useful to the Chancellor and minimise nugatory work for the printer but to achieve this the timetable on Monday 2 March will be very tight.

Carys Evans

MISS C EVANS

CONFIDENTIAL

Date	CHX diary & Parliament	FSBR and Budget	External Events
Wednesday 4 February	NEDC		
Thursday 5 February		Paper for EcoCab submitted to Chancellor Chancellor's meeting on MTFS issues etc Papers for Overview 3	
Friday 6 February		Revised Budget statement outline to Chancellor EcoCab paper to PM for clearance (if necessary)	
Monday 9 February	ECOFIN	Overview 3. Paper for EcoCab circulated. Briefing on EcoCab to Chancellor	ECOFIN
Tuesday 10 February			Jan PSBR (internal)
Wednesday 11 February			RPI (internal)
Thursday 12 February		EcoCab Papers for Overview 4	Unemployment figures
Friday 13 February	[TCSC report on PEWP published]	First draft of Budget statement to Chancellor	RPI published provisional money (internal)

CONFIDENTIAL

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 16 February	PEWP debate sometime this week	Overview 4	
Tuesday 17 February		First draft of MTFS (early sections) to Chancellor	Jan PSBR published
Wednesday 18 February			GDP(O)
Thursday 19 February		Chancellor's meeting on MTFS draft (and target ranges). Papers for Overview 5	Provisional money published
Friday 20 February		Second draft of Budget statement to Chancellor 1st drafts of chapters 4, 5 and 6 to Chancellor	
Monday 23 February		Chancellor comment on Chapters 4,5,6 by noon Overview 5 Chancellor's office circulate revised version of statement	
Tuesday 24 February		Full drafts of chapters 2 and 3 (MTFS/IAF to Chancellor	
Wednesday 25 February		Chancellor to comment on chapters 2 and 3 by 10am Submission to Chancellor on revised MTFS assumptions. Draft of chapter 1 to Chancellor Last date for decisions on VED	
Thursday 26 February	1st Order	Chancellor to comment on chapter 1 by 10am Papers for Overview 6	
Friday 27 February		Chancellor's office submit third draft of Budget statement to Chancellor 1st draft of FSBR (all chapters, typescript) to Chancellor	
Saturday/Sunday 28 February/1 March		Chancellor works on Budget Statement	

CONFIDENTIAL

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 2 March		Chancellor to comment on draft FSBR by 10am Overview 6 FSBR to printer, incorporating Chancellor's amendments. Submission to Chancellor on post-Budget fiscal projections Chancellor's office circulate revised version of Budget statement [Last date for income tax, VAT, excise duty rate changes]	Full money
Tuesday 3 March			Feb CGBR 1st estimate
Wednesday 4 March	NEDC	Chancellor meetings with HMT and (separately) Bank on MTFS	Reserves
Thursday 5 March		Papers for Overview 7	
Friday 6 March		Chancellor's office submit fourth draft of statement to Chancellor 1st proof of FSBR (all chapters) to Chancellor	
Saturday/Sunday 7-8 March		Chancellor to work on Budget statement	

CONFIDENTIAL

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 9 March	ECOFIN	Chancellor to comment on 1st proof of FSBR by 10am Overview 7 Draft EPR supplement to Chancellor FSBR to printers incorporating Chancellor's comments Chancellor's office circulate revised version of Budget statement	
Tuesday 10 March		Chancellor comments on EPR by 10am Draft notes for Queen and overseas posts to Chancellor	PSBR (internal)
Wednesday 11 March		Chancellor comments on notes for Queen and overseas posts by 10am 2nd proof of FSBR to Chancellor List and presentation of press notices to Chancellor	RPI (internal)
Thursday 12 March		Chancellor comments on FSBR proof by 10am EPR supplement to printer Final proof of FSBR to printer (last opportunity for substantive changes)	
Friday 13 March		Final draft of statement to Chancellor EPR proof to Chancellor Copy of Budget statement to Prime Minister Telegram for overseas posts: final draft to Chancellor Note for Queen: final draft to Chancellor	RPI published prov money (internal)
Saturday 14 March		am FSBR proofs checked in HMT am EPR proof with Chancellor's comments to printer pm FSBR proofs returned to printer, copy to Chancellor	
Saturday / Sunday 14/15 March		Chancellor finalises Budget statement	

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 16 March	Audience with Queen	Budget statement finalised (am) Read at press (FSBR and EPR)	
Tuesday 17 March	Budget Day	FSBR and EPR published	FSBR published
Wednesday 18 March	Budget debate		
Thursday 19 March	Budget debate		prov money unemployment
Friday 20 March			

ps2/43R

RP

MINUTES OF A MEETING HELD IN HM TREASURY
AT 10.30 AM ON TUESDAY, 3 FEBRUARY

Those present

Chancellor	Mr Brink)	Tobacco Advisory Council
Minister of State	Mr Bloxcidge)	
Mr Ross Goobey	Mr Wilson)	
Mr Jefferson Smith - C&E	Mr Simpson)	
Mr Boardman - C&E		

TOBACCO ADVISORY COUNCIL: BUDGET DEPUTATION

The TAC said that this year the tobacco industry was facing exceptional difficulties such as closures and redundancies. A period of stability in which to see through rationalisation was desperately needed. Their request was for a freeze on tobacco tax. They would like to concentrate on just one important and valid area of concern facing the industry, and that was the problem of low cost imports.

2. In the 1970s the market was price-segmented and customers were able to avoid duty increases by moving to cheaper and smaller cigarettes. This they did in their droves, until the duty system change in 1978 largely equalised prices. Today, it was again possible for consumers to avoid price increases by moving to king size cigarettes made in continental factories. Chart A attached (handed round at the meeting by the TAC) demonstrated the widening gap between total sales and domestic sales. The graph also provided an answer to the health lobby. All that penal rates of duty achieved was to move consumers down the price range. In 1986, consumption of cigarettes in the UK had fallen by 2 per cent, ex-factory sales by 3 per cent, and ex-factory sales by the UK 6½ per cent. Continental cigarette sales had grown by approximately 27 per cent.

3. The UK could not afford to compete - there was no profit to be made by selling at German prices. The attached Chart B (handed round at the meeting) showed that low-price imported cigarettes contained no margin for overheads or profits. UK manufacturers were not prepared to sell at these prices. However, they were marketing their own lowish-price cigarette, although the price was not as low as those of the German imports. The margin on these cigarettes was half that conventionally made. There have been fears of price competition, and the first signs had appeared this January. UK manufacturers would be unable to recover cost increases with a normal price increase. If this continued, for example, for four years, £280 million of profits would disappear - almost the whole profitability of the UK tobacco industry. Chart C (again handed round at the meeting) showed how the new products being introduced were being dragged towards the less profitable end of the market.

4. Concluding, the TAC said that in order to cope with major rationalisation programmes, a period of stability was needed. Duty increases had a far more drastic effect on the UK market than on imports. They felt it was reasonable and realistic to ask for a freeze.

5. In reply, the Chancellor said that he could understand why increases in taxation were unpopular with the industry but given that German imports were produced on a cost basis, UK cigarettes were bound to be undercut whatever he did on tax. The TAC said that it was significant changes in price that brought about down-trading. The Chancellor mentioned that one important factor would be the dramatic change in the £/DM exchange rate. However, the TAC pointed out that conversion costs were relatively small. There would be an effect from movements in the exchange rate, but it would be small.

6. The Chancellor mentioned that Alex Monck of the Dee Corporation had told him that he had purchased imported German

cigarettes because UK manufacturers were unable to compete. The TAC said that their main concern was with consumer motivation rather than the retailer or wholesaler. All the evidence suggested that it was price hikes that caused consumers to switch to cheap cigarettes.

7. The Minister of State said that the group of MPs that had come to see him about tobacco tax had requested revalorisation. He wished to be clear whether the industry were asking for a real or nominal price freeze. The TAC said that they were looking for a nominal freeze, in what they believed to be exceptional circumstances. They believed that their industry had a significant long-term role to play in terms of employment, exports and investment. German manufacturers had been unable to invest for some time.

8. Concluding, the Chancellor said that the TAC had put their case very clearly. They had had discussions with him in the past and their views were not new to him. He had to take a number of considerations into account, but he did understand their difficulties and would take into account what they had said.

CR

CATHY RYDING

5 February 1987

Circulation:-

Those present from HMT and C+E

PS/CST

PS/FST

PS/EST

Mr Scholar

Miss Sinclair

Mr Romanski

Mr D Walters

Mr McKenzie

Mr Cropper

PS/C+E

Mr McGuigan -C+E

CHART A

GROWTH OF IMPORTED SECTOR

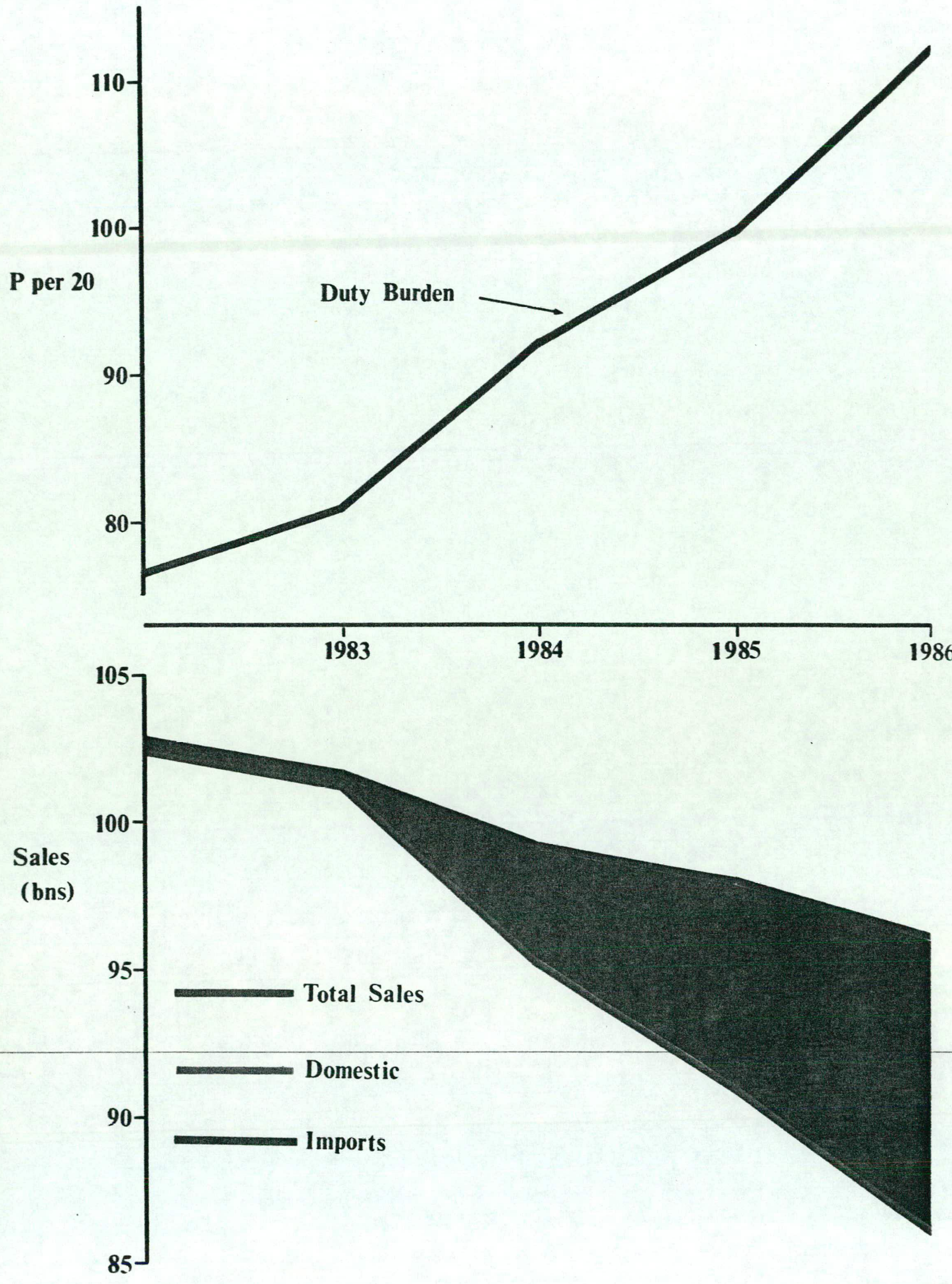


CHART B

BREAKDOWN OF RETAIL PRICE

Pence per 20

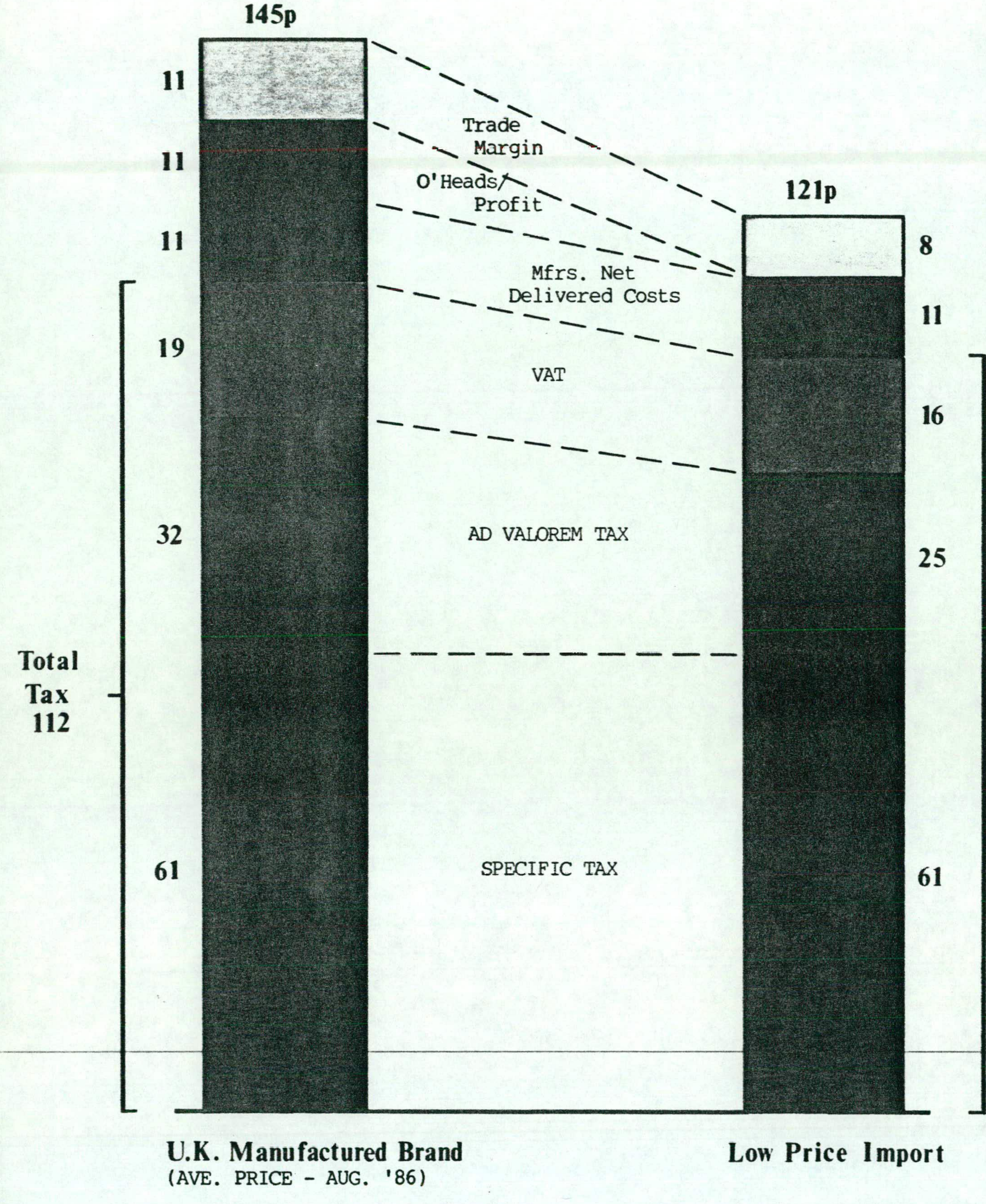
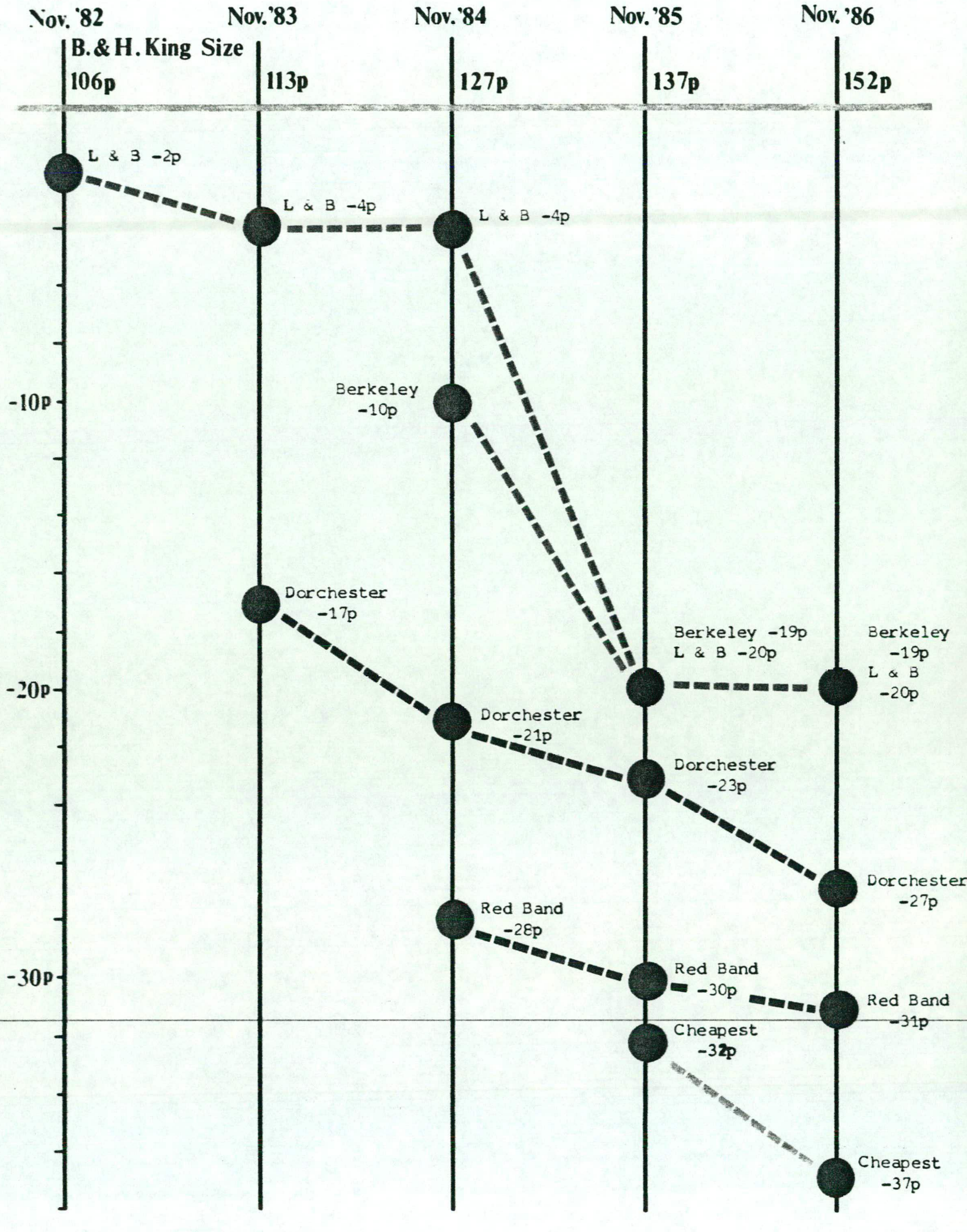


CHART C

CIGARETTE PRICING DEVELOPMENTS



(Based on RRP's)

CHART A

GROWTH OF IMPORTED SECTOR

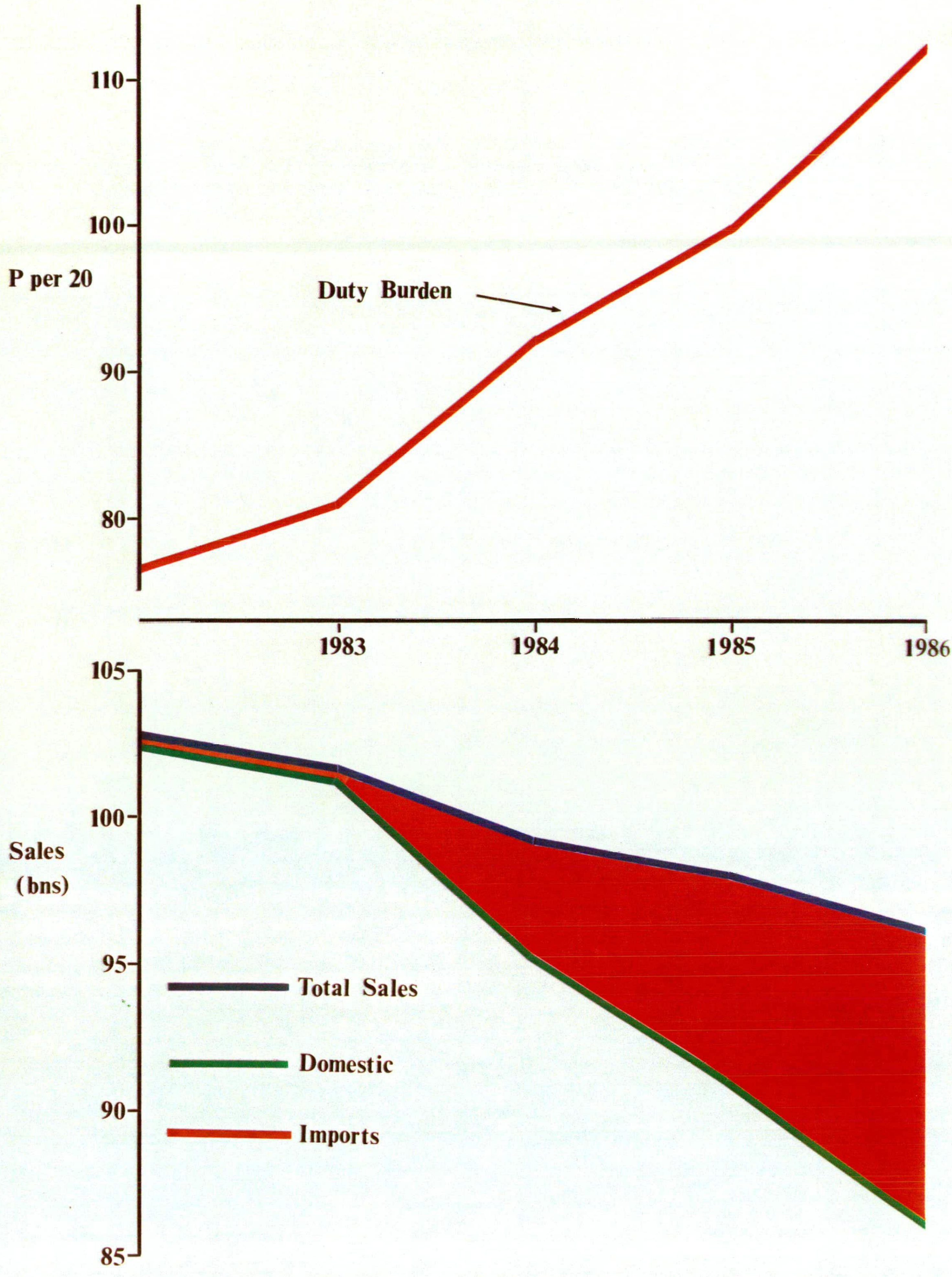


CHART B

BREAKDOWN OF RETAIL PRICE

Pence per 20

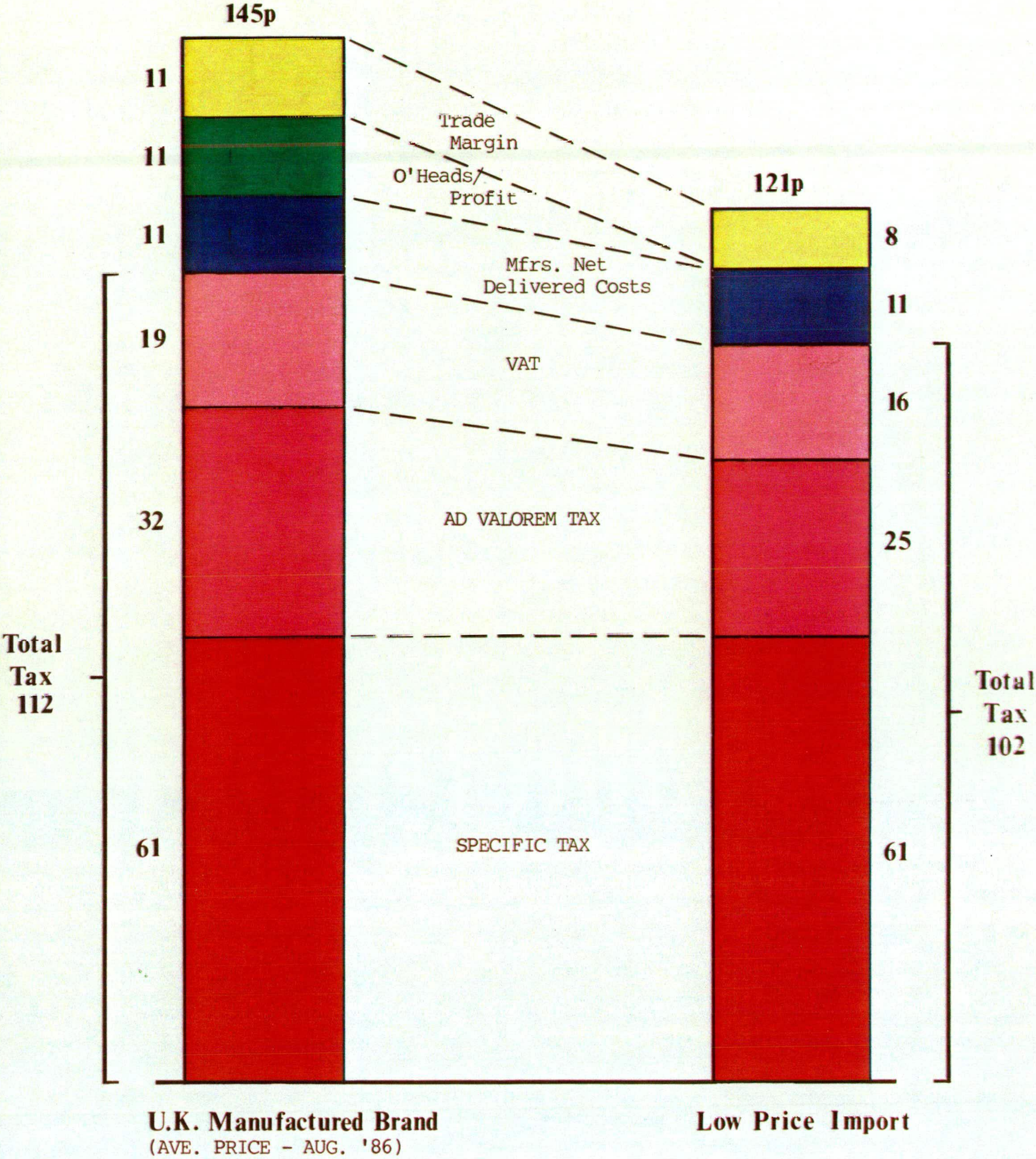
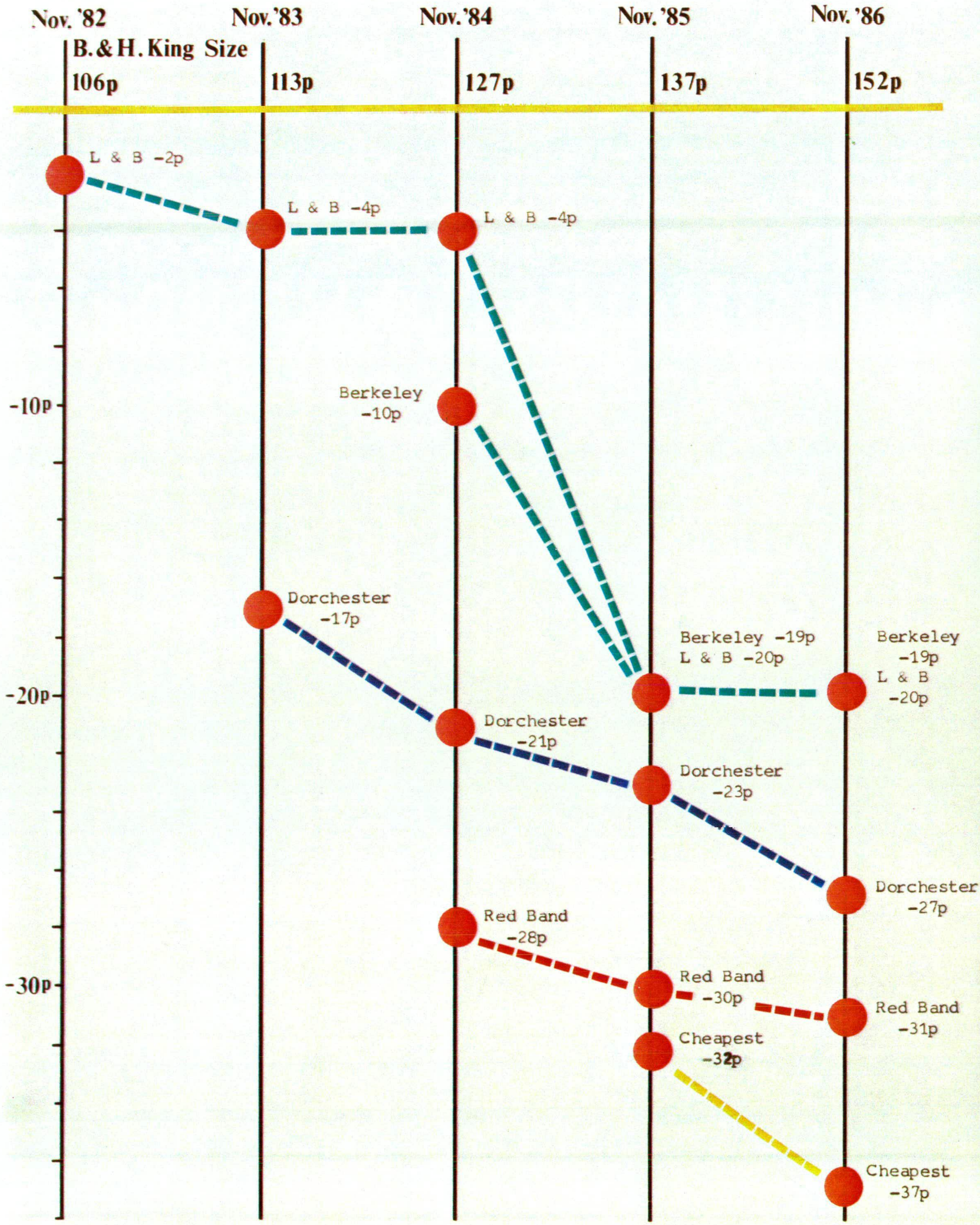


CHART C

CIGARETTE PRICING DEVELOPMENTS



(Based on RRP's)

4466/56

BUDGET CONFIDENTIAL

28

FROM: MISS C E C SINCLAIR
DATE: 5 February 1987

Mrs 5/2

1. MR SCHOLAR
2. CHANCELLOR

? [illegible] allowance
? small business (CT limits) (? unincorporated) [illegible]

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr P Sedgwick
Mr Odling Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill
Mr Isaac - IR
Mr Painter

Sir A Fraser - C&E
Mr Knox

P Graham - Parly' Counsel

BUDGET LOLLIPOPS

Mr Allan's minute of 28 January asked FP to coordinate a 'Lollipop' trawl in Revenue, Customs and Treasury. We were asked to cover any ideas put forward last year, but not proceeded with.

2. Since then the Minister of State has considered the proposals put forward in this year's Budget representations from the Charities VAT and Tax Reform Group (CVTRG). A lollipop mini-package of VAT concessions for charities has been provisionally agreed (Miss Ryding's minute of 2 February and Mr Judge's minute of 3 February). The proposals in this mini-package are set out in Annex A.

Papers below (red flags). MGT

3. Proposals which were considered last year, but not proceeded with, are set out in Annex B. We have not, however, included proposals put forward again this year by the CVTRG, but implicitly ruled out by Ministers' decisions on the mini-lollipop package

(Mr Jefferson Smith's submission of 29 January refers). We have, included for the sake of completeness, two 'heritage' items (nos 1 and 9 in Annex B) considered last year. Arguably the case for these is not strong, particularly since the Finance Bill is likely to contain a heritage lollipop on Maintenance Funds (Starter 169). On the same basis we put forward, without enthusiasm, student covenants for 17 year olds (no 8 in Annex B). The proposed review of maintenance payments and covenants suggests that this is not a good time at which to introduce this change. Although the Secretary of State for Scotland has pressed for this in the past, he has not included it in his Budget representation this year.

4. New lollipops are set out in Annex C. They reflect trawls of political advisers, Ministers and officials in the Treasury as well as in Customs and Revenue.

5. None are of wide appeal. The proposal to amend the BES rules on film production, the exemption of stockbrokers' commissions from VAT, and the increase in the tax relief limit for friendly societies might have a wider impact than the others. None are expensive: last autumn's exercise on the scope for abolishing taxes ruled out the more expensive lollipops.

6. With the exception of the items in Annex A, we would need to provide further advice on any proposals floated here as possible lollipops. It would be helpful if you could indicate which ones merit further work. There would, of course, be considerable additional work for Parliamentary Counsel if a large number of the items in Annexes B and C were selected.

CAROLYN SINCLAIR

BUDGET CONFIDENTIAL

ANNEX A

VAT LOLLIPOPS FOR CHARITIES

1. VAT relief for certain purchases by mountain rescue associations

It has been agreed that we should change the law to apply zero rating to certain location identification equipment used by charitable organisations providing rescue and first-aid services. This would expand the present limited relief for specialised equipment such as ambulances. But it would not go as far as to exempt all expenditure involved in equipping and running mountain rescue schemes, something for which the Patterdale Mountain Rescue Association have lobbied. The relieving Order is now ready to be made and laid. But it has been decided that this fact should be announced in the Budget package. Revenue cost: negligible.

2. Statutory effect for VAT concession on goods donated for export by a charity

Customs have been operating an extra-statutory concession in this area. It is proposed that the concession should be given statutory effect and the fact announced in this year's Budget. Cost negligible.

3. Extension of VAT concession for installation of bathrooms/lavatory facilities for disabled residents in charity homes

At present Customs operate an extra-statutory concession on VAT on the installation of individual bathroom and lavatory facilities for charity-owned homes. It is proposed that this concession should be extended to communal bathroom/lavatory facilities in such homes, and the widened concession put on a statutory base. Cost negligible.

4. VAT relief on welfare vehicles for hospices

The proposal is that last year's concession for passenger vehicles (capable of carrying between 6 and 50 passengers) for charities caring for the blind, deaf and mentally-handicapped be extended to hospices. The revenue cost would be small.

5. VAT relief for listed drugs

The Charities VAT and Tax Reform Group have complained that the relief for medicinal products introduced in last year's Budget was of limited use to medical research charities because most of the chemical products which they used for research are not medicines as defined by the Medicines Act. They are pressing for a relief for all drugs used in medical research. There is, however, difficulty in defining precisely what is a drug. Further relief would therefore have to be based on a list of individual substances. The Minister of State has agreed that Customs should consult in confidence with the DHSS and the Government Chemist on the possibility of drawing up such a list. The aim would be to include those drugs in common use in current medical research. Cost would depend on the range of chemicals covered and whether it was decided to extend the concession to non-charitable, non-profit making research bodies. A comprehensive relief might cost around £3 million.

ANNEX B

BUDGET LOLLIPOPS CONSIDERED BUT REJECTED LAST YEAR

1. **CGT and Maintenance Funds**

The proposal is that on the death of a person who has set up a maintenance fund to support heritage property, the value of assets in the fund should be uplifted to their value at the time of death, to reduce CGT liability on disposal of the assets. Proposed by the heritage lobby (though not this year). Cost of the order of £2 million.

W

2. **VAT relief for welfare provided by charities**

In the past the Charities, VAT and Tax Reform Group have sought relief from VAT on all purchases by charities in order to perform a social welfare function eg residential care, training for employment, on the grounds that in these activities the charities substitute for, or at least complement, state provision of similar services. Estimated cost could be up to £15 million per year; primary legislation may be required. The difficulties with this proposal are that it would involve Government making a value judgement that certain charitable activities are more "worthy" than others. There would be pressure from the charities whose activities are excluded for similar treatment (Committee stage debate would provide an occasion for such pressure); and there would be a danger that the Commission would object that that relief would be equivalent to new zero rating. The fact that the Charities VAT Reform Group have not included this measure in their current Budget representations suggests that they may appreciate the practical difficulties.

W

3. **VAT relief for suppliers of petrol and lubricating oil to Royal National Lifeboat Institution**

This was considered in 1984 when VAT relief for the RNLI was extended to lifeboat carriage and launching equipment. The argument against extending relief to petrol and oil was the potential repercussive effects since many other organisations, particularly other charities with high fuel cost, would press hard for similar reliefs. Nothing has changed.

W

4. **Extension of VAT relief for sales of donated goods by charities**

At present relief is restricted to charities which are primarily concerned with the relief of human distress or animal welfare. Could be extended to other specified worthy charities or to charities generally. Cost not known. But Customs advise that a general relief would include some charities of dubious value and increase the risks of abuse, whereas a limited extension would be bound to increase pressure for further extensions.

5. **VAT and car tax relief for recipients of Mobility Allowance or War Pensioners' Mobility Supplement who use their allowances to buy normal production cars on hire purchase**

This has been rejected in the past on the ground of cost (estimated in 1984 at £2½ million for vehicles currently supplied through Motability, but up to £10 million if Motability supplied vehicles to its capacity and more if the concession had to be extended to other traders) and also the danger of abuse as it would be too easy for the disabled to buy ordinary cars for transfer to friends or relatives or for sale.

6. **Car tax relief on cars supplied to Motability for leasing**

Open to same risk of abuse, but to lesser extent. However, Motability received very generous concessions in 1984 - deliberately overcompensating them for CT changes - which, since they took the form of zero rating for leasing charges, gave considerable extra help to those choosing to lease, not buy, from Motability. As far as we are aware, further concessions are not being sought this year and, if given would increase Motability's privileges compared to those available to the disabled generally. Chancellor decided not to make this further limited concession in 1984 but said then that he would not rule it out for the future. Revenue cost would be about £4m, at present volume of leasing (car tax only as VAT relief already applies).

7. **Blind Allowance**

The blind allowance is currently £360 and has not been increased since 1981 (when it was doubled). Some 40,000 people benefit (only a third of all those registered blind) at a cost of £5 million a year. Doubling the allowance to £720 would cost about £5 million. But there has been little pressure for such an increase, which would make eventual abolition of what is already an anomalous allowance more difficult. !

8. **Student covenants - extension to 17 years olds**

At present under-18s cannot benefit from tax relief for payments under covenant by parents. The Scottish Secretary has asked in previous years for relief to be extended to 17 year old students (who are more common in Scotland than England and Wales). Cost would be about £1-2 million, with a small staff cost. However the proposal has so far always been rejected because of the difficulties of tampering with the general rules on age of majority, and the risk that it might not be possible to ring-fence the concession to students alone. The Chancellor has agreed that there should be a longer-term review of maintenance payments and covenants (Mr Kuczys' note of 19 January on tax-neutral maintenance payments), and it would be better not to widen the present relief in the meantime.

Papers below (white flags) MJ.

9. **CTT 'douceur' concession**

The proposal would extend the present CTT concession applying to sales of heritage assets to specified, generally public, bodies to non-public nature conservancy bodies (such as Royal Society for Nature Conservation, Royal Society for the Protection of Birds, Woodland Trust, and Scottish Wildlife Trust). In the form proposed by Mr Baker, eligible bodies would be specified by the Nature Conservancy Council with the agreement of the Treasury. Cost unquantifiable but could be significant. Previously rejected - difficult to restrict extension to just these bodies.

10. **CGT and divorce**

Assets transferred between divorcing spouses as part of a settlement - eg in exchange for agreement not to pay maintenance - attract CGT. Exemption would be too generous, but alternative of rollover relief raises problems of election which could only be settled by the Courts. Legislation (which should ideally be discussed in advance with the Law Society and the Lord Chancellor's Office) would be complicated, and has been rejected in previous years. There is also an argument for leaving this on one side until the Government has announced its intentions on the taxation of Husband and Wife generally. Revenue effects negligible, however.

ANNEX C

NEW LOLLIPOPS

1. **BES & (films)**

The existing BES relief for the production of films currently requires the company to produce films over three years. The proposal is to relax the requirement on making films for three years, allowing the company both to produce films and to distribute those already made over the three year period. Cost will depend on take up, but is likely to be small.

2. **Exempt stockbrokers from VAT**

Where a stockbroker acts as an agent, ie single capacity, VAT is payable on the commission charge. Following the Big Bang, the stockbroker can act in dual capacity and makes his profit from the difference between his selling price and buying price, on which VAT is not payable. The Stock Exchange's Budget representations contain a plea for exemption of agency commissions, and this has been supported by the SIB. We understand that shortly after Big Bang some 70 per cent of transactions by value were principal deals and therefore exempt from VAT anyway. So there are good arguments for exempting agency deals from VAT also, to avoid distortion of competition. There are no EC complications, since we only tax stockbrokers' commissions under a derogation from the EC Sixth Directive. The main disadvantage would be the revenue loss which, if the proportion of principal dealing has remained at around 70 per cent, we estimate to be of the order of £20 million. Customs would need to discuss the borderline of the exemption with the Stock Exchange, but as the change could be made by Order, the intention to do this could be announced in the Budget speech, followed by consultation and an Order in the summer.

3. **Accrued income share - convertible stocks**

There is a rule in the anti-bond washing provisions in the Accrued Income Scheme to prevent convertible loan stocks from being used for bond washing. Some representative bodies have complained that the convertibles rule is too harsh. There is some substance in this. The rule could be relaxed to meet their point. But some of the anti-avoidance machinery would need to be kept. The question is whether Ministers are prepared

(i) to have **any** legislation on the Accrued Income Scheme (this could provoke a wider debate)

(ii) to face the cost - perhaps £10 million as an order magnitude.

4. **Stock lending and pension funds**

Pension funds and other institutions lend stocks in their possession to market makers for a fee (the market maker subsequently sells on the stock and in due course returns an equal amount to the lender). The proposition is that pension funds should be exempted from tax on their stock lending fees (so as to encourage them to play a bigger part in the stock lending market, and thus contribute to market liquidity). This is raised this year (as last) by the Stock Exchange (and will probably be supported by the Bank). But the Chancellor turned it down firmly last year and the case for action this year is probably weaker than last because the alleged liquidity problems have not materialised.

5. **Professional costs of setting up share option and profit sharing schemes**

The costs (legal and accountancy fees) of setting up share option and profit sharing schemes cannot be set against a company's profits for tax purposes because they are of a capital nature. The accountancy bodies see this as unreasonable, given that Government is keen to encourage companies to set up schemes of this kind.

6. **Disposal receipts in exempt gas fields**

This topic was considered last year but no action was taken. PRT is charged on disposals of field assets, and on the insurance proceeds when they are damaged or destroyed. This is generally the counterpart of the PRT relief given when the assets were acquired or when they are replaced after damage/destruction. But PRT-exempt gas fields are charged on disposals and insurance proceeds even though PRT relief is not available for development or replacement. The industry continues to press the point, particularly the insurance anomaly. In effect, claimants in exempt gas fields can only recover about half of their loss, after PRT. The cost of exempting disposals would be negligible (less than £2m a year). The cost of exempting insurance receipts might be higher, if and when a major accident occurred.

7. **Increase tax relief limit for life assurance business by friendly societies**

Friendly societies can currently engage in the exempt life assurance business provided the sum assured is under £750. The friendly societies themselves argue that such a sum is increasingly inadequate and should be raised. A more attractive solution would be to fix the tax relief to the annual premium, up to a limit of say £100 per annum. This would be welcomed by friendly societies. The Inland Revenue believe the tax loss would be negligible. The Economic Secretary is due to consider in a meeting next week.

831/052

pmp

FROM: D N WALTERS

DATE: 6 February 1987

Mis 6/2

1. MR SCHOLAR

2. SIR PETER MIDDLETON

cc Principal Private Secretary
Mr Culpin
Miss O'Mara
Miss Evans
Mr Pickering

BUDGET 1987: BACKBENCHERS' BRIEF

I attach, as requested at the last stocktaking meeting, a draft minute for you to send to Mr Cropper setting out a timetable for this year's backbenchers' brief.

2. The timetable has been cleared with EB.

Note
Told PS/PEM that need skeleton agreed AA
9/2

D N WALTERS

831/053

DRAFT MINUTE FROM SIR P MIDDLETON TO:

MR CROPPER

cc Principal Private Secretary
PS/Chief Secretary
PS/Financial Secretary
PS/Economic secretary
PS/Minister of State
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Pickering
Mr Ross Goobey
Mr Tyrie

1987 BUDGET: BACKBENCHERS' BRIEF

I am keen to try as far as possible to smooth workloads in the run-up to the Budget.

One of the exercises which is traditionally - and necessarily - finalised very close to Budget day is the Special Advisers' backbenchers' brief. Parts of this are, clearly, dependent on the final version of the Budget Statement. But I think we should aim to get as much as possible settled at an earlier date than in previous years. To this end I suggest the following timetable.

Tuesday 10 March	1st draft cleared with officials including EB and FP
Thursday 12 March	Draft to Chancellor
Friday 13 March	Chancellor's comments to Special Advisers
Friday 13/Saturday 14 March	Advisers' redraft and EB check contents
Monday 16 March	EB final check (pm) Advisers resubmit to Chancellor for final approval (evening)

I hope that this can be achieved but if you see difficulties I would be grateful to know of them.

BUDGET TIMETABLE

CE225

CONFIDENTIAL

pmp

FROM: MISS C EVANS
DATE: 6 FEBRUARY 1987

MUS 6/2

1. **MR SCHOLAR**
2. **CHANCELLOR OF THE EXCHEQUER**

cc Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Turnbull
Mr Riley
Miss Sinclair
Mrs Butler
Mr Mowl
Mr Davies
Mr Culpin
Miss O'Mara
Mr Pickford
Mr Saunders
Mr Dyer
Mr Kuczys
Mr Cropper
Mr Woodall
Mr McManus - IR
Mr Bone - C&E

BUDGET TIMETABLE

I attach a timetable covering the run up to the Budget. We propose to circulate to those who attend Overview meetings so that there is a common understanding of when are the last dates for various events. If you agree we will attach the timetable to the next scorecard.

CE

MISS C EVANS

CONFIDENTIAL

Date	CHX diary & Parliament	FSBR and Budget	External Events
Friday 6 February		EcoCab paper to PM for clearance	
Monday 9 February	ECOFIN	Chancellor's meeting on MTFS issues etc Overview 3. Paper for EcoCab circulated	ECOFIN
Tuesday 10 February		Briefing for EcoCab to Chancellor Chancellor's meeting on Budget broadcast charts	Jan PSBR (internal)
Wednesday 11 February			RPI (internal)
Thursday 12 February		EcoCab Papers for Overview 4	Unemployment figures
Friday 13 February	[TCSC report on PEWP published]	Revised Budget statement outline to Chancellor	RPI published provisional money (internal)
Monday 16 February	PEWP debate sometime this week or next	Overview 4	
Tuesday 17 February		First draft of MTFS (early sections) to Chancellor	Jan PSBR published
Wednesday 18 February		Chancellor's meeting on MTFS draft (and target ranges)	GDP(O)
Thursday 19 February		Papers for Overview 5	Provisional money published
Friday 20 February		First draft of Budget statement to Chancellor 1st drafts of chapters 4, 5 and 6 to Chancellor	

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 23 February		Chancellor comments on Chapters 4,5,6 by noon Overview 5 Chancellor's comments on statement circulated	Trade figures
24 February		Full drafts of chapters 2 and 3 (MTFS/IAF) to Chancellor	
Wednesday 25 February		Chancellor to comment on chapters 2 and 3 by 10am Submission to Chancellor on revised MTFS assumptions. Draft of chapter 1 to Chancellor Last date for decisions on VED	
Thursday 26 February	1st Order	Chancellor to comment on chapter 1 by 10am Papers for Overview 6	
Friday 27 February		Second draft of Budget statement to Chancellor 1st draft of FSBR (all chapters, typescript) to Chancellor	
Saturday/Sunday 28 February/1 March		Chancellor works on Budget Statement	

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 2 March		Chancellor to comment on draft FSBR by 10am Overview 6 FSBR to printer, incorporating Chancellor's amendments. Submission to Chancellor on post-Budget fiscal projections Chancellor's office circulate revised version of Budget statement [Last date for income tax, VAT, excise duty rate changes]	Full money
Tuesday 3 March		Draft Budget broadcast circulated	Feb CGBR 1st estimate
Wednesday 4 March	NEDC	Chancellor meetings with HMT and (separately) Bank on MTFS	Reserves
Thursday 5 March		Papers for Overview 7	
Friday 6 March		Chancellor's office submit third draft of statement to Chancellor 1st proof of FSBR (all chapters) to Chancellor	
Saturday/Sunday 7-8 March		Chancellor works on Budget statement	

Date	CHX diary & Parliament	FSBR and Budget	External Events
Monday 9 March	ECOFIN	Chancellor to comment on 1st proof of FSBR by 10am Overview 7 FSBR to printers incorporating Chancellor's comments Chancellor's office circulate revised version of Budget statement	
Tuesday 10 March		Draft EPR supplement to Chancellor Draft notes for Queen and overseas posts to Chancellor	PSBR (internal)
Wednesday 11 March		Chancellor comments on EPR, notes for Queen and overseas posts by 10am 2nd proof of FSBR to Chancellor List and presentation of press notices to Chancellor	RPI (internal)
Thursday 12 March		Chancellor comments on FSBR proof by 10am EPR supplement to printer Final proof of FSBR to printer (last opportunity for substantive changes)	
Friday 13 March		Final draft of statement to Chancellor EPR proof to Chancellor Copy of Budget statement to Prime Minister Telegram for overseas posts: final draft to Chancellor Note for Queen: final draft to Chancellor Final version of Budget broadcast to Chancellor PS/Chancellor sends copy of statement section on oil taxation to PS/Mr Walker (if necessary)	RPI published prov money (internal)
Saturday 14 March		am FSBR proofs checked in HMT am EPR proof with Chancellor's comments to printer pm FSBR proofs returned to printer, copy to Chancellor	

Date	CHX diary & Parliament	FSBR and Budget	External Events
Saturday/Sunday 14/15 March	Chancellor finalises Budget statement		
Monday 16 March	Audience with Queen	Budget Cabinet Budget statement finalised (am) Read at press (FSBR and EPR)	
Tuesday 17 March	Budget Day	FSBR and EPR published	FSBR published
Wednesday 18 March	Budget debate		
Thursday 19 March	Budget debate		prov money unemployment
Friday 20 March			
Monday 23 March	Budget debate concluding day	Finance Bill 1st Reading	
Tuesday 24 March	TCSC (officials)		
Wednesday 25 March	TCSC		

506/11

Ch
Any views on this year?
AA

Pl. fix a mtg with Chief Whip.

FROM: B O DYER
DATE: 10 February 1987

[Chancellor?
~~Fowler~~
Clarke
Channon]

01-270 4520

MR ALLAN

cc 1. Mr Savage
2. File

PRAYERS

Ch/ Have you ruled out Mr Tebbit? From something his office have said, I think he may be interested
AWK 27/2

BUDGET DEBATES (1987) : GOVERNMENT SPOKESMEN

The Budget Debates this year will span Wednesday 18, Thursday 19 and Monday 23 March; with the Finance Bill brought in on the Budget Resolutions and given a formal First Reading at the end of proceedings on the final day. On Budget Day itself the Leader of the Opposition responds to the Statement, followed by a few eminent Backbenchers and the debate is adjourned at around 7pm to be resumed the following day.

2. I undertook to let you have a list of Government Spokesmen who participated in these debates in the last three years (as an aid to arranging the Ministerial team this year; dependent, of course, on the content of the forthcoming Budget):

	1984	1985	1986
Day 1	CST MST	CST FST	CST FST
Day 2	S of S for Emp. FST	S of S for Emp. MST	Min for Emp. EST
Day 3	S of S Trade and Industry C/Ex	S of S Trade and Industry C/Ex	Mr Tebbitt (Ch. of Duchy) C/Ex

Fowler?
MST

3. I hope the foregoing is helpful. If you require anything further in this context please let me know.

B. Dyer

B O DYER

PPS Chancellor

JOHN COLE - REPORT ON BUDGET CABINET MEETING

Transcript from: BBC 1 TV, 9 o'clock News, 12 February 1987

NEWSREADER: ... . Today the Chancellor, Mr Lawson, discussed his plans for the Budget with the Cabinet. It's thought he may be planning another cut in income tax, perhaps 2 pence off the standard rate. John Cole reports:

COLE: Nigel Lawson had a cheerful story to tell his Cabinet colleagues about next month's Budget. Since the autumn, when he pumped £5 billion into public spending, his revenue has swollen through higher profits and earnings and a consumer boom. Ministers expect him to use this extra money to cut income tax by 2 pence, perhaps with higher thresholds to help the low paid. He'll also probably reduce public borrowing in the hope of bringing intererest rates and mortgages down before the election. The Prime Minister and Neil Kinnock made clear today that taxes would be a major election issue.

PM: ".. give the honourable gentleman the assurance that this Government will continue into the next Parliament with its prudent and cautious financial policy which has resulted in 6 years of growth, has resulted in lower income tax rates, a higher standard of living we've ever had before and a higher standard of social services. And I hope to be at this dispatch box in 4 or 5 years time making the same ..."

KINNOCK: The Prime Minister won't be doing any of that, not least because she's high taxer Thatcher.

COLE: With an election coming the Conservatives have shelved their argument between tax cutters and public spenders. Nigel Lawson and his Treasury Ministers have been seeing all their Back Benchers this month. His political job is to get the most electoral credit he can for his money. That's why he'll probably not bring income tax down next month to his eventual target of 25 pence. One of his MPs said tonight that would look too much like buying votes. The Tory message it seems will be you've got to keep on voting for us if you want more tax cuts. But the Opposition Parties won't take that lying down. The Government's strenuously denying a press story that it plans a major switch from income tax to VAT, what some radical right wingers call their 20/20 vision - a 20p standard rate but with VAT raised to 20%. But Neil Kinnock's prophesying there'll be a move in that direction if the Tories win the election.

506/11

RO

FROM: B O DYER
DATE: 10 February 1987

01-270 4520

MR ALLAN

cc 1. Mr Savage
2. File

BUDGET DEBATES (1987) : GOVERNMENT SPOKESMEN

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Day 2	S of S for Emp. FST	S of S for Emp. MST	Min for Emp. EST
Day 3	S of S Trade and Industry C/Ex	S of S Trade and Industry C/Ex	Mr Tebbitt (Ch. of Duchy) C/Ex

3. I hope the foregoing is helpful. If you require anything further in this context please let me know.

B. Dyer

B O DYER

FINANCIAL SECRETARY TO THE TREASURY

RP

FROM: J J HEYWOOD
DATE: 10 February 1987

MR REED IR

cc PS/Chancellor
Mr Scholar
Mr McGivern IR
PS/IR

BS 148: RESTRICTION OF REVENUE DISCRETION

... I attach a copy of a letter the Financial Secretary received from Lansing Bagnall this morning in Sir Emmanuel Kaye's absence abroad.

2. I telephoned his Secretary to ask her to send it on to Sir Emmanuel, or to pass it to one of his colleagues, emphasising that there was some urgency about all this. She assured me that both of these steps had already been taken and she hoped Sir Emmanuel would be in a position to reply on his return to the country.

3. Sir Emmanuel is due to see the Financial Secretary on another matter on 24 February.

J.H.

JEREMY HEYWOOD
Private Secretary

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Sir Emmanuel Kaye, C.B.E.
Chairman & Governing Director

PJB/CL

9th February, 1987

Norman Lamont, Esq., M.P.,
Financial Secretary,
H.M. Treasury,
Treasury Chambers,
Parliament Street,
LONDON, SW1P 3AG

Dear Financial Secretary,

In Sir Emmanuel's absence abroad may I thank you for your letter of 3rd February, received today.

The letter from Mr. Battishill has arrived in the same post and I will ensure that Sir Emmanuel sees both the letters immediately on his return towards the end of the month.

Yours sincerely,

Brewer

P. J. Brewer (Miss)
Private Secretary to Sir Emmanuel Kaye

Registered in London No. 324340. Registered Office: Hart House, Hartley Wintney, Hampshire RG27 8PE

pup.

3217/10

FROM: P J CROPPER
DATE: 13 FEBRUARY 1987

SIR PETER MIDDLETON

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Pickering
Mr Ross Goobey
Mr Tyrie

1987 BUDGET: BACKBENCHERS' BRIEF

Thank you for your minute of 10 February.

2. So far as it is within my power - which is not quite 100 per cent - I will do my very best to keep to the timetable you suggest.

P J CROPPER

1 Rex
2 Personal Folder

CHANCELLOR 12/2

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238
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OPERATIONAL NOTE

Not for publication

16 February 1987

TO NEWS EDITORS AND TV NEWS PLANNERS

CHANCELLOR OF THE EXCHEQUER
PRE-BUDGET AND BUDGET DAY PHOTOGRAPHIC FACILITIES

There will be the following opportunities to take pictures of the Chancellor of the Exchequer, the Rt Hon Nigel Lawson, MP.

1. **Tuesday, 10 March: with Budget Box**

The Chancellor will be in his Treasury office. Photographers should report to the front door of the Treasury at 8.30am. They will be admitted if - but only if - they give their names to the Treasury by no later than noon on Friday, 6 March.

Only hand-held cameras, lights and wild sound recording will be allowed. **Reporters are not invited.**

2. **Saturday, 14 March: At home with family, Stoney Stanton**

Weather permitting, the Chancellor and his family will be in the garden of their constituency home in Stoney Stanton, Leicestershire, from about 11am. If the weather is bad, photographers will be invited inside the Chancellor's house.

Again, only hand-held cameras, lights and wild sound recording will be allowed. **Reporters are not invited. Interviews will not be given.**

Photographers and TV crews should meet Simon Woodall from the Treasury Press Office, in the car park alongside The Star public house, Church Walk, off New Road, Stoney Stanton at about 10.30am.

3. **Tuesday, 17 March: Budget morning in St James' Park**

The Chancellor, Mrs Lawson and the children will leave No. 11 Downing Street at 8.50am for a walk in St James's Park.

Following complaints from press photographers in previous years, **reporters will not be allowed to participate.**

If Radio or TV stations want to record sound, they should seek clearance in advance from Simon Woodall 01-270-5188.

4. **Tuesday, 17 March: Departure from No. 11 to the House**

The Chancellor will leave No. 11 Downing Street at about 3pm, accompanied by his wife, to make his Budget Speech to the House of Commons. They will pose for pictures. **No interviews will be given.**

Photographers will not be allowed inside No. 11. They should keep clear of the pavement between No. 11 and the Chancellor's car.

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-270-5238

NOTES TO EDITORS

If you wish to be represented on any or all of these occasions, please let the Treasury Press Office know as soon as possible by telephoning Mrs Joyce Hatter, 01-270-5238 or Miss Janet Bailey 01-270-5241.

Those attending will be subject to security searches by the police. Photographers and TV crews should have identification cards.

The attached copy of an Ordnance Survey map shows the location of Stoney Stanton.

Those travelling from London can take the M1 to junction 20. Take the A427, then turn right on to the A426 towards Lutterworth and Leicester. Follow the road through until the B581, which goes straight through to Stoney Stanton. The Church is set back on the right-hand side. Turn into Church Walk, which is alongside the Church, and is the first turning before it. The Star public house is on the corner of Church Walk and New Road (B581).


BLABY DISTRICT
Elmesthorpe
Hurt Fm
Littlethorpe
Shaw's Fm
Potters Marston
Thorney Fields Fm
Wks
Hissar House Fm
Brick Kiln Hill
Bridge Fm
Langton Fm
Burbage Common
Park Ho
Woodhouse Fm
Stoney Stanton
Stanton Lodge
Oak Lodge Fm
Port Hill Fm
Croft
Croft Lodge
Foss Ho
Cosby Spinneys
Sch
Nature Trail
Hobbs Hayes
Red Hill Fm
Burbage Wood
Aston Firs
Sutton Hill Fm
Lodge Fm
Sutton Hill Br
Sutton in the Elms
Stanton Lodge
A 5070
B 4069
B 581
Sapcote
Fields Fm
Cemy
Springfield Fm
Stoney Br
Primethorpe
Broughton Astley
Burbage
Aston Flamville
Ramsdale Fm
Fosse Fm
Sutton Lodge
Lodge Fm
Arkwright Cottages
Mickle Hill
Sharnford
Orchard Fm
Burbage Ho
The Homestead
Clump Hill
Stemborough Mill
Hogue Hall
Sharnford Fields
Cottage Fm
Frolesworth
Claybrooke Lodge Fm
The Shade
Sharnford Lodge Fm
Leire
B578
B4114
Smockington
Wigston Parva
Hill Fm
Claybrooke Grange
Frolesworth Lodge
Sand Pit
Copston Lodge
Watling Street
Mill
Ashby Parva
B 577
High Cross
Claybrooke Magna
Copston Magna
Ullesthorpe Court
Hall
Claybrooke Parva
Cemy
Canaan Fm
Copston Fields
Wolvey Lodge Fm
Wibtoft
A5 (T)
Ullesthorpe
Manor Ho
Manorial Earthworks
Ashby Lane Fm
Ashby Ho
Bitteswell Hall
Grove Fm
Lodge Fm
Grey Gables
The Elms Fm
Wolvey Fields Fm
B 4455
Cloudesley Bush
Wolvey Wolds
Tithe Platts Fm
Bitteswell Lodge
Spring Fm
Withybrook Spinney
Cloudesley Fm
Hobley Furze
Wood Fm
Willey Fields Fm
Bittesby Village
Manor Ho
Lodge Fm
Grange Fm
Cottons Furze
Monks Kirby Grounds
Norwood Fm
Bittesby Ho
LUTTERWORTH
Bitteswell Aerodrome
Field Fm
Blakenhall Fm
Fosse Fm
Willey
Long Spinney
Elmhurst Fm
Monks Kirby Lodge
Wood Br
A 427
Muswell Leys
Cross in Hand
Glebe Fm
Newnham Fields Fm
Newnham Paddox
Cemy
Manor Fm
Foxon's Corner
Stave Hall Fm
Monks Kirby
Brockhurst Convent
Little Walton
Moorbarns Fm
Moorbarns
Street Ashton Ho
Streetfield Fm
College Fm
B 4112
Pailton Fields Fm
Cotesbach
Sch

Unchecked.

✓ RP

REPORT AND INTERVIEWS ON BUDGET PROSPECTS AND INDICATORS

Transcript from: BBC 2TV, The Money Programme, 15 February 1987

PRESENTER: (Valerie Singleton) In a lively week the London Stock Exchange registered another record high on Monday and a record fall on Tuesday after profit taking. But on Wednesday the spectacular take off of British Airways shares saw the market returning to its bull run. British Airways opened at at 118pence and after some hectic dealing ended the session at 109 pence. Still a rise of 44 pence on the partly paid price of 65 pence. In just 3 1/2 hours 290 million shares, about 40% of the company, had changed hands. It was not such good news for the Government on the employment front. Figures published on Thursday showed a rise of 68,000 in those out of work but after seasonal adjustments the trend was level. From last spring's figure of 3.15 million numbers had started to fall, only to rise again in July but the last 6 months has witnessed an overall fall in those unemployed until, that is, January's figure of 3,119,000.

....: The unemployment figures which we had were rather disappointing. We had expected to see a fall. But I wouldn't give up on unemployment as yet. The effects of the Government's special measures, job schemes and so on, are still to come through in full. And as the economy picks up this year I would expect to see a genuine fall in unemployment as well as a fudged fall. And this must be good for the Government in the run up to the election.

PRESENTER: (Brian Widlake) Higher productivity and a subsequent rise in manufacturing output has resulted in increased bonus payments. This in turn has led to a slight rise in average earnings for December. In January 1981 the average wage rose 17% but lower wage settlements reduced the figure to 8% by January 1983 and then to 7 1/2%. In December though there was a small but significant blip up to 7 3/4%.

....: Although it wasn't much of a blip it nevertheless was disappointing because many of us had hoped that the earnings number was going to go down. Instead it appears to be stuck and indeed may be going up. The Chancellor however may be in slightly two minds about that trend on earnings. After all, when people get paid more he sucks in more in terms of income tax and VAT is coming in strongly as well. And that will put him in a very good position when it comes to the Budget to give us very large cuts in the standard rate of income tax.

PRESENTER: But the downside is the effect of higher earnings on inflation. And indeed in this week's RPI figure, published by the Department of Employment, does show a small rise. Since January 1986 the trend had been down from 5.5% to 2.4% in July and August but rising again in December 86. So January's figure of 3.9% confirms the upward trend.

....: The figure was actually slightly better than had been expected. The rise on the year was 3.9%. The main reasons behind the rise were in increase in seasonal food prices as being somewhat less than had been expected. The rise in the price of petrol which is now slowly feeding through to the index and there appears to have been a rise of over 1 1/2% in the price of alchohol during the month. Now as we go out through the year it's probably going to be the case that inflation will rise to around 4 1/4% at the time of the Budget after you allow for the indexing of Excise duties and then it will peke out in July at about 5 1/2%. Now the principal reason for the jump between the Budget and July is the impact of the higher mortgage rates combined with the fall in the exchange rate last year and of course the higher price of petrol.

PRESENTER: (Singleton) And as we've become an altogether wealthier nation the basket of a thousand different goods and services used to make up the index has had to change too. For example, in 1974 the value of food products formed an important 25% of the total basket. By 1985 that had shrunk to 19%. And there are to be other changes in the basis of the calculations for the index, free school meals, free prescriptions and housing benefits are to disappear from the arithmetic and in come the cost of private health and private school fees. And next year, 1988, the price of foreign cars and holidays abroad are also to be taken into account.

....: The items we are going to include this year are not sensitive to changes in the exchange rate because of course the rise in inflation during the cur rent year will be largely dependent on what happened to the exchange rate last year. The rise in the exchange rate this year will of course lead to a lower inflation rate next year and then the Government can feel much more at ease about bringing in in overseas cars also foreign holidays because they will have less of an impact on the inflation rate. And the Government wants the lowest measure of inflation it can get of course.

PRESENTER: It will of course be the forthcoming Budget that will give the clearest indication of the Government's intention on election date. And speculation is mounting as to what the Chancellor might have in store for us. On Thursday the Institute of Fiscal Studies published what they call their Green Budget, a usually reliable pointer to the real thing. The IFS reckon the Chancellor will have plenty of spare cash to play with this year. They calculate that Government expenditure will continue its steady rise to £181.8 billion in 1987/88. But income, according to the IFS, is rising faster. Including receipts from privatisation the Government's income should rise to £177.9billion in 1987/88, leaving just £3.9 billion to borrow. A much lower figure than had been expected.

WIDLA KE: Bill Robinson, we talk about the Chancellor having money to give away, how much money do you think he's got this time around to let us have?

ROBINSON: If he spent it all he's got some £3 billion or so to give away.

WIDLAKE: Is he going to give all that away in taxes do you think?

ROBINSON: I don't think he will. The reason is that if he announced that he was going to borrow less then there is some chance he might be able to borrow more cheaply. And I think he is currently rather worried by the extreme height of interest rates.

WIDLAKE: So what do you reckon we're on, £2 billion in tax cuts?

ROBINSON: He could I think afford to give away £2 billion in tax cuts and still impress the financial markets with his austerity.

WIDLAKE: Will he do it in straight tax cuts on the basic rate or do you think he will do it by raising the thresholds?

ROBINSON: I think at the moment it looks very much as though they've gone back to cutting the basic rate. Remember they started out that way and they announced a long time ago that they had this long run objective of a 25% basic rate. Then in the middle of their period of office they went much more for allowance increases. But last year they cut only by 1% but they did cut the basic rate and it looks as though that is the likelihood for this year.

WIDLAKE: All right, if we're talking about giving away £2 billion on the basic rate what does that mean, does it mean 27 pence, something of that nature?

ROBINSON: That's right.

WIDLAKE: Right, what's he going to do with the other billion?

ROBINSON: Well there are many things he could do. He's a Chancellor I think who pays a great deal of attention to the rate of inflation. The other thing that he has launched as a medium term objective is a long run zero rate of inflation and he could clearly help his RPI inflation rate by not putting up the tax for example on tobacco, alchohol, the drinking smoking driver. They go up every year in line with past inflation. If he didn't do that he could help the RPI.

WIDLAKE: What about the higher rate taxpayer, right at the top end, do you think he's going to give them anything or would that be too sensitive?

ROBINSON: There's a chance. I think it's politically a little insensitive when the rich have already done rather well to cut the tax. But on the other hand there is a strong feeling that the rate of tax on mortgage, the benefit which the rich get from mortgage tax relief, is rather excessive. And so there is scope there for some sort of deal whereby he reduces that right and at the same time cuts the top rate of tax. Now the reason why I think he might want to cut the top rate of tax is that the Government at one time was out there in front in the tax cutting for the top rates but they've been overtaken by the Americans.

WIDLAKE: Bill, if he does all this, and briefly please, is he doing the right thing?

ROBINSON: It's hard to see I think in a world in which there are still 3 million unemployed what help cutting the basic rate of income tax is going to do. I think he'd be much better actually to do something which cuts the cost of employment, say for example, national insurance contributions by employers would I think be a better measure at this time.

MR 10/103

BUDGET SECRET Copy No 5 of 5 Copies

RP

~~G Smith~~

response

(cf 24/2)

FROM: A W KUCZYS

DATE: 16 February 1987

MR SCHOLAR

cc: Mr G P Smith
Mr Cropper

... I attach a copy of a letter from David Howell MP. The Chancellor would be grateful to see estimated 1987-88 figures for the lines in Mr Howell's second table which the Chancellor has underlined. This should be done on the basis of 2p off basic rate, and no excise duties revaluation.

A W KUCZYS

THE RT. HON. DAVID HOWELL, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

5th February, 1987.

Dear Archbishop

Forgive me writing, but I am moved to do so by your remarks which were widely reported in the newspapers on tax cuts and which I have now read in full in Hansard.

Needless to say, the media rather distorted your remarks. What you actually said will command very widespread agreement. Nevetheless, I hope you will not mind if I enclose for you to see some details of the way in which very many very poor people in this country still pay some of the highest taxes in the Western world.

The facts are as set out on the enclosed sheet, which is a research note from the House of Commons Library which is, of course, a totally objective body. From this sheet you will see that a single person on £107 a week, which in today's terms is a very modest amount indeed, actually has to pay more than 25 percent in income tax and national insurance, quite aside from any VAT, rates or other indirect taxes.

A married couple with two children on £160 a week - which is still a very tight struggle - actually pays out 34 percent of that in taxes. I fully accept that for those who do not pay income tax, including many without jobs at all, the tax issue is bound to be of less interest, although it is quite wrong to assume that they would not benefit at all from lower taxation. The way to help them is obviously through raising child allowances and I hope we can do that further.

None of this touches the other, and even more fundamental, reason why a sense of care and compassion should also lead one to advocate lower taxes and to fight against higher tax burdens. This is, simply, that in the modern world low tax societies tend to be far more creative and dynamic, to provide many more job opportunities and a far greater sense of hope for those who are most oppressed and most need our support. The creative impulses in modern society are very precious - dare I say "sacred". I think this is exactly what you are saying when you refer to the intrinsic energy and vigour in

continued.....

our cities which has to be rediscovered. And modern post-Keynesian economists have at last begun to understand how these impulses can be stimulated and also how collectivist redistribution of income damages them).

I know that your wise voice will continue to be offered in support of these policies and ideals which offer far the best prospect for those who should always be on our conscience in our society.

The Most Reverend
The Lord Archbishop of Canterbury, MC,
Lambeth Palace,
London, SE1.

T I TAXES PAID AS A PERCENTAGE OF GROSS EARNINGS

Taxes Paid as % of Gross Earnings 50% of Average Earnings

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Gross Earnings	£46.40	£54.65	£65.70	£72.95	£78.70	£85.50	£92.50	£99.90	£106.90
Single									
a) Income Tax	17.04%	16.38%	17.93%	19.13%	18.53%	17.96%	17.49%	17.27%	16.82%
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	9.00%	9.00%
c) a + b	23.54%	22.88%	24.68%	26.88%	27.28%	26.96%	26.49%	26.27%	25.82%
Married, Both Working									
a) Income Tax	0.00%	0.00%	0.00%	2.16%	0.60%	0.00%	0.00%	0.00%	0.00%
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	7.60%	6.20%
c) a + b	6.50%	6.50%	6.75%	9.91%	9.35%	9.00%	9.00%	7.60%	6.20%
Married + 2 Children									
a) Income Tax less Child Benefit	-4.05%	-5.12%	-1.83%	-0.49%	-1.82%	-3.11%	-4.01%	-3.78%	-3.30%
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	9.00%	9.00%
c) a + b	2.45%	1.38%	4.92%	7.26%	6.93%	5.89%	4.99%	5.22%	5.70%

Taxes Paid as % of Gross Earnings 75% of Average Earnings

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Gross Earnings	£69.60	£81.98	£98.55	£109.43	£118.05	£128.25	£138.75	£149.85	£160.35
Single									
a) Income Tax	22.36%	20.92%	21.95%	22.75%	22.35%	21.97%	21.66%	21.51%	20.88%
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	9.00%	9.00%
c) a + b	28.86%	27.42%	28.70%	30.50%	31.10%	30.97%	30.66%	30.51%	29.88%
d) VAT	2.50%	4.03%	4.12%	4.12%	3.94%	3.91%	4.35%	4.48%	4.51%
e) Other Indirect Taxes	8.51%	8.19%	8.05%	8.39%	8.04%	8.09%	8.04%	7.83%	7.89%
f) c + d + e	39.87%	39.63%	40.87%	43.01%	43.08%	42.98%	43.05%	42.82%	42.28%
g) Rates	3.30%	3.33%	3.61%	4.01%	4.07%	3.80%	3.74%	3.70%	3.94%
h) f + g	43.17%	42.96%	44.48%	47.02%	47.15%	46.78%	46.79%	46.53%	46.21%
Married, Both Working									
a) Income Tax	7.59%	7.52%	9.39%	11.44%	10.40%	9.40%	8.54%	8.21%	8.17%
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	8.00%	8.20%
c) a + b	14.09%	14.02%	16.14%	19.19%	19.15%	18.40%	17.54%	16.21%	16.37%
d) VAT	2.92%	4.42%	4.53%	4.41%	4.26%	4.28%	4.92%	5.17%	5.12%
e) Other Indirect Taxes	12.23%	11.59%	11.29%	11.84%	11.60%	11.70%	11.65%	11.52%	11.54%
f) c + d + e	29.24%	30.03%	31.96%	35.45%	35.01%	34.37%	34.11%	32.90%	33.02%
g) Rates	3.79%	3.82%	4.07%	4.54%	4.66%	4.34%	4.26%	4.24%	4.50%
h) f + g	33.03%	33.85%	36.03%	39.99%	39.67%	38.72%	38.37%	37.14%	37.52%
Married + 2 Children									
a) Income Tax less Child Benefit	8.14%	6.59%	8.78%	9.67%	8.78%	7.93%	7.32%	7.48%	7.47%
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	9.00%	9.00%
c) a + b	14.64%	13.09%	15.53%	17.42%	17.53%	16.93%	16.32%	16.48%	16.47%
d) VAT	2.46%	4.00%	4.07%	4.07%	3.92%	3.93%	4.36%	4.46%	4.42%
e) Other Indirect Taxes	9.81%	9.43%	9.25%	9.84%	9.51%	9.56%	9.56%	9.28%	9.30%
f) c + d + e	26.91%	26.52%	28.85%	31.33%	30.97%	30.42%	30.24%	30.22%	30.20%
g) Rates	3.30%	3.34%	3.59%	4.00%	4.07%	3.81%	3.77%	3.72%	3.93%
h) f + g	30.21%	29.86%	32.44%	35.33%	35.04%	34.23%	34.01%	33.95%	34.12%

Taxes Paid as % of Gross Earnings 100% of Average Earnings

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/1
Gross Earnings	£92.80	£109.30	£131.40	£145.90	£157.40	£171.00	£185.00	£199.80	£213.80	
Single										
a) Income Tax	25.02%	23.19%	23.96%	24.56%	24.26%	23.98%	23.75%	23.63%	22.91%	
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	9.00%	9.00%	
c) a + b	31.52%	29.69%	30.71%	32.31%	33.01%	32.98%	32.75%	32.63%	31.91%	
d) VAT	2.61%	4.24%	4.34%	4.37%	4.17%	4.14%	4.57%	4.71%	4.75%	
e) Other Indirect Taxes	8.13%	7.90%	7.77%	8.11%	7.76%	7.82%	7.75%	7.54%	7.62%	
f) c + d + e	42.25%	41.83%	42.82%	44.79%	44.95%	44.94%	45.07%	44.89%	44.28%	
g) Rates	2.93%	2.96%	3.23%	3.59%	3.63%	3.39%	3.34%	3.30%	3.51%	
h) f + g	45.18%	44.80%	46.06%	48.38%	48.59%	48.33%	48.41%	48.19%	47.79%	
Married, Both Working										
a) Income Tax	13.28%	12.95%	14.55%	16.08%	15.30%	14.55%	13.91%	13.66%	13.38%	
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	8.60%	8.20%	
c) a + b	19.78%	19.45%	21.30%	23.83%	24.05%	23.55%	22.91%	22.26%	21.58%	
d) VAT	3.05%	4.68%	4.77%	4.72%	4.54%	4.54%	5.11%	5.32%	5.35%	
e) Other Indirect Taxes	10.82%	10.31%	10.01%	10.47%	10.21%	10.30%	10.23%	10.06%	10.15%	
f) c + d + e	33.65%	34.44%	36.07%	39.02%	38.80%	38.38%	38.25%	37.63%	37.08%	
g) Rates	3.07%	3.09%	3.30%	3.68%	3.77%	3.51%	3.45%	3.43%	3.64%	
h) f + g	36.72%	37.53%	39.38%	42.70%	42.57%	41.90%	41.70%	41.06%	40.72%	
Married, + 2 Children										
a) Income Tax less Child Benefit	14.35%	12.44%	14.08%	14.75%	14.09%	13.45%	12.99%	13.11%	12.85%	
b) NICs	6.50%	6.50%	6.75%	7.75%	8.75%	9.00%	9.00%	9.00%	9.00%	
c) a + b	20.85%	18.94%	20.83%	22.50%	22.84%	22.45%	21.99%	22.11%	21.85%	
d) VAT	2.62%	4.15%	4.23%	4.25%	4.09%	4.08%	4.62%	4.73%	4.72%	
e) Other Indirect Taxes	8.70%	8.46%	8.29%	8.77%	8.48%	8.52%	8.48%	8.24%	8.29%	
f) c + d + e	32.17%	31.56%	33.35%	35.53%	35.40%	35.04%	35.09%	35.08%	34.86%	
g) Rates	2.88%	2.91%	3.15%	3.50%	3.56%	3.33%	3.29%	3.25%	3.43%	
h) f + g	35.04%	34.47%	36.50%	39.03%	38.96%	38.37%	38.37%	38.33%	38.30%	

1. Cotts
2. Andrew
3. Pmp. 559/3

Covering CONFIDENTIAL

FROM: R P SHORT
DATE: 18 FEBRUARY 1987

cc: As attached list

MANUAL OF ILLUSTRATIVE TAX CHANGES

I attach a revised version of the 1987 tax and national insurance ready reckoner. This now shows the effects of indexation and revalorisation based on the December 1986 RPI increase ie 3.7 per cent over the previous year.

CBicknell

pp. R P SHORT

MANUAL OF ILLUSTRATIVE TAX CHANGES

Circulation List: Revenue Pages

HM Treasury

1.	Chancellor of the Exchequer			12/ 2
2.	Chancellor's Principal Private Secretary	-	A C S ALLAN	12/ 2
3.	Chancellor's Second Private Secretary	-	A W KUCZYS	12/ 2
4.	Chief Secretary			36/2
5.	Financial Secretary			43A/2
6.	Economic Secretary			52/2
7.	Minister of State (Revenue)			49/2
8.	Permanent Secretary	-	SIR PETER MIDDLETON	78A/2
9.	Second Permanent Secretary	-	F E R BUTLER	120/2
10.	Second Permanent Secretary	-	J G LITTLER	113/2
11.	Chief Economic Adviser	-	SIR TERENCE BURNS	119/2
12.	Deputy Chief Economic Adviser	-	I C R BYATT	73/2
13.	Deputy Secretary Public Finance Sector	-	F CASSELL	87/2
14.	Under Secretary Economics EA	-	P N SEDGWICK	39/3
15.	Under Secretary Economics MP	-	J ODLING-SMEE	45/2
16.	Under Secretary FIM	-	MRS R LOMAX	82/G
17.	Under Secretary FP	-	M C SCHOLAR	90/1
18.	Under Secretary MG	-	D L C PERETZ	84/G
19.	Senior Economic Adviser ET	-	G P SMITH	117/1
20.	Senior Economic Adviser EA1	-	S J DAVIES	36A/3
21.	Senior Economic Adviser MP1	-	C J RILEY	91/3
22.	Senior Economic Adviser MP2	-	C MELLISS	114/3
23.	Assistant Secretary FP	-	MISS C E C SINCLAIR	89/1
24.	Assistant Secretary EB	-	MISS M O'MARA	97/2
25.	Economic Adviser ET	-	I SCOTTER	116/1
26.	Economic Adviser ET	-	R P SHORT	116/1
27.	Economic Adviser EA1	-	P F L ALLUM	36/3
28.	Economic Adviser EA2	-	R J BARRELL	33/3
29.	Economic Adviser PSF	-	A W RITCHIE	88/4
30.	Economic Adviser MP1	-	H BREDENKAMP	88/3
31.	Statistician PSF	-	S J W BRISCOE	89/4
32.	Principal FP	-	K ROMANSKI	93/1
33.	Principal FP	-	M HAIGH	92/1
34.	Principal FP	-	MS C EVANS	93/1
35.	Principal ST1	-	M GIBSON	24/2
36.	Special Adviser	-	A ROSS GOOBEY	117/2
37.	Special Adviser	-	P CROPPER	17/2

Inland Revenue

38.	Chairman to the Board	-	A M BATTISHILL
39.	Deputy Chairman	-	T J PAINTER
40.	Deputy Chairman	-	A J G ISAAC
41.	Director Central Division	-	L J H BEIGHTON
42.	Under Secretary Policy Division 1	-	P LEWIS
43.	Director Statistics Division	-	J CALDER
44.	Senior Economic Adviser Central Division	-	R WEEDEN
45.	Chief Statistician Company Incomes	-	F A FITZPATRICK

46. Chief Statistician Budgetary Support and Forecasting - R EASON
47. Chief Statistician Capital and Wealth - W GONZALEZ
48. Assistant Secretary Policy Division 1 - B A MACE
49. Statistician Statistics Division 1 - G KEENAY
50. Assistant Secretary Central Division 2 - M JOHNS

Customs and Excise

51. Deputy Chairman - B H KNOX
52. Chairman's Private Secretary - MR L RAILTON
53. Commissioner for Internal Taxation - P JEFFERSON SMITH
54. Assistant Secretary DPU - P G WILMOTT
55. Economic Adviser DPU - MRS L HAMILL
56. Statistician DPU - B SEXTON
57. Principal Planning Unit - J BONE

MANUAL OF ILLUSTRATIVE TAX CHANGES

CONTENTS

HM TREASURY
ETS Division
FEBRUARY 1987

1. INCOME TAX

INDEXED LEVELS OF INCOME TAX ALLOWANCES AND THRESHOLDS

Allowances	1986-87 Current Levels £	1987-88 Indexed Levels(1) £
Single and wife's earned income allowances	2,335	2,425
Married allowance	3,655	3,795
Additional personal and widow's bereavement allowance	1,320	1,370
Single age allowance	2,850	2,960
Married age allowance	4,505	4,675
Aged income limit	9,400	9,800

Rates per cent	Bands of taxable income 1986-87 Current Levels £	1987-88 Indexed Levels(1) £
29	0 - 17,200	0 - 17,900
40	17,201 - 20,200	17,901 - 21,100
45	20,201 - 25,400	21,101 - 26,500
50	25,401 - 33,300	26,501 - 34,700
55	33,301 - 41,200	34,701 - 42,900
60	over 41,200	over 42,900

(1) Based on the 3.7 per cent year-on-year increase in the Retail Prices Index to December 1986, and following the rounding rules laid down in the Finance Act 1980.

Cost of 3.7 per cent indexation at 1987-88 and 1988-89 income levels

	1987-88 Revenue effect	1988-89 Revenue effect
	£m	£m
£90 increase in the single person's and wife's earned income allowance	280	360
£140 increase in the married man's allowance	330	420
£50 increase in the additional personal and widow's bereavement allowance	5	5
£110 increase in the Single Age allowance	30	35
£170 increase in the Married Age allowance	40	50
£400 increase in the Aged Income Limit	10	10
£700 increase in the Basic Rate Limit	60	110
Increase in the further higher rate thresholds	45	90
Total cost of indexation	800	1080

GENERAL NOTE: The costs are based on the levels of allowances etc shown in the preceding table, and are estimated on the basis of the MTFS January NIF. The changes are cumulative, eg the cost of the increase in the aged income limit is on top of the increase in both the ordinary and age allowance immediately above. The estimates of the effects in 1988-89 assume the the 1987-88 indexed levels of allowances and thresholds continue to apply in 1988-89.

INDEPENDENT CHANGES	1987-88 Revenue effect £m	1988-89 Revenue effect £m
Rates		
Change basic rate by 1p (1)	1100	1400
Change all higher rates by 1p	65	140
Allowances		
Change single and wife's earned income allowance by £100	295	380
Change married allowance by £100	245	310
Change single age allowance by £100	23	31
Change married age allowance by £100	23	29
Change aged income limit by £200	4	5
Higher Rate Bands		
Change all higher rate thresholds by 1% of basic rate band:		
increase (cost)	20	39
decrease (yield)	21	39
Change all higher rate threshold by 1%:		
increase (cost)	23	45
decrease (yield)	24	46
Change all higher rate thresholds by 10% of basic rate band:		
increase (cost)	185	350
decrease (yield)	240	440
Change all higher rate thresholds by 10%:		
increase (cost)	205	400
decrease (yield)	275	525

Costs of tax changes over and above indexation at 1987-88 and 1988-89 income levels

	1987-88 Revenue effect	1988-89 Revenue effect
PACKAGES	£m	£m
1% above indexation on all statutory allowances	175	230
1% above indexation on all statutory allowances and thresholds	200	275
10% above indexation on all statutory allowances	1730	2225
10% above indexation on all statutory allowances and thresholds	1930	2625

GENERAL NOTES: All absolute changes are calculated on top of the indexed levels of allowances and thresholds shown in table 1.1. Percentage changes unless otherwise stated are based on 1986-87 levels. Costs are based on the MTFS January NIF. Please refer to Inland Revenue for exact costs of packages and information on taxpayer numbers and staffing effects.

The estimated revenue effects are in most cases shown to the nearest £5 million (to avoid undue magnification of rounding errors when considering large changes), but the figures should not be assumed to be accurate to this degree.

(1) The effect would be smaller if introduced at the same time as an increase in one or more thresholds, but these amounts are broadly correct for rate changes on top of allowance increases up to 5 per cent above indexation. The costs include the effect of the change of receipts of Advance Corporation Tax and on consequent liability of Mainstream Corporation Tax; this effect is £10 million in a full year, £145 million in 1987-88 and £55 million in 1988-89.

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CONFIDENTIAL

2. CORPORATION TAX

The 1984-85 Finance Act set a rate of 35 per cent for profits arising in the year 1986-87.

Advance corporation tax under the imputation system is due at the rate of 29/71 in respect of distributions made by companies during the year to 31 March 1987.

The estimated yield for 1986-87 is £13,300 million (including £630 million on gains and £4400 million ACT).

The effect on corporation tax receipts of a reduction in the rates by 2 per cent to apply to profits arising in the 1986-87 financial year is estimated as:

£ million

	First Year 1987-88	**Second year 1988-89**
Main corporation tax rate	460	800
Small companies rate	40	70

Most of this change would affect tax payable on 1 January 1988 and paid for the most part in the following two months.

For the effect of a change in the rate of ACT see Section 1 (page 1.4).

The quarterly path of a 2 per cent change in the planned rate of Corporation Tax (including small companies rate)[1] from 1 April 1986 is estimated to be:

£ million

	Q2	**Q3**	**Q4**	**Q1**	**Total**
1987-88	5	25	120	350	500
1988-89	90	90	170	520	870
1989-90	110	100	180	570	960

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(1) These figures ignore any possible associated change in the imputation system.

3. CAPITAL GAINS TAX

There is a liability to tax, under CGTA 1979 and subsequent Finance Acts, on capital gains realised on the disposal of assets. Tax payable by companies is accounted for within corporation tax. Capital Gains Tax only comprises payments for individuals and trusts.

2. There are various types of exemptions and reliefs from the tax. Examples are:

Exemption of gains arising on the disposal of

- a person's only or main residence;
- gilt edged securities and qualifying corporate bonds;
- National Savings Certificates and such like;
- Chattels which are wasting assets, or whose value is less than £3,000 on disposal;
- life assurance policies.

Exemption of:

- gains accrued but unrealised on death;
- compensation or damages for wrong or injury;
- gains of approved pension schemes, charities, authorised unit trusts and investment trusts, other specified types of organisations.

Reliefs include:

- "rollover" reliefs eg on reorganisation of share capital, where gains are used to replace business assets, for various gifts (including transfers out of trust);
- deduction of up to £100,000 on disposal of a family business on retirement.

Capital losses (including such losses brought forward) can be offset against realised gains. Companies can offset trading losses against capital gains.

3. In calculating chargeable gains, acquisition costs are indexed (using the Retail Prices Index) from March 1982, or from the date of aquisition if later.

4. The rate of tax on net chargeable gains is 30 per cent.

5. For individuals and trusts, tax is calculated on the extent to which the net chargeable gains in any financial year exceed an indexed annual exemption - as follows:

Gains realised in	**Exemption for**	
	Individuals	**Trusts**
1985-86	£5900	£2950
1986-87	£6300	£3150
1987-88 (if fully indexed)	£6600	£3300

6. Estimated yields in 1987-88 are:

	£m
Capital Gains Tax (individuals and trusts)	1250 (1)
Company gains (within corporation tax)	850 (1)

7. For Capital Gains Tax (ie on individuals and trusts) the liability on gains realised during any financial year becomes payable, at the earliest, on 1st December of the following year. For practical reasons, however, assessments in respect of any year are finalised only over several subsequent years so that receipts "for" a particular year are slow (and receipts "in" a year are in respect of gains made in several preceding years).

8. In estimating the "full year" effects of changing CGT rules, the FSBR convention (see FSBR 1981-82, page 9, note 2) is to apply an estimated proportionate cost (derived from estimates of the eventual yield for the first year to which the change applies fully) to the forecast yield in the year in which the Finance Act containing the change is enacted. On this basis, if selected changes were enacted during 1987-88, revenue effects would be:

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(1) Not for publication at this stage.

Change	Estimated "full year" effect		Effect in 1987-88	1988-89
Annual exemption increased to £7,000 (from £6,600)	CGT cost	£25m	nil	£10m cost
There is no annual exemption for companies				
Rate changed ±5 per cent (ie to 35 per cent or 25 per cent)	CGT yield ±	£270m	nil	± £110m
	CT yield ±	£120m	nil	± £70m

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4. STAMP DUTIES

Stamp Duty is charged under numerous heads. The most important covers the ad valorem duty on conveyances of real property which is a straight 1 per cent (with low value transfers up to £30,000 subject to a nil rate), and transfers of stocks and shares, where the rate is now ½ per cent.

2. Estimated yield in 1987-88: £1950 million[1]. The main components are:

		£m
(a)	Conveyances (1 per cent) of which duty on residential property £630 million	785
(b)	Transfers of stocks and shares (½ per cent)	800
(c)	Leases (various rates)	60
(d)	Capital Duty (1 per cent)	200
(e)	Other	105

3. Because of the effect on demand, doubling the duties itemised in paragraph (2) would in general less than double the yield shown in a full year; similarly halving the rates would not reduce the yield by as much as a half.

The cost of raising by £5,000 the threshold for exemption from duty for small conveyances would be £115 million in a full year. If the new thresholds took effect from March 1987 the cost in 1987-88 would be around £110 million.

4. Any increase in stamp duties on conveyances of property or transfers of shares will lead to some reduction in yield of capital gains tax partly since stamp duties are an allowance expense against capital gains tax but also because of the demand effects.

Note

(1) Not for publication

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5. INHERITANCE TAX

Inheritance tax is charged, broadly, on transfers which reduce the value of the transferor's estate. The main occasions of charge are on death, and on events involving trusts and companies. The rate of tax on any transfer depends on the cumulative total of chargeable transfers made within the preceding 7 years. There are two scales of rates - one for transfers on death or within 3 years of death and another for lifetime transfers. The scales of rates applicable to chargeable transfers made on or after 13 March 1985 and those scales adjusted in line with statutory indexation are:

Bands of chargeable value			Rate on death	Lifetime rate
1985-86 £'000	1986-87 £'000	Indexation at 3.7 per cent inflation	per cent	per cent
0 - 67	0 - 71	0 - 74	Nil	Nil
67 - 89	71 - 95	74 - 99	30	15
89 - 122	95 - 129	99 - 134	35	17½
122 - 155	129 - 164	134 - 171	40	20
155 - 194	164 - 206	171 - 214	45	22½
194 - 243	206 - 257	214 - 267	50	25
243 - 299	257 - 317	267 - 329	55	27½
over 299	over - 317	over 329	60	30

2. The main exemptions are:

(i) all transfers of property between spouses (unless the recipient is not domiciled in the United Kingdom);

(ii) lifetime gifts made more than seven years before death;

(iii) gifts not exceeding £3,000 in a tax year;

(iv) gifts to any one person in a tax year up to a value of £250;

(v) gifts in consideration of marriage (up to certain limits);

(vi) lifetime gifts for the maintenance of children and dependent relatives;

(vii) gifts and bequests to political parties (up to certain limits);

(viii) gifts and bequests to charities and certain bodies concerned with the national heritage.

3. Relief of 50 per cent is given on business assets except for minority holding unlisted shares and loaned assets for which the relief is 30 per cent. There is also

50 per cent relief on agricultural assets held by working farmers and 30 per cent relief on let agricultural land owned by landlords.

4. Estimated yield in 1987-88 assuming statutory indexation of the scale: £1110 million[1]

of which tax on transfers on death: £1080 million [1]

The cost of statutory indexation in a full year is:- £50 million (£17 million in 1987-88; £35 million in 1988-89).

Note

(1) Not for publication

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6. REVALORISATION

Revenue effects and price changes[1]

	VAT inclusive price change (p)	£m yield in[2] 1987-88	£m yield in[2] 1988-89	RPI effect %
Beer				
(1 pint)	0.8	60	65	0.04
Spirit				
(75cl bottle of whisky)	20.1	25	30	0.03
Table Wine				
(EEC table wine) per 70cl bottle)	2.9	15	15	0.02
Fortified Wine				
- (Harvey's Bristol Cream per 70cl bottle)	5.0)			
- (Cockburn's Special Reserve per 70cl bottle)	) 5.8)	5	5	neg
Tobacco - specific duty only				
(20 King sized cigarettes)	3.4	95	105	0.1
Petrol				
(1 gallon of 4-star)	3.7	185	205	0.09
Derv				
(1 gallon)	3.2	40	45	neg(3)
Rebated oil				
(gallon of fuel oil)	- 0.1[4]	5	5	neg
VED				
(cars and light vans)	£3.70	95	100	0.03

Notes

(1) Revalorisation of specific duties for 1987-88 in line with 3.7 per cent inflation for December 1986 on December 1985.

(2) Assuming mid-March Budget.

(3) Derv to be included in the RPI from January.

(4) Fuel oil is not liable to VAT.

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7. TOBACCO DUTY

Tobacco Products duty is paid at the following rates:

	Present rate	
Cigars	£47.05)	per kg on manufactured weight of tobacco
Hand-rolling tobacco	£49.64)	
Pipe tobacco	£24.95)	
Cigarettes	Ad valorem tax: 21 per cent of recommended retail price including VAT. Specific tax: £30.61 per 1000	

VAT is also paid at 15 per cent (three twenty-thirds of retail pice).

Effective burden

On a packet of 20 king size cigarettes retailing at 150p the total tax burden is: 112.3p

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	4600	4675	4735
VAT on tobacco	970	995	1015

Specimen change

Price Increase	**£m yield in[1] 1987-88**	**1988-89**
1p on an average packet of cigarettes[2]	30	30

(This increase can be achieved by several combinations of changes in the rates of individual tobacco taxes).

Effect of a change on the Retail Price Index

1p on a packet, 0.03 per cent[2].

Business Costs

The incidence of tobacco duty on businesses is negligible.

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(1) Assuming mid-March Budget.

(2) These figures assume equivalent increases on other tobacco products.

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8. BEER AND CIDER DUTIES

Present Rates

Beer - the present duty rate for beer is £25.80 per hectolitre plus 86p for each degree of original gravity in excess of 1030° (the average strength of a pint is approximately 1037°).

Cider - £15.80 per hectolitre on cider of a strength of less than 8.5 per cent of alcohol by volume. Cider of a strength of 8.5 per cent or more is chargeable with made-wine duty.

VAT is also paid at 15 per cent (three twenty-thirds of retail price).

Effective Burden

Beer - Duty 18.1p per pint on beer of average strength. On a pint costing 78p, 10.2p of VAT is also paid.

Cider - Duty 9.1p per pint. On a pint costing 83p, 10.8p of VAT is also paid.

Estimates Beer	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	1970	2010	2045
VAT on beer	1160	1215	1275

Cider and perry	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	50	50	50
VAT on cider	75	80	85

Price increase	**£m yield in[1]** **1987-88**	**1988-89**
1p on an average pint	80	85

(1) Assuming mid-march Budget.

Effect of change on the Retail Price Index

1p on an average pint 0.06 per cent.

Business Costs

2 per cent of total beer duty receipts are assumed to be paid by businesses.

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9. WINE AND MADE WINE DUTIES

Excise duty rates on wine and made-wine -	**Present rate Duty per hectolitre**
Less than 15 per cent alcohol by volume	£ 98.00
15 per cent and over but not exceeding 18 per cent	£169.00
Exceeding 18 per cent but not exceeding 22 per cent	£194.00

Customs duty is also paid on non-EEC imported wine. VAT is also paid at 15 per cent (three twenty-thirds of retail price).

Effective burden

	Price (p)	**Size (cl)**	**Strength band**	**Duty (p)**	**VAT (p)**	**Total effective burden (p)**
EEC Table Wine "Hirondelle"	225	70	less 15%	68.6	29.3	97.9
"Harvey's Bristol Cream"	380	70	15% - 18%	118.3	49.6	167.8
"Cockburn's Special Reserve"	575	70	18% - 22%	136.4	75.0	211.4

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (including made wine but excluding revalorisation)	700	735	775
VAT on wine	440	480	520

Specimen Change

Price increase	**£m yield in(1) 1987-88**	**1988-89**
5p on a bottle (70 cl, NE 15^{o}) and equal percentage changes in the other strength bands, including made-wine	30	35

About 60 per cent of the extra revenue would come from light wine (ne 15 per cent) of fresh grape.

(1) Assuming mid-March Budget.

Effect of a change on the Retail Price Index

5p on a 70 cl bottle (NE 15^{o}) and equal percentage changes in the other rates, 0.04 per cent.

Business Costs

8 per cent of wine duty is assumed to be paid by businesses.

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10. SPIRITS DUTY

Present rate

Excise rate on mature and immature spirits is £15.77 per litre of alcohol. VAT is also paid at 15 per cent (three twenty-thirds of retail price).

Effective burden

£4.73 duty on a 75 cl bottle of domestically produced spirits at 70° (equivalent to 40 per cent alcohol by volume). On a bottle costing £7.90 (off-licence), £1.03 of VAT is also paid so that the total burden is £5.76 per bottle.

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	1500	1560	1615
VAT on spirits	505	540	570

Specimen changes

Price Increase	**£m yield in(1) 1987-88**	**1988-89**
30p on a 75 cl, 70° bottle	35	40

Effect of a change on the Retail Price Index

30p on a bottle 0.04 per cent.

Business costs

8 per cent of spirits duty is assumed to be paid by businesses.

(1) Assuming mid-March Budget.

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11. OIL DUTY

(A) PETROL

Present rate

19.38p per litre. VAT is also paid at 15 per cent (three twenty-thirds of retail price). Petroleum substitutes and LPG are taxed at a related rate.

Effective burden

88.1p per gallon.

On a gallon of four-star petrol costing £1.75, VAT of 22.8p is also paid, and the effective burden for the private motorist is 111p. VAT is reclaimed on business use, which accounts for about a third of petrol consumption.

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	5720	6000	6260
VAT on petrol*	950	1010	1070

* Not including VAT reclaimed on business use

Specimen change

Duty increase	**£m yield in(1)**	
	1987-88	**1988-89**
2p on a gallon (including VAT)	100	110

Effect of change on the Retail Price Index

2p on a gallon: immediate efect 0.05 per cent.

Business costs

About a third of petrol duty is assumed to be paid by businesses.

(1) Assuming mid-March Budget.

OIL DUTY

(B) DIESEL ENGINED ROAD VEHICLE FUEL (DERV)

Present rate

16.39p per litre. VAT is also paid at 15 per cent (three twenty-thirds of retail price) but this can be reclaimed by registered traders. The use of DERV by private motorists is negligible.

Effective burden

74.5p per gallon (the private motorist pays a further 21p in respect of VAT on a gallon of DERV selling at £1.59 (a VAT exclusive price of £1.38)).

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	1430	1500	1565

Specimen change

Duty increase	**£m yield in(1)**	
	1987-88	**1988-89**
2p on a gallon (including VAT)(2)	25	25

Effect of change on the Retail Price Index

DERV is to be included in the RPI from January.

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Ext 5044

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(1) Assuming mid-March Budget.

(2) DERV is normally purchased by registered traders who can reclaim any VAT charged as input tax, so the effective price increase to them would be 1.74p.

OIL DUTY

(C) REBATED OILS

Present rate

0.77p per litre. The duty on aviation kerosene and most lubricating oils was abolished in the 1986 Budget. The duty on kerosene used other than as aviation fuel was abolished in the 1984 Budget. All rebated oils are zero-rated except for lubricating oils which are chargeable at the standard rate of VAT.

Effective burden

3.5p on a gallon of fuel oil costing 37p.

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
Duty (excluding revalorisation)	160	170	175

Specimen change

Duty increase	**£m yield in[1]**	
	1987-88	**1988-89**
1.0p on a gallon on all rebated oil	45	50

Effect of a change on the Retail Price Index

1p on a gallon of all rebated oil. Immediate effect negligible.

Business costs

Over 90 per cent of rebated oil duty is assumed to be paid by businesses.

(1) Assuming mid-March Budget.

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12. **BETTING AND GAMING**

Present Rates

General Betting Duty	- Off-course	8 per cent on stakes
	- On-course	4 per cent on stakes
Pool Betting Duty		42½ per cent on stakes ($33^1/_3$ per cent for charity pools)

Taxes are also levied on Bingo Halls, Casinos and Amusement Arcades.

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
General Betting duty	325	350	380
Pool Beting Duty	245	260	285
Gaming Duties	190	205	220
All Betting and Gaming	760	815	885

Specimen Changes

An increase in the general betting duty may give a stimulus to the existing incentive for illegal betting posed by the current combined rates of duty and racing levy. It is not known by how much the revenue gain from increasing the rates would be eroded.

Effect of change on the Retail Price Index

Negligible.

(No betting activity appears directly in the RPI. The effect of changes in pool betting duty on the price of admissions to football matches is expected to be negligible).

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13. VALUE ADDED TAX

Present rate

15 per cent

Zero-rated Items

Most foods; water supplies; books, newspapers etc; fuel and power (excluding road fuels); some building work; certain services to overseas traders; most commercial ships and aircraft; passenger transport (except taxis); residential caravans and houseboats; certain supplies of gold; bank notes; drugs and medical supplies on prescription; exported goods; certain supplies by certain charities; young children's clothing and footwear.

Exemptions

Land; insurance; postal services; sweepstakes and lotteries; financial services; most educational services; doctors, dentists and opticians; burial and cremation services; sports competitions.

For more detailed information on the zero-rated and exemption schedules see Customs and Excise Notice No 701. ("VAT Scope and Coverage")

Estimates	**£m 1986-87**	**£m 1987-88**	**£m 1988-89**
1. Full year yields (accruals)	22000	23960	25590
2. Receipts	21800	23970	25600

Specimen change

	£m yield in[1] 1987-88	**£m yield in[1] 1988-89**
% change in rate including compounding on tobacco[2] +1 percentage Point (15 per cent to 16 per cent)	855	1170

(exclusive of Central Government and Local Authorities)

Effect of a change on the Retail Price Index

± 1 per cent change in rate ± 0.5 per cent change in the RPI

Business Costs

VAT on inputs, other than cars and business entertainment, can be reclaimed by registered traders.

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(1) Assuming mid-March Budget

(2) The tobacco products duty on cigarettes has ad valorem and specific elements. The ad valoren duty is levied on the VAT inclusive recommended selling price which will change if the VAT rate is changed.

14. CAR TAX

Present rate

10 per cent on the wholesale price of all new cars and motor cycles.

Effective burden

VAT is also paid at 15 per cent on the retail selling price, so taxes total about 19.7 per cent of the selling price of a new car.

Estimates

	Car tax			VAT on new cars		
	£m 1986-87	£m 1987-88	£m 1988-89	£m 1986-87	£m 1987-88	£m 1988-89
Accruals	1020	1105	1165	1985	2150	2265
Receipts	980	1090	1165	1905	2120	2265

Specimen change

	£m yield in(1)	
	1987-88	1988-89
10 per cent to 12½ per cent	275	295

RPI effect

There is no direct effect on the RPI as the price index for all cars is based on the prices of second-hand cars. A change in car tax would be expected to affect the price of second-hand cares indirectly, however, so that there would be some eventual impact on the RPI.

Business Costs

About two-thirds of car tax duty is assumed to be paid by businesses.

(1) Assuming mid-March Budget.

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15. REGULATOR POWERS REVENUE EFFECTS

EXCISE DUTIES

Group[2]			Change in price due to 10% Regulator	£m yield from Regulator in[1] 1987-88	1988-89	Change in Retail Price Index %
A	Tobacco 150p (20 king size) cigarettes)	Full Regulator	13.1	360	385	0.40
		10 per cent specific tax regulator only	9.3	260	275	0.28
B	Beer 78p (1 pint of beer)		2.1	165	180	0.12
	Spirit 775p (bottle of whisky off licence)		54.4	65	70	0.08
	Wine 225p (EEC Table wine per 70 cl bottle		7.9)			
	(Harvey's Bristol Cream per bottle) 380p		13.6)	50	55	0.06
	(Cockburn's Special Reserve per bottle) 575p		15.7)			
C	Road Fuel (Gallon of 4-star) 175.5p		10.1[3]	500	550	0.24
	(Gallon of Derv) 159.6p		7.5[4]	115	125	nil
C	Rebated Oil (Gallon of fuel oil) 37p		0.35	15	15	neg

NOTES

(1) Assuming Mid-March Budget.

(2) Under the provisions of the 1982 Finance Act the taxes on each of the items in a group may now be changed by different proportions. The maximum changes are illustrated here.

(3) The business user who deducts VAT will in effect pay only 8.8p.

(4) For the business user; that is, excluding VAT. The private motorist would pay an extra 8.6p.

VAT[1]

Total Revenue Yield from 25 per cent Regulator.

1987-88 £m	1988-89 £m	Change in RPI %
3105	4265	1.9

NOTE

(1) The figures quoted are exclusive of Central Government and Local Authorities.

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16. MOTOR VEHICLE DUTIES ETC

		UK
		£pa
Present Rates		
Motor Cars and light goods vehicles		100

Illustrative Table

Goods generally taxed according to gross weight and wheel plan

	Gross Weight (Tonnes)	
Rigid (without trailer):		
2 Axles	13	410
"	16½	1,030
Articulated (excluding concessionary rates)		
2 Axled tractive unit with any semi-trailer	16	590
	23	1,000
	32½	2,450
	38	3,100
3 axled tractive unit with any semi-trailer	16	440
	23	620
	32½	2,450
	38	2,730

Estimated Yield - United Kingdom 1987-88
(assumed current tax rates)

	UK £m	GB £m	NI £m
By class of vehicle:			
Cycles	20	20	-
Private, Light Goods Vehicles	2069	2020	49
Heavy Goods Vehicles	461	448	13
Tractors & Agricultural etc machines	8	8	neg
Hackneys	10	10	neg
Trade Licences	6	6	neg
Grand Total	**2574**	**2512**	**63**
* Other receipts	13.9		
Driving Licence Receipts	18.8		

Specimen Changes	£m
For each £5 Private Light Goods Licence	103.5
For 5 per cent change in Goods licence	23.0
For 5 per cent change in Tractors, etc	0.4
For 5 per cent change in Hackneys	0.5
For 5 per cent change in cycles	1.0

* Includes mitigated penalties and fees for retention of cherished registration numbers, duplicate registration documents and duplicate licences.

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18 December 1985

ESTIMATED VED YIELD AND VEHICLE NUMBERS - UK

1. Breakdown by Vehicle Category

		1986-87 Yield £m	Number of Vehicles Licensed September 1986 '000
Schedule 1:	Cycles	21	1223
Schedule 2:	Hackneys	9	127
Schedule 3:	Haulage Machines	2	6
	Agric Machines	6	383
		8	**389**
	HGV (Farmers)	7	28
	Other HGV	448	544
		455	**572**
Schedule 5:	Private/Light Goods	2018	19055
	Light Goods Farmers and Showmen	4	44
		2022	**19099**
	Trade Licences	5	**92**
	GRAND TOTAL	**£ 2520**	**21502**

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17. NATIONAL INSURANCE CONTRIBUTIONS

There are four classes of NICs:

Class 1 (Employees) - If an employee earns more than the lower earnings limit (£39 per week in 1987-88) they pay primary Class 1 contributions and their employer pays secondary contributions. The rates of contribution in 1987-88 are at the following percentages of gross weekly earnings up to the upper earnings limit (£295 per week in 1987-88):

Not contracted-out

		Paid by employee	Paid by employer	Total
Normal :	Earnings £39 to £64.99	5%	5%	10%
:	Earnings £65 to £99.99	7%	7%	14%
:	Earnings £100 to £149.99	9%	9%	18%
:	Earnings £150 to £295	9%	10.45%	19.45%
Opted out married women		3.85%	As in normal schedule	
Persons over pensionable age		-	As in normal schedule	

For earnings above the upper earnings limit employer's contributions remain at 10.45 per cent of gross weekly earnings. However for employee s there is a maximum contribution of £295 x employee rate (at not contracted-out rates = £295 x 9 per cent = £26.55).

Where the employee is contracted-out the percentage rates are reduced by 2.15 per cent (primary/employee) and 4.1 per cent (secondary/employer) on the slice of earnings between the lower earnings limit and the upper earnings limit.

Class 2 (self-employed) - Flat-rate payment of £3.85 in 1987-88 by all self-employed persons over the age of 16 with earnings above £2,125 per annum.

Class 3 (Voluntary) - Voluntary flat-rate contributions may be paid by persons 16 and over to enable them to qualify for certain benefits. The rate is £3.75 in 1987-88.

Class 4 (Self-employed) - Earnings related contributions for the self-employed. They are paid if earnings are above the lower profits limit of £4,590 (in 1987-88) at the rate of 6.3 per cent of earnings above the LPL. There is no contribution payable on earnings above the upper profits limit of £15,340.

Specimen changes

1. Contribution rates in 1988-89

Yield of an additional 1 per cent on contribution rates:

			GB	UK
Standard rate employees:				
	Weekly earnings:	£ 40 - £ 65	44	45
		£ 65 - £100	79	82
	(UEL £305)	£100+	1561	1594
Reduced rate employees:			56	57
Employers:				
	Weekly earnings:	£ 40 - £ 65	53	54
		£ 65 - £100	91	93
		£100 - £155	295	303
		£155+	1430	1458
Self-employed: (Class 4)			72	73

Yield of an additional £1 on flat-rate contributions

			GB	UK
Self-employed:		(Class 2)	109	112
Voluntary:		(Class 3)	7	7

These are contributions due in respect of the tax year+ (full year effect) and exclude Treasury Supplement*.

A 1 per cent increase is assumed for all contributors including those groups (eg HMF) paying at special rates.

2. Earnings ceilings for contributors

The effect on contributions in respect of 1988-89 of abolishing the upper earnings limit for employees (although retaining it for the calculation of contracted-out rebate) and the upper profits limit for the self-employed from their assumed levels of £305 pw and £15860 pa is:

National Insurance Fund

	£m			
	Employees		**Self-employed**	
	GB	**UK**	**GB**	**UK**
Excluding Treasury Supplement	945	955	230	235
Including Treasury Supplement	1010	1020	245	250

3. Rate of SSP+

The effect on contributions in respect of 1988-89 of increasing the main rate of SSP by £1, with proportionate change for the other rate, is to reduce contribution income to the National Insurance Fund by £15.8 million (£16.3 million for the UK). This excludes the effect of additional contributions payable by employees and the Treasury Supplement payable thereon; together these would amount to at most £1.4 million (£1.5 million for the UK).

4. Rate of SMP+

The effect on contributions in respect of 1988-89 of increasing the rate of SMP by £1 is to reduce contribution income to the National Insurance Fund by £6.5 million (£6.7 million for the UK). This excludes the effect of additional contributions payable by employees and the Treasury Supplement payable thereon; together these would amount to at most £0.6 million.

Notes

+ Class 1 contributions are collected with PAYE income tax. There is an initial delay of some six weeks before changes in contribution rates are reflected in receipts. There are longer delays in the collection of contributions from the self-employed and voluntary contributions.

* There is an automatic Treasury Supplement of 7 per cent of the total contributions paid to the National Insurance Fund. Contributions used are after adding back estimated contracted-out rebates and SSP and SMP reimbursement to employers but exclude state scheme premiums.

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18. PROJECTED INCOME OF NATIONAL INSURANCE FUND

GB (£ million)

	April 1987 Rates and Limits		New Limits*	
	1987-88		1988-89	
CONTRIBUTIONS	**Receipts**	**Contributions in respect of tax year**	**Receipts**	**Contributions in respect of tax year**
Employees	10935	11032	11760	11866
Employers	12680	12785	13751	13892
Self-employed	645	672	696	739
Voluntary	21	21	20	21
Premiums[ø]	325	325	346	346
Total	24606	24835	26573	26864
SSP and SMP	888	916	989	996
Net Total	23718	23919	25584	25868
Treasury Supplement[+] Fund	2032	2051	2160	2179
Total NI Fund	25750	25970	27744	28047

(1) the figures shown in the table are on the basis of average numbers of employees in employment (including members of HMF) and the average earnings summarised below:

	Average gross earnings of employees in employment (£pa)	GB Employees in employment (000s)
1985-86	7937	21334
1986-87	8532	21410
1987-88	9087	21680
1988-89	9587	21734

It is the movement of these quantities since 1985-86 which is important rather than their absolute magnitudes, since our estimates are normalised on the actual 1985-86 contributions. Class 1 contributions are very nearly proportionate to the number of employees.

(2) The effect on contributions in respect of the tax years shown of average earnings 1 per cent higher or lower than has been assumed, with no effect on numbers, is:

	£m 1987-88
National Insurance Fund	
Excluding Treasury Supplement	245
Including Treasury Supplement	265

Because Class 4 contributions in respect of a tax year depend on earnings in a previous period it is assumed that self-employed contributions are unaffected except for those who have earnings from employment and are affected by the upper limit on contribution liability.

(3) The effect on contributions in respect of the tax year shown of ± 100,000 unemployed in GB, excluding school leavers and students, which would effect the number of employees in employment, is:

	£m 1987-88
National Insurance Fund	
Excluding Treasury Supplement	140
Including Treasury Supplement	150

Notes to the tables

* From April 1988 Class 1 lower and upper earnings limits are assumed to rise to £40 and £305 pw from their 1987-88 values of £39 and £295 pw. The earnings limits which determine the bands on which lower rates are paid are assumed to rise from £65, £100 and £150 pw to £65, £100 and £155 pw. Class 1 contribution rates are assumed to remain unchanged.

  Where the employee is contracted out, the percentage rates of contributions in 1988-89 are assumed to be reduced by 1.85 per cent (primary/empoyee) and 3.55 per cent (secondary/employer) on the slice of earnings between the lower earnings limit and the upper earnings limit.

  Classes 2 and 3 contributions are assumed to rise to £3.99 and £3.89pw respectively with the range for Class 4 contributions changing from £4590/£15340 to £4762/£15860 pa. The Class 4 rate is assumed to remain unchanged.

  The standard rate of SSP is assumed to increase to £48.95 pw with a proportionate increase for the lower rate. The rate of SMP is assumed to increase to £34.10 pw.

+ 7 per cent of contributions excluding state scheme premiums but before deducting contracting-out rebates.

ø for premiums the convention is adopted that contributions in respect of a tax year are the same as the receipt in the same period.

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19. NATIONAL INSURANCE BENEFITS

Announced rates of benefit (from 6 April 1987)

1.	National insurance flat rate retirement pension:	
		£
	single	39.50
	married	63.25

Pensioners over 80 receive an extra 25p age addition

Pension is increased for each dependent child by:	8.05

A person who does not retire on reaching pensionable age becomes eligible for increased pension when they do retire. No further increase can accrue after the age of 70 (men) or 65 (women).

Since April 1979 pensions have been in two parts. As well as the flat-rate pension there is an earnings-related additional component (AC) based on contributions on earnings above the basic level in the relevant years. (Widows benefit and invalidity pension similarly attract an additional component).

2.	Widow's allowances	55.35
	Widowed mother's allowance	39.50
	Widow's pension (50+)	39.50
	Invalidity pension: single	39.50
	Dependency increase for wife of invalidity pensioner:	23.75
	Dependency increases for children:	8.05

Invalidity allowance is payable if age of onset of illness is less than 60 (55 for women). The rate of invalidity allowance depends on the age of onset of illness.

3.	Sickness, and maternity benefit: single	30.05
	Dependency increases for wife:	18.60

4.	Unemployment benefit: single	31.45
	Dependency increase for wife:	19.40

Earnings related supplement was abolished in January 1982

COST IN 1988-89 OF A 1 PER CENT UPRATING IN APRIL 1988

GREAT BRITAIN **£ MILLION**

Benefits uprated	NI Fund	Non means tested Non NI fund benefits	Supplementary Benefit	Housing Benefit (Rents only)	Net Cost
Retirement pensions only	180		-40	-13	127
Retirement pensions, supplementary pension and housing benefit for pensioners	180		5	negligible	185
Long term benefits +(1)	220	17	32	-14	255
Short term benefits +(2)	18	6	52	-1	75
Additional component (3)	6.4				6.4
All benefits except child benefit, FIS, supplementary benefit and housing benefit	241	28	-52	-14	203
All benefits except child benefit and FIS	241	28	78	7	354

Effect of a £1 increase in Child Benefit and One Parent Benefit in April 1988

GREAT BRITAIN **£ MILLION**

		1988-89	1989-90
Cost	Child Benefit	615	635
	One parent benefit	35	35
Savings	Child Dependency Additions		
	- retirement pension only	2	2
	- long term benefits - NI fund (1)	20	20
	Non-fund	0.5	0.5
	Supplementary Benefits	140	150

\+ Excludes housing benefit

(1) Comprising: NI Fund: (RP (excluding AC), WB (excluding AC), IVB (excluding AC), Dis Ben, IDB,II old cases.
Non means tested, non NI Fund benefits: NCRP, AA, ICA, SDA, War Pensions Supplementary benefit: Supplementary pensions and long term allowances

(2) Comprising: NI Fund: UB, SB, MA
Non means tested, non NI Fund: Mob A
Supplementary benefit: Supplementary allowance - basic scale

(3) AC payable with RP IVB and WB

Effect of change in the number of wholly unemployed (GB)

	April 1987 rates		April 1988 rates 3¾ per cent uprating
£ million	1987-88	1988-89	1988-89
± 100,000 in 1987-88 and 1988-89			
Supplementary benefit/housing benefit	120	155	160
Unemployment benefit	95	65	70
± 100,000 in 1988-89 only			
Supplementary benefit/housing benefit		120	125
Unemployment benefit		95	100

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