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PART A

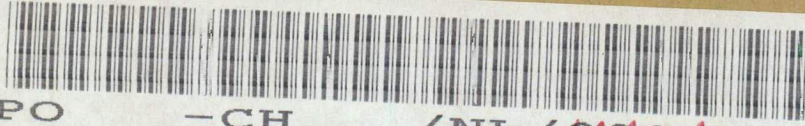
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PART A

1984 BUDGET DEBATE

DDs 25 years NAGL3 25/08/94

PO -CH /NL/0010
0814

PART A

SIR TERRY BURNS

FROM: C J RILEY
DATE: 27 October 1983

cc Mr Cassell
Mr Evans
Mr Lankester
Mr Odling-Smee
Mr Barber
Mr Bottrill
Mr Mowl
Mr Sedgwick
Mr Shields
Mr Bell
Mr Ritchie

OECD PAPERS ON FISCAL AND MONETARY POLICY

You may be interested in the attached note by Steven Bell on two papers which have recently emerged from the OECD. Both are by Chouraqui and Price, and they cover much the same ground.

2. The emphasis in both papers is on fiscal policy, though the relationship with monetary policy features strongly throughout. The need to be exhaustive and fair to the viewpoints of member governments makes for fairly turgid reading, and to be honest the papers are of fairly limited interest. But one or two interesting sections are worth noting.

3. The paper discusses at some length the issue of medium term constraints on fiscal policy and the problems which may be incurred in implementing them. Discussion of the appropriate medium term path for the fiscal deficit is rather confused. The case for a medium term 'norm', related to the private sector's demand for financial assets, is accepted. But the discussion is mostly in terms of the need for a balanced budget, with only a brief qualification about the need to supply additional financial assets as nominal incomes grow.

4. More interesting is the discussion of potential instability when attempting to implement a desired PSBR path. The argument is that under certain conditions, ex ante cuts in the PSBR may lead to ex post increases because of the effects on activity, and hence taxes and benefits. This may lead to further ex ante cuts, and hence excessive deflation. The danger of this is greatest if

multipliers are high, which could be the case for the OECD area as a whole, and if fiscal deflation is accompanied by increases in interest rates - and hence debt interest - because of tight monetary targets. The paper does not argue that such instability has actually occurred in practice, but essentially sounds a cautionary note. The analysis provides support (not explicit in the papers) for our policy of not putting too much weight on high interest rates in the adjustment process.

5. The other part of the papers which is of interest is the discussion of automatic fiscal stabilisers. The argument that tax and benefit systems are not typically designed to produce optimal responses from the point of view of stabilisation is of course familiar. But the authors note also the trade-off between stabilisation and the structural effects of the tax system. In recent years, governments - particularly in the US and the UK - have paid more attention to structural factors, and consequently have pursued policies designed to cut marginal tax rates and reduce the burden of personal taxation. The the extent that they have succeeded in this objective, the power of the fiscal stabilisers will have been reduced.

6. Attempts to increase incentives and raise potential output growth may thus tend to increase the scale of fluctuations in output, ceteris paribus. But in practice ceteris will not be paribus. The paper fails to point out that placing less weight on fiscal stabilisers may, in a regime of monetary targets, permit greater weight to be put on monetary stabilisers. A smaller rise in the PSBR in a recession may permit lower interest rates, so the trade-off between stabilisation and incentives is perhaps less clear.

7. Finally, you may be interested in some of the charts and "scattergrams" attached to Steven Bell's note, which the authors use to illustrate the stance of policy and other relationships.


C J RILEY



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 4391

PERM. SEC'S. OFFICE

RECEIVED

- 7 MAR 1984

Action	MR ROBSON
Copies	MR CASSELL
To	MR MONCK
	MR BURGNER

SIR KENNETH COUZENS KCB
PERMANENT UNDER-SECRETARY OF STATE

6 March 1984

R

Dear Mr Williams, ^{P.M.}

Sir Kenneth, who is at the moment in the United States, suggested that you might like to see the attached copy letter from Slaughter & May, the Dorset Group's Solicitors, and wished me to draw your attention particularly to the third paragraph. Treasury officials have of course already had a copy of the letter.

Yours sincerely,

V E Wright

Mrs V E Wright
Personal Secretary

J F Williams Esq
Private Secretary to
Sir Peter Middleton KCB
HM Treasury
Whitehall
SW1.

SLAUGHTER AND MAY

K. E. WRIGHT	G. TURNER	G. I. HENDERSON	J. H. MACASKILL
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 Trusts: R. E. M. Haworth

35 BASINGHALL STREET
 LONDON EC2V 5DB

YOUR REFERENCE IN REPLY PLEASE QUOTE

CJVR

29th February, 1984.

Department of Energy,
 Thames House South,
 Millbank,
 London, SW1P 4QJ.

*Mo DPL cc to: PS/PAS
 Mr Gendress
 Mr Wilson PERO
 Mr Campbell
 Mr Long
 Mr S. P. O'S
 Mr Wright
 Mr Ross Oil
 Mr Mann P&O
 Mr Barclay Oil
 Mr Robinson T&G*

For the attention of the Secretary of State

Dear Sirs,

Acquisition by the Dorset Group
 of the British Gas interests in
Licence PL.089

Return to me

As you will be aware we act for the various companies comprising the Dorset Group and we now enclose for your attention final drafts of the following documents :-

BS/1/3

1. Sale and Purchase Agreement.
2. Debenture.
3. Change of Operator Agreement.
4. New Joint Venture Operating Agreement.
5. Counter-indemnity.
6. Licence Assignment.

} being circulated separately as appropriate

Copies of these documents have today been submitted to the board of the British Gas Corporation. It is not anticipated that there will be any substantive changes to these draft documents which you will be aware have been negotiated over many months, although minor editing and typographical errors may be required.

It is the opinion of the Dorset Group that this transaction should now be completed as promptly as possible and we understand that the board of British Gas are expected to give an answer on the 7th March. It is the view of the Dorset Group that completion should take place as promptly as possible after this Board Meeting particularly in the light of the forthcoming budget on the 13th March and it would seem from the point of view of the Dorset Group (whose financing arrangements have now been made) that all matters can be conveniently completed on the 12th March

*47
 2/3*

Department of Energy

29th February, 1984.

2.

prior to the announcement of any fiscal changes which would impact on the transaction. Any measures which you can organise to achieve this objective will be much appreciated and we would emphasise that the members of the Dorset Group and ourselves will be ready at all times, even on the shortest notice, to attend at the Department to discuss any matters or answer any queries.

We will be letting you have a draft, in the course of the next few days, of the formal consent letter from the Secretary of State which we think will be required and will be pleased to discuss this with you then.

Yours faithfully,

Langford



FROM: A P HUDSON

DATE: 6 March 1984

MR LORD

cc PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton ✓
Mr Monck
Mr Monger
Mr Battishill
Mr M A Hall
Mr Folger
Mr Ridley
Mr Beighton - IR
PS/IR

FINANCIAL SECRETARY'S SPEECH IN THE BUDGET DEBATES

1. The Financial Secretary had a discussion yesterday afternoon with you, Mr Monck, Mr Monger, Mr Beighton, Mr Battishill, and Mr Portillo, about his speech for the Budget Debates.
2. The Financial Secretary said that he wanted his speech to have four sections:
 - a. the first theme "a Budget for the future";
 - b. the second theme, "a Budget for jobs";
 - c. response to points in debate;
 - d. peroration.
3. The Financial Secretary asked you to prepare the structure of the argument on the first theme. He suggested that the passage might start with the past, setting out the 20 year background, with Governments of both parties, leading to a situation which nobody liked. We were therefore looking for a system which encouraged profitability.

4. A number of points were made in discussion. The Financial Secretary wanted to make the point that a better quality of investment was important, in that if a company had higher profitability and higher internal rates of return, it tended to invest more. Mr Battishill and Mr Beighton advised that this could not be pushed too far, because the argument pointed to a classical system of corporation tax. Mr Battishill suggested linking two effects of higher profitability: companies would be able to invest more from retained profits; but they would also be able to pay higher dividends, which meant there would be more money for the capital markets to recycle. He also thought it would be helpful to analyse separately the effects of, on the one hand, the reduction in the burden of corporate taxation, and on the other hand the changes in structure. Mr Monger thought that it would be unwise to place too much emphasis on a future increase in the quantity of investment: This might well happen, but it would not be easy to get the idea across at a time when direct investment incentives were being reduced. Mr Monck made the more general point that in the last Parliament, the Government had torn up one area of conventional wisdom, and in the new Parliament was doing the same in another area.

5. Mr Monck agreed to prepare a similar structured argument on the second main theme. The Financial Secretary suggested that five points might be covered: the impact of threshold increases on demand; NIS abolition; extra profitability from the CT reduction; acceleration of projects - as a defensive point only; and the removal of a disinclination to employ people, under the new conditions.

6. As preparation for responding to the debate, the Financial Secretary asked for one sheet of paper on each of a number of issues. Each sheet should give the relevant facts and figures, and the ~~bul~~ points for positive and defensive argument. I am very grateful to Mr Beighton for commissioning this work within the Revenue, and I attach the list of points which he has covered. I would indeed be grateful if Mr Monger could arrange for Customs input, and also for a brief on any relevant points on NIS (which should be pretty ~~short~~^{short}).

7. Mr Portillo was asked to prepare a written peroration. The thrust of this should be that the past 5 years had shown that the Government could impose a discipline on itself (the MTFS), This was not going to be surrendered. But the Government was now looking at a radical route forward. Past failure resulted from rigidities and distortions imposed by the Government. The way forward was freedom to make profits.

8. The Financial Secretary would be grateful for the material as soon as possible, if possible by tomorrow evening.



A P HUDSON

7 MAR 1984

FROM : S A ROBSON
DATE : 7 MARCH 1984

PS/SIR PETER MIDDLETON

c.c. Mr Cassell
Mr Monck
Mr Burgner

P WYTCH FARM

The letter of 6 March from PS/Sir Kenneth Couzens.

2. This letter merely draws our attention to the Dorset Group's desire to complete the deal on 12 March. This is not new information. It was referred to in Sir Kenneth's letter of March 5 to Sir Peter.
3. As such this latest letter does not call for a reply and it does not reopen any of the issues covered in my submission of 5 March. It remains my recommendation that Sir Peter should respond to Sir Kenneth along the lines of the draft attached to that submission.

SAR

Done
(+ James
Cassell)

S A ROBSON

101/106



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
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LONDON SW1P 4QJ
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*Yours sincerely,
V E Wright*

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CJVR

29th February, 1984.

Department of Energy,
 Thames House South,
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*Mo DPL cc to: PS/PAS
 Mr Guinness
 Mr Wilson PERO
 Mr Campbell
 Mr Long
 Mr S. P. ...
 Dr Wright
 Mr Cross oil
 Mr Mann P&O
 Mr Barclay oil
 Mr ...*

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Department of Energy

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Yours faithfully,

Augustine A. M. G.

BRAD 11/11/24

BUDGET: SECRET

E 3

FROM: ADAM RIDLEY
7 March 1984

MISS O'MARA

cc PS/CST
PS/FST
PS/MST
PS/EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Battishill
Mr Folger
Mr Norgrove
Mr Lord
Mr Portillo

PS/IR
PS/C&E

↙

BUDGET SPEECH

... Your various minutes of March 6 ask for comments. I attach specific drafting proposals. In addition there are two larger issues.

2. First, style. I have long believed that the typical Budget Speech - particularly those of Mr Healey - has tended to sound rather arrogant and egocentric if it is plastered with 'I' everywhere. This draft seems to do so needlessly often, perhaps particularly in the detailed description of measures at the end. So I would urge a major effort to excise as many as is possible.

3. Second, the VAT extension in Block K and income tax allowance changes in Block L. The extension can, I believe, be presented more positively as not regressive, without going as far as denying that the less well-off buy papers, repair homes or eat take-away food. This could be a useful extra theme in K. By the same token one might want to make it clearer in L how far the higher allowances will more than offset the VAT effects, and leave most low and middle income people with higher after-tax earnings. A final point which could be worth making is that social security beneficiaries will get full compensation for the VAT changes as the May RPI up-rating should largely reflect their impact, and the **historic** system ensures that all their impact will be taken into account as a matter of **principle**.

AN

A N RIDLEY

BLOCK A

- § 3. One could describe the effects of the MTFs in more favourable terms, for example by an expression like "the fruits of the MTFs....".
And does not the second half of the sentence not imply the recovery has only just started? This could be strengthened on the lines of
"..accompanied for some time by a steady recovery of output and rising living standards and, more recently, by rising employment."

THE ECONOMIC BACKGROUND

- § 2. For the unsophisticated would it not be better to replace 4.6% by "about 4½%"?
- § 3. The last sentence would read better
"Recovery has emerged because falling inflation has made room for real growth..."
- § 7. The point at the end about income earning assets could be reinforced, if one so wished, by referring to the substantial income they generate. As the very recent report on the 1983 Balance of Payments revisions suggest, they are generating a flow of IPD of something like £¼ billion a quarter - or some £3 billions a year.
- § 9. It might help reinforce the good prospects for investment if one added at the end of the last sentence something on the lines of
"...total investment is expected to rise by 6% this year, and by more still in manufacturing".
Provided, of course, we are content with this forecast!

BLOCK D: MTFs

- § 4. The last sentence might read better
"It is therefore assumed, for the purpose of presentation, that the level of real public spending in 1987-8 and 1988-89 is the same as that currently planned for 1986-7."

BLOCK F: PUBLIC SECTOR BORROWING

5. The last phrase reads awkwardly. Should one talk of "any other reduction in net public expenditure"? I would suggest something on the lines of "asset sales reduce the Government's need to borrow just as do reductions in other kinds of public spending. But as a rule they do not help lower interest rates to the same extent."

BLOCK G: PUBLIC SPENDING

2. The reference in the third line to "steady increase" in the tax burden is not technically correct, as the LTPE paper shows. It may not matter much, but "substantial increase" would be more accurate. Once again, the unsophisticated listener may be bemused by the percentages in the later part of the paragraph, and it would be better to say "with a taxable income of nearly half of average earnings" for 45%; and "under a third of average earnings" for 30%.
4. Is comprehensible to us, but it may be a bit too terse for the ordinary listener. The principal of "finance must determine expenditure" is lurking at the end, but a bit obscurely. And there really seem to be three points struggling to get out. The first that marginal changes are not enough; second that fundamental reviews are needed; and third that these must be constrained by the total that can be afforded. I would be tempted to redraft on the (very rough) following lines.
- First, at the beginning of para. 3 write
"...what we have seen is a steady and unplanned enlargement of the role of the State...."
- Then begin para. 4
"Clearly this dangerous process has to be halted and reversed. That cannot be done sensibly simply by making ad hoc marginal changes in public spending from year to year. Some issues need more fundamental reviews over a longer time scale. Nor can it be done simply by considering the purposes of our various public spending programmes. The programmes which have created this malign result have for the

most part been directed to eminently desirable ends. What is clearly essential is that the total impact of the decisions we take about individual programmes should fit in with the best view we can make of what we are likely to be able to afford over the longer term."

BLOCK J: BUSINESS TAXATION

- § 15. The third line does not make it clear that it is deduction against tax which is at issue. Perhaps someone think like the following would be better:
- "- allows a company to offset interest paid against that tax in full, but dividends only partially so."
- § 17. The date at the end of the first sentence gets lost. Better would be
- "..and £600 million in 1985-6 - made up of...."
- § 18. This gets a bit jargonish. Is one not really saying something like
- "I expect these changes to have a somewhat different impact in the short and longer term".? (First sentence)
- § 22. The phrase "a special measure" is over doing it a bit in reference to the VAT registration threshold. Perhaps delete "special"?
- § 40. The reference to the extra £1.2 billion from bringing forward VAT receipts will hit people pretty hard, coming as quickly as it does. Does one not need to say something to indicate that part of this burden will fall on foreign importers; and that much of the rest of it can be met by extension of credit, at a relatively modest cost in terms of extra interest paid? Quite apart from anything else, people would immediately set this very large figure alongside the rather smaller estimates of the costs of the CT measures set out in para. 17.

BLOCK K: PERSONAL AND INDIRECT TAXATION

- § 9. The fourth line from the end reads oddly. Clearly better would be
- "higher duty on competing imports".

BLOCK L: INCOME TAX

~~§ 5. The reference to "every penny I have in hand" is not strictly fair at this stage in the exposition, given that IIS and stamp duty are still to come.~~

- § 6. This seems to underplay the considerable presentational importance of only indexing the upper threshold. The point will be lost on people by the time the first sentence 6 has been spoken, and the listener is deluged with meaningless figures in thousands of pounds.

BLOCK I: SAVINGS AND INVESTMENT

- § 9. The treatment of life assurance relief is very bald. The justification for abolishing it in the second sentence does not carry any conviction. The fact that there may now be other forms of savings open to ordinary people will not appear sufficient reason for eliminating the relief - people will still think it worth giving some encouragement to life assurance. And does one not need to emphasise that with the multiplicity of savings outlets now open to people, what will happen as a result of the change proposed is a reallocation rather than reduction of personal savings, with the money being distributed more sensibly and evenly between the various opportunities open to people?

- § 10. The first sentence may have to stay as it is; but I wonder whether it will not lead to anxiety about pension funds? A minimal change that might help would be to write
"..the abolition of these outdated privileges for institutional investment..."

- § 14. The term composite rate needs to be introduced into the first sentence - e.g. in line 4 - if it is to be referred to crudely at the end of the first sentence.

- § 15. The first sentence is a little obscure. Is one not trying to say
"...the advantage of the present arrangements for taxing **B**uilding Societies outweighs the disadvantage"?

§ 17.

One needs to make more explicit the assumption relevant to the last sentence that the Revenue would have faced these impossible difficulties if the present tax system were continued. This could be done either by breaking up the sentence; or by a redrait, such as

"...impossible task the Revenue would otherwise have been faced with under the present system
Were the recent trend..."

7 MAR 1984

FROM: R A L LORD
DATE: 7 MARCH 1984

cc. PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Battishill
Mr Folger
Mr Norgrove
Mr Ridley
Mr Portillo
PS/IR
PS/C&E

MISS O'MARA

BUDGET SPEECH

One or two comments.

BLOCK I

Paragraph 7: Omit 'an exemption I now propose to extend to certain convertible loan stocks'. I believe the Revenue have now withdrawn this proposal since they believe ~~these~~ convertibles are already exempt from stamp duty under the existing law.

BLOCK J

Paragraph 12: Substitute 'most other capital allowances' for 'all'. Enterprise zones will continue to attract 100% capital allowances.

Paragraphs 40 & 41: Now presumably 1st November.

BLOCK K


Paragraph 19: Add 'Taking into account the reductions in income tax which these changes will enable me to make, the effect of personal

tax changes as a whole will be to reduce the tax and price index slightly.'

THE ECONOMIC BACKGROUND

Paragraph 1: Substitute 'coupled with' recovery of output.....

Paragraph 5: Omit 'erroneously and'

A handwritten signature in dark ink, appearing to be 'RAL' or similar, written in a cursive style.

R A L LORD

7 MAR 1984 -

FROM: N MONCK
DATE: 7 March 1984

FINANCIAL SECRETARY

cc PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Monger
Mr Battishill
Mr Hall
Mr Folger
Mr Smith
Mr Lord
Mr Portillo
PS/IR
Mr Beighton - IR

R FINANCIAL SECRETARY'S SPEECH IN THE BUDGET DEBATES

I attach a short draft, as requested in Mr Hudson's minute of 6 March.

2. I have not on reflection included a piece about the effect of income tax thresholds on demand which I think would conflict with the overall presentation of a neutral Budget in 1984/85.

N.P. Shelouber
N MONCK

JOBS

We have always said that is not in any Government's power to provide real jobs, which will last, by policy changes. But what the Government can do is lower some of the obstacles to the adjustments we need and in particular limit the distortions which the present tax system imposes on market signals. The Budget measures will improve the prospect for jobs and make them more secure in a number of ways over different periods. The new benefits will build up over time:

- NIS abolition will cut labour costs for all employers, allowing higher profit margins or lower prices. Both should raise sales volume and hence jobs. For example it will be easier for exporters to sell abroad and for domestic suppliers to compete with imports. Earlier payment of VAT on imports should also help domestic producers to compete against imports.
- Higher net profits, produced by the Budget measures will encourage risk-taking, enterprise and innovation in all its forms. It will stimulate higher current expenditure on R&D, development of new processes, products, and markets. These activities mean more jobs when they take place and over the medium term as the innovation pays off in higher sales volume.
- The CT reforms will reduce discriminatory tax subsidy in favour of plant and machinery, and NIS abolition removes

tax penalty from labour cost. Both changes will steer investment into less capital and more labour intensive channels.

- At the same time we will have better quality investment. The reduction of tax subsidies, and tax penalties will mean that investment will be shaped by the needs of markets at home and abroad, the only secure base for lasting high employment.

Defensive

In the short run some investment will be brought forward. This will bring some extra jobs in the next year or two.]

FROM: H C GOODMAN
DATE: 8 March 1984

MR BATTISHILL

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Martin
Mr Norgrove
Mr Kuczys - IR

f OUTSTANDING DECISIONS

Below is a list of small outstanding decisions. In each case I have shown where I believe the action now lies and whether there are revenue consequences. Where there are revenue consequences, or it is intended to mention the measures in the Speech, the FSBR, press notices or the Budget Resolutions, decisions are required by close tomorrow (Friday). This is the final deadline.

1. DLT - Mercury (Action: Chancellor) - no urgency
2. DLT - disposals (Inland Revenue meeting Law Society. Action: FST). No urgency.
3. CGT - relief for corporate fixed interest stock. (Action: Bryce to minute FST). Decision needed for Press Notice.
4. Deep discount stock (Stewart to minute FST on implementation date) - negligible cost. Decision needed for Press Notice.
5. MP's meals allowances - decision needed for inclusion in Budget Resolution. (Action: FST).
6. Industrial building allowances (Action: Beighton for CST). - may be revenue consequences.
7. Enterprise zones (Corlett to minute Chancellor tonight). - may be a small revenue cost.

BUDGET-SECRET

8. Minor Starters - EC legislation and VED. (Action: FST: is he content with length in Finance Bill? MST is content with policy).
9. VAT concession for universities (Action: Chancellor.)
- decision needed for FSBR.
10. Eurobonds. (Action: Stewart to FST) - not needed before Budget.

Decisions taken since the last round-up include:-

1. Capital allowances - forestalling
short-life assets
secondary
Nissan
 2. VAT resolutions.
 3. Friendly Societies.
 4. LAPR - no change.
 5. Building society gilts - no change.
 6. CGT financial futures.
 7. CGT historic houses.
 8. Composite rate.
 9. IIS.
 10. Furnished holiday lettings.
2. Mr Martin will wish to note that of the items decided
1, 6, 7 and 9 may mean changes to Table 4.2 in the FSBR.

H C Goodman
H C GOODMAN

BUDGET-SECRET

BUDGET SECRET

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

01-626 1515

From: P G WILMOTT
Date: 8 March 1984

PS/FINANCIAL SECRETARY

cc PS/Minister of State
Sir P Middleton ✓
Mr Monck
Mr Monger
Mr Battishill
Mr Hall
Mr Folger
Mr Ridley
Mr Lord

FINANCIAL SECRETARY'S SPEECH IN BUDGET DEBATES

... As requested in your note of 6 March to Mr Lord, I attach 'fact sheets'
on the following topics:

- VAT on building alterations
- VAT on imports
- VAT registration threshold

P G WILMOTT

Internal distribution: CPS, Mr Knox, Mr Jefferson Smith, Mr Harris,
Mr Smith, Mr Battle

VAT ON BUILDING ALTERATIONS

Facts

- Alterations to existing buildings taxed at 15% from 1 June
- Revenue yield : £250 million (1984/5), £450 million (full year)
- RPI impact effect - nil (alterations not in index)

Positive

- Extension of VAT base gives revenue needed for tax cuts elsewhere
- Removes absurd borderline between (taxed) repairs/maintenance and (untaxed) alterations
- Progressive

Defensive

- $\frac{3}{4}$ of construction industry output still zero-rated or tax deductible by purchaser
- Not result of EC pressure
- No effect on UK own resources contribution
- Raising (full year) revenue elsewhere would call for eg extra 5p on a pint of beer
- (Black economy) maybe increased incentive to fraud, but this part of VAT base now easier to police (no blurred borderlines)
- Building alterations taxed in rest of EC

Further details

- Budget brief M2

VAT REGISTRATION THRESHOLD

Facts

- New limit £18700 (old : £18 000)
- Cost : negligible

Positive

- Nearly 40 000 traders will be able to deregister if they wish
- Helps keep new businesses out of VAT net as long as possible
- Fifth successive year that threshold raised

Defensive

- Maximum increase possible under EC rules
- ✓ If necessary : Government rejects Commission claim that UK limit too high_7

Further details

- Budget brief M4

VAT ON IMPORTS

Facts

- Present system suspended from
1 October 1984
- Once-for-all revenue boost of
£1.2 billion
- Continuing financing benefit to
PSBR (about £120 million at
current interest rates)

Positive

- Abolishes 'free Government finance'
currently given to importers : UK
producers now on more equal footing
- Not against EC rules : coming into
line with major EC competitors
- 4 weeks deferment available for
most importers

Defensive

- Chancellor's commitment to revert
to present system if EC agrees
to harmonise on it
- Business gains overall from
"Budget for 2 years" (link to
NIS)
- No "Brenner Pass blockade" :
natural break in transport at
sea/air boundaries into which
customs control fit

Further details

- Budget brief M3

8 MAR 1984

BUDGET SECRET

COPY NO 5 OF 19 COPIES



FROM: JOHN GIEVE
DATE: 8 March 1984

FINANCIAL SECRETARY

cc Chancellor of the Exchequer
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Mr Cassell
Mr Monck
Mr Monger
Mr Battishill
Mr Lovell
Mr R I G Allen
Mr Lord
Mr Chivers
Mr I P Wilson
Mr R H Wilson
PS/Inland Revenue

The Chief Secretary has seen Mr Beighton's minute of 28 February and the Secretary of State for Transport's comments. He thinks it would be sensible to try and identify some douceur in case the pressure gets too intense during the passage of the Bill. The possible extension of the BES might well be the cheapest of the options.

JG

JOHN GIEVE

BUDGET SECRET

BUDGET - SECRET
CONFIDENTIAL

FROM: P J STREDDER
DATE: 8 March 1984

- Note to end*
1. MR HOPKINSON
 2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Mr Anson
Mr Cassell
Mr Pestell
Mr Monger
Mr Watson
Mr Spackman
Ms Seammen
Mr R I G Allen

H COMMITTEE: 15 MARCH
PRIVATE RENTED SECTOR

1. Cabinet agreed on 1 March that there should be a Bill in the 1985-86 legislative session on the private rented sector. H Committee is to consider on 15 March Mr Jenkin's policy proposals for that bill, as set out in his paper H(84)9.

The Options

2. Mr Jenkin's paper sets out three options for the future of the private rented sector. The first involves deregulation of all existing and new lettings. It could involve the doubling of rents in London with increases of 50% outside and therefore cost some £390 million in additional public expenditure on housing benefit. Because it would affect the rents of existing tenants it would be politically controversial. We do not recommend it.

3. The second and favoured ^{option} is to deregulate all new lettings. Existing tenancies falling within the scope of the fair rent legislation would continue under that regime until the tenancy fell vacant. Thereafter, and for all other lettings, the initial rent for a dwelling

BUDGET - SECRET
CONFIDENTIAL

would be fixed by negotiation between landlord and tenant. Once a rent had been agreed and the tenancy commenced, a tenant would have security of tenure (subject to this being a "good" tenant) and there would be provision for rents to be reviewed periodically. There would be arbitration machinery to determine the rent where landlord and tenant failed to agree designed to ensure that a landlord secured a satisfactory rate of return but could not secure the eviction of tenant through demanding a rent that was unreasonably high.

4. The third option is to extend the assured tenancy scheme to cover converted property and former council estates. As a second stage, but not in the present Parliament, the scheme might be extended further to cover all new lettings. The public expenditure implications of this proposal are some £10 million a year. However its main attraction to DOE is that it would extend the scope of capital allowances. Under the changes announced in the Budget (as set out below), this option is unlikely to prove worthwhile. We certainly believe that it does not go far enough in deregulating the private rented sector.

5. We therefore advise you to support Mr Jenkin's preferred option. We believe that it goes as far as politically practicable in deregulating private sector rents. By maintaining the present arrangements for existing tenancies it will not disadvantage present tenants and by introducing security of tenure for the new deregulated sector it has a chance of avoiding the difficulties encountered by the 1957 Rent Act which contained no provision for security and encouraged harassment of tenants. Security of tenure should not unduly deter potential landlords since it is intended that they will be able to charge an economic rent and secure eviction of "bad" tenants.

PSBR Implications

6. The DOE have assumed that these arrangements would lead to some 300,000 tenancies under the new regime in the first year of operation rising to 500,000 after five years. Most of the new lettings initially would be of dwellings at present let under various forms of loophole

tenure (e.g nominal board, holiday lets) although some vacant dwellings would be brought back into use and some fair rent dwellings would transfer to the new regime as they fell vacant. The DOE do not assume any significant expansion of the private rented sector in the short term. They estimate that the cost of housing benefit will increase by £25 to £60 million in year one rising to £75 to £110 million in year five. Against this there will be some offset to the PSBR from higher taxation on landlords' incomes. The Revenue tentatively puts this at £10 million in year one rising to £20 million in year five for individuals. The increased take from companies could well be greater than this. Thus the net PSBR effect in year five is likely to be in the range £35 million to £70 million.

Assessment of Preferred Option

7. The short term effects of the preferred option on the private rented sector will, at best, be limited. It will provide a statutory framework for a number of lettings that at present take place outside the Rent Acts and may bring back into use some unoccupied property. But it is unlikely to have an immediate impact on reviving the private rented sector since its decline is a consequence of some 70 years rent regulation and is encouraged by the subsidies to other forms of tenure. The most it is likely to do at first is slow down the decline but it is an essential first step to reviving the sector.

8. Against these benefits you will need to weigh the PSBR cost. Mr Jenkin's paper suggests further consideration of this is needed and you will need to emphasise that by endorsing principle of legislation you are not foregoing an opportunity to see how the housing benefit costs might be limited. Whatever this further consideration shows you will wish to insist that PES cover is provided by Mr Jenkin's department.

9. You will also need to consider the interaction with the review of Housing Benefit. The aim of that is to reduce the help going to those on above average incomes whereas this bill would mean giving

more benefit to this group. You will therefore wish to insist that colleagues do not prejudice the review by assuming that tenants will be cushioned from higher rents by the present rates of housing benefit.

Future of Assured Tenancies Scheme

10. In addition to deregulation of all new lettings Mr Jenkin recommends for separate consideration by the Chancellor the continuation of the capital allowances at present available under the assured tenancy scheme only for newly built homes and their extension to newly improved or converted homes and buildings formerly in the public sector. The Committee may therefore ask you to explain the Budget changes to the capital allowances regime for new building under the assured tenancy scheme.

11. Capital allowances were introduced for assured tenancies on the same basis as the industrial buildings allowance for a five year period in the 1982 Budget. This Budget will confirm that the allowances will end in 1987. In the meantime they will be reduced on the same basis as the industrial buildings allowance as follows:-

(i) From 14 March 1984 the first year allowance will be reduced to 50%.

(ii) From 1 April 1985 it will be reduced to 25%.

(iii) From 1 April 1986 it will be reduced to nil although the 4% writing down allowance will remain until 1 April 1987.

12. In view of these changes Mr Jenkin will probably wish to reconsider whether the assured tenancy scheme has a future. In our view there will be little point to the scheme once the two main privileges it confers - market rents and capital allowances are no longer significant.

Line to Take

13. In discussion you should make the following points:-

(i) You support Mr Jenkin's proposals for deregulation of all new lettings. You do not favour either of the other options.

(ii) You have reservations about the implications of the measure for the cost of housing benefit. Any increase will have to be borne on Mr Jenkin's PES provision but the review of housing benefit should consider changes to the system with the aim of minimising this cost.

(iii) Colleagues should therefore not prejudge the outcome of the review by assuming that tenants will be cushioned from the effects of higher rents to the full extent under the present housing benefit scheme.

(iv) The Budget changes involve phasing out capital allowances under the assured tenancy scheme by 1987. If new lettings are deregulated the assured tenancy scheme appears to have little future. Mr Jenkin will wish to consider this.

PJ Stredder

P J STREDDER

I agree in general. But you need not prejudge absolutely who should find the savings to cover any additional Housing Benefit. The point is that savings will have to come from somewhere and Mr Jenkin will be the prime candidate.

CONFIDENTIAL

From: SIR PETER MIDDLETON
Date: 8 March 1984

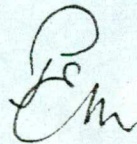
cc Mr Kerr: for information

MR CASSELL

cc Chancellor
Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Littler
Mr Bailey
Mr Monck
Mr Battishill
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Riley
Mr Ridley
Mr Lord
Mr Portillo
Sir L Airey - IR
Mr Fraser - C&E

FIGURES RELATING TO THE BUDGET MEASURES

I am becoming rather concerned about the number of new figures which are currently arriving. It would be a sensible precaution if, before any of these numbers are put to Ministers, they are checked with Mr Riley and Mr Battishill to ensure that they are consistent with the PSBR, the MTFs, and the Scorecard. If this is not done we shall be in a state of some confusion.



P E MIDDLETON

37 MAR 1984

BUDGET SECRET

FROM: M A JOHNS



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE
6 March 1984

- 1. MR CRAWLEY
- 2. FINANCIAL SECRETARY

DSK

on what basis are these figs?

NORTH SEA AND BUDGET PACKAGE

These are based on the latest projections

EFFECT ON TAKE

1. We now have the final Budget national income forecasts. The revised figures for the effect of the Budget package on the North Sea are: (Previous figures in brackets).

£m	1984/85	1985/86	1986/87	1987/88	1989/90	Average
CT package	- 65 (- 65)	-250 (-260)	-400 (-390)	-230 (-220)	-130 (-100)	-215 (-207)
Farmouts	-	+ 35	+ 40	+ 40	+ 40	+ 31
ACT	+100	+150	+150	+100	+100	+120
Total	+ 35 (+ 35)	- 65 (- 75)	-210 (-200)	- 90 (- 80)	+ 10 (+ 40)	- 64 (- 56)

These figures will not be published.

DISTRIBUTIONAL EFFECTS

2. We have also reworked the distributional effects. These remain very uncertain. The position continues to show most companies gaining from the CT package but with a few companies (Cheveron, ICI, Burmah and Murphy) losing more from the ACT measure than they gain from the Budget. However, one or two companies may lose from the CT changes alone: previously we suggested Marathon and Texaco might be in that position; on our revised calculations they look less likely to lose and Britoil looks more likely to do so.

2541 6018

M.A. Johns
M A JOHNS

- cc Chancellor or the Exchequer
- Chief Secretary
- Sir P Middleton
- Mr Cassell
- Mr Monck
- Mr R I G Allen
- Mr Robson
- Mr Portillo

- Sir Lawrence Airey
- Mr Green
- Mr Rogers
- Mr Crawley
- Mr Walton
- Mr Painter
- Mr Elliss
- Mr Pitts

Mr Johns
PS/IR


20 MAR 1984

BUDGET SECRET

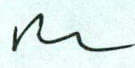
FROM: R A L LORD
DATE: 8 MARCH 1984

cc. PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Monger
Mr Battishill
Mr M A Hall
Mr Folger
Mr Ridley
Mr Beighton - IR
PS/IR

PS/FINANCIAL SECRETARY


FINANCIAL SECRETARY'S SPEECH IN THE BUDGET DEBATES

I attach an outline of the arguments on the Financial Secretary's first "theme" as requested in your minute of 6 March.


R A L LORD.

1. Over the years Britain has increased the tax incentives for physical investment to a higher level than in any other major industrial country. But at the same time the quality of investment in Britain has tended to be lower than in other countries. We have not had less investment than elsewhere, generally speaking, but as NEDC studies have shown we have not achieved as high a return as our competitors.

2. The tax changes proposed in respect of companies by my RHF in the Budget are designed to allow companies to make better use of their resources. They will do this in two ways: a) the overall burden of company tax will be significantly reduced during the next two years; b) the burden of tax suffered by different enterprises will be assessed on a more neutral basis. These changes pave the way for a more profitable and more efficient future for British industry and commerce.

3. The progressive removal of allowances and reduction in the rate of CT is designed to be broadly neutral in its impact on industry's finances overall during the next three years. Beyond that industry will enjoy a substantial tax cut from the combination of CT at 35% and writing down allowances. More immediately the abolition of NIS, to which we were pledged and which we have achieved at the first possible opportunity, will save industry about £1bn. in a full year. And for small companies there is the tremendous incentive of an immediate cut in CT to 30%.

4. A lower burden of tax means a much more profitable future for industry. Far from discouraging investment this will stimulate it. Most investment is financed out of retained profits. The future for industry is now very exciting.

5. The second aim of the changes is to produce a more neutral tax system. By progressively abolishing investment allowances we shall be removing the tax subsidy at present given to certain forms of company spending but not to others. We want businessmen to decide for themselves how to apply company resources, not to allow the tax system to do it for them. It is not for Government to decide that spending on a new warehouse is more desirable, and should therefore attract tax relief, than spending on, for instance, R and D or on training. We aim to achieve tax neutrality as between different forms of spending within companies and also between different industries. The market is the best "selection board" we have.

6. By moving towards tax neutrality we shall improve the productivity of capital substantially. We are all familiar with the importance of labour productivity. It is equally important that we use our capital stock productively.

7. The changes in Company taxation which my RHF proposes form an important part of our plans to ensure that Britain's resources of wealth and talent are used more effectively. They are designed to improve the working of what economists call the supply side of the economy. In the last Parliament we successfully brought demand

in the economy under control by means of the Medium Term Financial Strategy. The reformation of company taxation forms an important part of our medium term strategy for productivity and performance.

8. While starting a new chapter we need also to close an old chapter. Stock relief was introduced by the Rt Hon Member for Leeds East when inflation was much higher than it is today and rising. Companies no longer need this protection.

9. Charging VAT on imports harmonises our practice with that elsewhere in the Community and stops putting home suppliers at a disadvantage to importers.

10. Other incentive measures for industry's new era: share options; IIS; CTT.

- 8 MAR 1984

BUDGET - SECRET

Distribution:

Chancellor
CST
FST
MST
EST
Sir P Middleton
Mr Bailey

Sir T Burns
Mr Littler
Mr Ridley
Mr Lord
Sir L Airey - IR
Mr Fraser - C&E



FROM : M D X PORTILLO
DATE : 8 MARCH 1984

CHANCELLOR'S MORNING MEETING

5 TH MEETING

NOTE FOR THE RECORD

Present: Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Mr Ridley
Mr Lord
Mr Portillo

1. Timing on Budget Day

The Budget Speech is unlikely to begin before 4.00pm which presents certain difficulties. Mr Portillo will investigate deadlines and precedents and report back to the Chancellor by midday.

2. Budget Presentation: Persons and Bodies to be contacted

Mr Portillo (and Mr Makeham) will submit a plan of who should see whom and when.

3. Residual Shareholdings

It was agreed not to include a passage on this in the Budget Speech. It will now be in the Chief Secretary's speech on Wednesday, and a press release will be made at the same time.

4. MPs' ACA

The Chancellor having left the meeting, those remaining discussed the best timing for the laying of the Ways and Means resolution. Their recommendation to the Chancellor is minuted separately.

M D X PORTILLO

- 9 MAR 1984



FROM: A J G ISAAC

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

8 March 1984

ECONOMIC SECRETARY

BUDGET SPEECH

I think that this morning's decision on Friendly Societies rates a mention in the Budget Speech. If you agree, I suggest the form of words below. This might come immediately after paragraph 9 in block I: Savings and Investment, in the edition of 6 March.

'I am also proposing to withdraw the special - and widely abused - privileges for certain so-called 'tax exempt' Friendly Societies and bring them into line with the normal rules for the Friendly Societies doing 'mixed' business; but at the same time to increase from £500 to £750 the limits within which in future all Friendly Societies will be able to write assurance on a tax exempt basis.'

AJG

A J G ISAAC

c Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State
Mr Middleton
Mr Cassell
Mr Monger
Mr Lord

Mr Isaac
Mr O'Leary
Mr Painter
Mr Munro
Mr Newstead
PS/IR



FROM: L J H BEIGHTON
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE
8 March 1984

CHANCELLOR OF THE EXCHEQUER

SHIPPING : MR RIDLEY'S LETTER OF 7 MARCH

1. You asked (Miss O'Mara's minute of today) whether there was anything we could do to meet the concern expressed by Mr Ridley in his letter of 7 March about the impact of the CT changes on merchant shipping. The Chief Secretary has also said that we should try and identify a douceur in case the pressure gets too great during the passage of the Bill. Mr Ridley fears that you may be forced in due course to consider concessions to shipping in some form; and suggests that if you were able to announce in your Budget that you were extending the Business Expansion Scheme to shipping this would help him show that the industry had not been forgotten. He copied his letter to No.10.

2. It has been recognised from the outset that shipping generally will be a loser from the CT package and that the General Council of British Shipping will make a very considerable fuss about it. But as Mr Corlett said in his minute of 28 February (under cover of mine of the same day) there are a number of plus factors and we should not let the overall effect get too exaggerated.

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Mr Cassell
Mr Monck
Mr Battishill
Mr Lovell
Mr Monger
Mr R I G Allen
Mr Lord
Mr P Graham (Parl. Counsel)

Sir Lawrence Airey
Mr Green
Mr Beighton
Mr German
Mr Pearson
Mr Corlett
Mr Prescott
Mr Fitzpatrick
Mr Elmer
Mr Willis
PS/IR

i. Some shipping companies do pay tax and they will benefit from the rate cuts.

ii. The others may still benefit to the extent that tax-based leasing continues. It seems unlikely that there will be enough leasing to go round to satisfy the banks, so that where it can continue - and shipping (because the leases will be long ones) should be one example - they will have every incentive to offer lessees the best possible terms.

iii. It is true that, because the industry is unique today in qualifying for free depreciation, it has more to lose than others. But the value of it should not be exaggerated. It applies only to new ships, not to secondhand ships or to any other asset acquired by the industry, and its main effect is to enable the conglomerates to be more tax efficient by making the best use of capital allowances throughout the group.

iv. Changing the basis of annual allowances from "coming into use" to "expenditure incurred" would be a particular benefit (or at least not cause further loss) to industries with long lead items of which shipping is obviously one.

v. The rule to curb financial forestalling has also been designed with the need in mind that shipping should not be hurt; indeed it may be able to benefit.

vi. Finally, during the two years before the CT package is fully in place, shipping will be able to take advantage of the favourable terms on which investment should be capable of being made.

2 For all these reasons the message may not be as black as Mr Ridley suggests. However, as I have already said, it is inevitable that taken as a whole shipping will be a loser from the CT package. Given that Mr Ridley is a natural supporter of the package, there is clearly a lot to be said for trying to win his support in selling it to the industry and if this is to be done it might be as well to make any concession at the time of the Budget rather than in response to pressure later.

4. Unfortunately however the only concession which can be considered as a starter is that on BES. This is examined by Mr Prescott in his minute below. As you will see there are a number of considerable difficulties in making any relaxation. Essentially they turn on three factors:

i. the scheme is offering incentives in a way which may be seen as contrary to your tax reform proposals, both those relating to savings and investment and those relating to businesses;

ii. there is considerable pressure to extend the scope of the scheme in a number of different ways and these will be considerably more difficult to resist once one new entrant is allowed - arguably by no means the most deserving; and

iii. the apparent inconsistency in allowing a comparatively risk-free activity, ship chartering, at the same time as you are excluding another, farming.

5. You may well feel that, despite these apparent inconsistencies, the need to bolster support for the CT package generally has the greater priority; but if you do, we shall need to consider the wider implications for the Scheme and in particular whether it might now be desirable to put in hand a longer term review of its operation - unfortunately the difficulties in it which Mr Prescott analysed in various papers last autumn do not admit of easy

solutions. We had hoped to have a far better statistical base before setting in hand any further consideration - and we cannot get a full picture of what is happening until individual investors have claimed their reliefs - but if the Scheme is now opened up so clearly for scrutiny in the Finance Bill Committee it may be necessary to consider now just how far it is fulfilling its original purpose.

6. Meanwhile in the second part of his minute Mr Prescott considers the form which any clause extending the Scheme to shipping might take. A number of safeguards would be needed to close off the more obvious opportunities for abuse which would be opened up, and to ensure some compatibility with the underlying aims of the Scheme. The industry will not like these restrictions and will no doubt press hard for their removal.

7. Without having consulted Parliamentary Counsel, we cannot yet say if, at this stage, a clause could be drafted in time for inclusion in the Bill as introduced into the House. It would seem a little odd to publish the Bill with only part of the Budget proposals on the Scheme incorporated, but the pressure of time may (depending on what proves to be necessary) now be too great.

8. It will of course also be necessary to reconsider the relevant paragraph in the Budget Speech, the FSBR, the press notice and the briefing. We shall put this in hand if you decide to go ahead with widening the Scheme now without waiting to see what pressure develops. In any event we shall draft a letter for you to send Mr Ridley as soon as we know your decision.

L J H

L J H BEIGHTON



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

8 March 1984

1. MR BEIGHTON ^{YUB} 8/3 for note attached
2. CHANCELLOR

BUSINESS EXPANSION SCHEME: SHIP CHARTERING

1. In his letter of 7 March, the Secretary of State for Transport returns to the charge and again urges you to amend the BES to let in certain kinds of short-term ship chartering. Mr Ridley argues that this would allow him to offer the industry something in return for what it stands to lose as a result of the proposed CT package.
2. The arguments against letting in shipping have been covered extensively in earlier briefing, most recently in our note of 28 February. The key points are:
 - the BES does not discriminate against shipping as such. Rather, all companies whose activities consist to a substantial extent of leasing or letting assets on hire are excluded. If we let in shipping (albeit short-term chartering only) there would be no logical justification for resisting requests to let in similar trades as well - eg aircraft chartering, plant and car hire, leasing and letting (including property) generally;
 - we doubt whether a workable definition for the legislation could be found which would in practice exclude the dressing up as short-term charters of what was, in reality, a longer-term charter;

- a fundamental aim of the scheme is to encourage additional and direct economic activity here in the UK. It would be difficult for Ministers to represent that relief for a company whose main asset might be a ship built abroad, possibly engaged wholly in third country trade, and not necessarily (apart from the officers) manned by a UK crew was compatible with this aim; nor indeed with the terms of the existing legislation itself;
- the Government would no doubt be accused of inconsistency in letting in shipping at the same time that farming was being excluded and that you were making warning noises in your Budget Statement about tightening the scheme up further if necessary to ensure that it was used for the purposes intended. It might also be argued that there was inconsistency between withdrawal of capital allowances, whilst allowing shipping instead even more generous relief by way of BES
- if there were to be any extension in the qualifying trades, there are other far more deserving cases which would be seen to be ^{more} compatible with the aims of the scheme. R&D companies are the prime example.

3. For all the above reasons, considering the question on its own, our strong advice is that ship chartering should not be included.

4. In what follows, however, we discuss briefly what we think are the main essential conditions that should apply if you nevertheless decide that for wider reasons a concession is to be made.

5. The company itself would have to satisfy all the other existing qualifying conditions. It would have to be resident and incorporated in the UK; not be the subsidiary of any other company; and if it had subsidiaries, these would have to be wholly owned and qualifying companies in their own right.

6. The company would have to be responsible as principal for navigating and managing the ship throughout the period of charter, and for defraying all expenses in connection with the ship throughout that period (other, perhaps, than those directly incidental to a particular voyage or to the employment of the ship during that period). Without this requirement that the company should act as principal, the way would be open, effectively, for existing and quoted ship owning companies to get the benefit of the concession. One obvious possibility would be for a BES company to be set up to acquire the ship, with an existing company then being appointed as agent to manage it.

7. The company's ships should fly the UK flag, which means that the company's registered office and principal place of business would have to be in the UK. This would be a token gesture to ensuring that there was at least some direct benefit to UK activity; the crews of such companies would generally (but not necessarily) be British, and certain key officers have to be British by law.

8. We think it is essential that any concession be confined to companies chartering at arm's length to independent third parties who are shippers, and not ^{to} companies whose business is the provision of shipping services. Without these safeguards, there would be ample scope for manipulation. For example, many companies which provide shipping services are based in tax havens, and some are also quoted. If ship owners were free to charter to such companies, and on other than an arm's length basis, the benefits of BES relief would clearly flow to those for whom it was definitely not intended.

9. Ideally, we believe that any concession ought also to be confined to companies engaged in voyage chartering, and for voyages ending or beginning in the UK. This would help further to ensure that there were some direct benefits to activity in the UK. However, the GCBS would regard this as wholly unacceptable, on the grounds that many ships are for much of their life engaged mainly, or perhaps wholly, in third country trade. Moreover, the risks and responsibilities borne by a

company engaged in time charters are not significantly different from those borne by the voyage charterer. By contrast, the GCBS themselves accept that what are known as "bare boat charters" (whereby the owner lets out the bare hull, and plays no part in the management or operation of the ship) are akin to straight leasing and should, therefore, be excluded.

10. We suggest, therefore, that any concession should be confined to companies engaged in short time-charters, but with no restriction on where the ship trades. The GCBS have suggested time-charters of less than five years. We think this is too long, bearing in mind that the investor has to hold his shares for a maximum of five years; with a time-charter of up to that length, the investor would, effectively, have laid off most of his risks. (The only remaining risk being that, at the end of five years, the ships have so depreciated in value that he cannot get back an amount equal to the cost, after relief, of his original investment.) We therefore propose that any concession be confined to time-charters of less than 12 months.

Next steps

11. If Ministers do wish to proceed, and agree that the inclusion of shipping should be subject to the conditions in paragraphs 5 to 10 above, we shall need to instruct Parliamentary Counsel accordingly. You will, presumably, want to get any necessary amendment into the Finance Bill as published, though time is now very short. Our guess (and it no more than that at this stage) is that about half a printed page in the Finance Bill might be needed.

M. Prescott H

M PRESCOTT

BUDGET SECRET

5

FROM: P MAKEHAM
DATE: 8 MARCH 1984

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
PS/Sir Peter Middleton ✓
PS/Inland Revenue
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Monger
Mr Battishill
Mr Lankester
Mr Scholar
Mr G Smith
Mr Folger
Mr Hall
Mr Ridley
Mr Lord
Mr Portillo

CHIEF SECRETARY'S BUDGET DEBATE SPEECH: 14 MARCH

I attach the draft speech which follows the agreed outline. The peroration can be added later.

2. This draft does not cover various announcements which could be included - cable ducting, holiday letting relief, and residual holdings. You may also wish to highlight the 1984-85 PSBR in the next draft.

Peter Makeham

PETER MAKEHAM

BUDGET-SECRET

I INTRODUCTION

The Budget presented to the House yesterday by my Rt Hon Friend the Chancellor was by any standards remarkably forward-looking; accompanied as it was by a medium term financial strategy for five years, and a Green Paper on public expenditure in the longer term. It is a Budget remarkable for its clarity of thought, its originality and its radical approach to deep-seated problems in our taxation system.

But it is also a Budget which fits firmly within the strategy pursued by the Conservative Government ever since coming to office in 1979, and pursued consistently.

The Budget reaffirms our determination to continue the fight against inflation, and to bring down still lower the rate of price increases. It reasserts our policy of maintaining tight control both on the level of government borrowing, and on the rate of growth of money.

These are policies that have consistently underpinned our economic strategy and which have been crowned with success.

Inflation today stands at around 5 per cent. The increase in prices in 1983 was the lowest since 1967. As the recovery has gathered pace, our GDP has grown rapidly to surpass its 1979 peak. Today it is growing faster than in any other EC country, and the OECD forecast for 1984 is that our growth rate will keep us at the top of the league table.

BUDGET-SECRET

BUDGET-SECRET

Industrial investment excluding the oil industry rose by 4 per cent between the first and second halves of 1983. The Industry Act forecast projects a 6 per cent increase this year in investment across the economy. Surveys from both the CBI and the Department of Trade and Industry point to a steep rise - 7 per cent to 9 per cent - in manufacturing investment.

Unemployment remains obstinately difficult to turn around. Nonetheless the growth in the number of jobs in economy which has been going on since early last year is heartening. And certainly the Budget will play its part in creating the conditions for higher employment.

Much of the credit for the remarkable turnaround in our economic prospects since 1981 must go to my Rt Hon and learned friend the Foreign Secretary for his great achievements as Chancellor despite the world recession.

II TAX REFORM

As Chancellor, he began a process of much-needed tax reform. In his first Budget in 1979 he very courageously made a substantial switch from direct taxation to indirect.

My Rt Hon Friend the present Chancellor has used the opportunity of his Budget to carry tax reform much further. We examined very carefully the operation and structure of company taxation. Broadly, we concluded that it is in a mess.

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The basic mechanism of corporation tax is sound enough. But the current rates of corporation tax are too high. Over the years we have grafted a complicated superstructure of reliefs and allowances onto the basic structure. Such reliefs are very expensive to maintain. They make a high rate of tax necessary. And they apply somewhat indiscriminately with very unfortunate effects.

Those reliefs and allowances seemed to be justified in their day. For example the 100 per cent first year allowance on plant and machinery were planned as a response to Britain's poor record of investment. And the stock relief provisions were brought in at a time of very high inflation.

Today inflation has been brought under control. At 5 per cent and about to go lower, the need for stock relief is very much reduced. And the generous capital allowances, which were intended to stimulate investment, do not appear to have achieved their objective.

Returns on investment seem to have been consistently lower over the years than in the USA, France or Germany. This poor performance underlies our sluggish growth in past years, our struggle to compete and today's high level of unemployment.

Our combination of high company tax rates and generous allowances has not produced profitable investment for us.

Our company tax system produces very great distortions. It has picked out plant and machinery for very special treatment in favour of industrial buildings. Businessmen have come to see tax as one of

BUDGET-SECRET

the most important considerations when deciding how, when and where to invest.

My Rt Hon Friend yesterday took the necessary steps to put this right. I believe that we shall look back on the 1984 Budget as a major event in Britain's economic recovery and industrial progress.

We have set out the rates of relief that will apply in each of the years up to 1986-87, and of the writing-down allowances that will replace them. And we have announced the rates of corporation tax for the years ahead. These rates will appear in the Finance Bill so that business can plan with confidence.

As the House knows, we have applied the same reforming zeal to the treatment of investment by persons. Again our guiding thought has been to remove outdated distortions which, however cherished by the few who gain directly, saddle all of us with higher rates of tax, and skew investment. We have removed the relief on life assurance premia for the reasons so fully explained by my Rt Hon Friend yesterday. We have abolished the investment income surcharge. It was a major and discriminatory imposition on the retired self-employed who often provide for their retirement through investment out of already-taxed income. The Opposition will doubtless build a totem pole out of the abolition, but I would urge them to check their facts before making fools of themselves. Over half of those who are caught by it are over 65. Most of those who pay it are either elderly or basic rate taxpayers, or both.

Lastly under the heading of tax reform I turn to the personal tax thresholds.

BUDGET-SECRET

Our income tax proposals mark a further important step in the long term process of improving incentives and encouraging enterprise. We have repeatedly stressed that our priority for income tax was to raise personal allowances. This takes many people out of tax altogether and so eases the poverty trap - by which I mean the number who both pay tax and receive Family Income Supplement. And we have done exactly this - [80 per cent of the full year cash cost of the income tax reductions - including the Investment Income Surcharge - relates to raising personal allowances]. No doubt the Opposition will scratch around trying to identify particular losers. But any honest man will have to recognise the very real achievements in this Budget.

The 12½ per cent increase in main allowances means a tax reduction of over £2 a week for a married man. This is the third successive Budget in which the main personal allowances have been increased in real terms. As a result tax thresholds in real terms are now some 16 per cent above the levels of 1978-79 and at their highest since 1972-73. For a married man under 65 it means that the real allowance is now higher than at any time since the war.

It means 850,000 fewer income taxpayers; something I would hope both sides of the House would welcome unreservedly. It also means that 10,000 families are removed from the poverty trap. I accept that 10,000 represents only about 6 per cent of the total number of households caught in the 'trap'.

It will take several years and tremendous determination to take all the low paid out of tax. But that cannot be a reason for never starting on that road. We must take as big a stride as we can each year, and what we have done this year is indeed worthwhile progress. Our aim must be to get clear water between tax thresholds and benefit entitlements. The rhG the Member for Sparkbrook does not agree. He has given up hope of ever taking those on low incomes out of tax. That is because he knows that his policies would increase the tax load on them.

We have concentrated our efforts so as to raise the main allowances by the maximum amount possible. Some other aims have taken second place. This year higher rate thresholds have been raised in line with inflation, but no more. So, proportionately, the gains are greatest for those on low incomes. This follows substantial real increases in the higher thresholds during our first term of office and the cutting of the top rate of tax from a confiscatory 83p - indeed 98p on investment

income - down to 60p. I make no apology for those changes. It is essential that enterprise and initiative are encouraged by appropriate rewards if we are to get the economy working better. But this year we judged it right to concentrate our fire on getting the main allowances back to a sensible level.

Doubtless we shall hear the familiar jibes that this Budget does nothing for the elderly. But here again the facts speak for themselves. Once again the age allowance has been fully protected against inflation - in real terms it is now some 8 per cent above its level in 1978-79. - This means that pensioner couples with incomes up to £1,000 a year above the basic state pension will pay no tax.

BUDGET-SECRET

LONG TERM STRATEGY

[The size of the increase in basic tax thresholds has been achieved within a revenue neutral Budget. This demonstrates the high priority we give to tackling the problem of people on low incomes who pay tax.]

The effect of yesterday's Budget extends beyond the tax changes in 1984-85. The measures announced will reduce taxes by over £1½ billion in 1985-86 while the company tax reform will take effect over the next three years. We have extended the horizon of our strategy. The Medium Term Financial Strategy now covers five years. The Green Paper is concerned with prospects over the next ten years.

The keynote is consistency of purpose. Our aim remains sustainable non-inflationary growth. The twin pillars of our policy are the Medium Term Financial Strategy and the encouragement of enterprise. We see the reduction of inflation and the increase of competition as preconditions for achieving higher employment and lower unemployment.

Since its inception, the MTFS has set out the framework within which policy operates. It shows clearly the direction of policy and the goals. It should guide the expectations of decision makers in the economy. Reducing inflation further requires a declining rate of monetary growth. The MTFS shows the fall in monetary growth and inflation over the next five years.

BUDGET-SECRET

BUDGET-SECRET

Expectations are crucial. How much real growth and how much inflation we get will partly depend on how people's expectations - especially over pay - respond. If realistic pay levels lead to better performance on costs there will be more scope for output - and for employment - to grow.

Public spending and borrowing are of central importance. The MTFS shows how a further decline in public sector borrowing is needed for declining monetary growth. The Public Expenditure White Paper, which we debated last week, showed our determination to hold spending broadly stable in real terms over the next three years. The prize to be won if we keep spending constant and keep economic growth going is shown in the MTFS and is carried further - into the 1990s - in the Green Paper. As the economy grows, and as spending falls as a percentage of GDP, taxation can be cut. The prize is substantial - room for further tax cuts in each year, possibly around of £1½ billion in 1985-86 rising to £4½ billion in 1987-88 - money that can be used, for example, to take those on lowest incomes out of tax. This is the reward for virtue - virtue in keeping public spending level in real terms.

Getting the financial framework right is one part of our strategy. But we also aim to make the economy work better. This Budget takes us further towards that by rewarding enterprise and removing obstacles to the operation of free markets.

Raising the level of basic tax thresholds in real terms increases the incentive to find a job or a better job for people on low incomes. We wish to encourage enterprise further; and cutting the top rate of

BUDGET-SECRET

tax on persons from a confiscatory 75 per cent to 60 per cent is an important step.

But enterprise isn't just a question of marginal tax rates. It also has to do with ownership and commitment. That is why we are also committed to wider ownership throughout the community. The measures we have taken on stock options and employee share schemes will encourage people to take shares in the companies for which they work. The reduction in stamp duty on houses should also encourage wider home ownership which has already risen to a very high level under our policies.

GREEN PAPER

I turn now, Mr Speaker, to the Green Paper on the next ten years, published by my right hon Friend on Budget Day.

"The Next Ten Years" addresses itself to one of the most important - some would say, to the single most important - economic issue of the day: how much public spending can our country afford over the next ten years?

We have to get to grips with this question, which has all too often been left unanswered in the past. The growth of public spending has in the past two decades been the engine which has driven ever upwards the burden of taxation. Income tax now bites hard well down the income scale. A married man without children on average earnings was paying less than one-seventh of his income in income tax in 1963-64. By 1975 over a quarter went in income tax. The figure has fallen since then, but it is still far too high: over one-fifth of such a man's income goes in income tax. It is this rise in the burden of taxation which has led to the indefensible situation whereby growing numbers of people are at the same time in receipt of benefits of various kinds and paying income tax.

The Green Paper assesses the pressures for continued growth in public spending in the next decade. They will, without doubt, be very considerable. But it does not, as a discussion document, attempt to project the path of individual programme totals, or to forecast in any detail how the economy will develop. It was entirely right to frame the Green Paper in this way. To have gone into the detail would have

been to distract the public debate from the main issue, so often ignored in the past. The debate must focus on the totals - national income, taxation and public expenditure. This is the central, strategic, issue: in addressing it we must ignore, for the time being, the insistent voices - so often heard in this House - of the individual lobbies for particular interests.

But what, it will be asked, are the Green Paper's conclusions on all this? We have sought, Mr Speaker, not to reach any set conclusion, but to carry forward the public debate by providing a framework within which the discussion may usefully be conducted. We have assumed growth of 2 per cent, or 1½ per cent a year, following the five years covered by the MTFs; and we have assumed either a constant level of public spending in real terms after that date, or growth at 1 per cent a year. On this basis, the analysis in the Green Paper points to a striking conclusion: public spending will have to be held at ^{broadly} its present level in real terms all the way to 1993-94 if we are to make any serious inroad into the burden of taxation, and get it below its levels in the early 1970s. If this firm grip on spending were to be relaxed somewhat, and public spending grew by 1 per cent or 2 per cent a year - still well below its trend rate - the burden of tax would be about as heavy as it was when the present government took office.

HATTERSLEY

The House will be well aware that the Rt Hon Member for Birmingham Sparbrook has recently completed a series of speeches purporting to be about economic policy. I must say I awaited each instalment with the sort of anticipation one reserves for a repeat showing of "All Our Yesterdays". Nonetheless we must commend his persistence, and the patience of his audience.

In one episode of this little saga we are privileged to learn of the Rt Hon Gentleman's own version of the Budget - or was it the ghost of the Member for Stepney's election - losing strategy? At any rate, it certainly appeared to be a diluted dose of the sort of medicine we have been served by Opposition for many years. Once again the blindingly obvious answer to our economic ills is that we need more of everything - but especially more government spending and more government borrowing. Of course we were not told that this would involve more inflation, higher interest rates and more unemployment. Indeed, the Rt Hon Gentleman conspicuously did not proffer any costing of his woolly meanderings. New depths of vagueness were plumbed. I cannot really believe he expects the House to take him seriously.

But I have not lost all hope that the Rt Hon Gentleman may yet come round to seeing economic sense. Why only last week in the humble surroundings of the Dorchester Hotel he was vigorously championing of "laws of classical economics" against 'evils' of the subsidy-ridden Common Agricultural Policy. I look forward to the Rt Hon Gentleman's further support for unfettered working of the market mechanism.

BUDGET - SECRET

- 9 MAR 1984

BUDGET SECRET



FROM: A M ELLIS
DATE: 9 March 1984

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell Mr Hall
Mr Monger Mr Battishill
Mr Lord
PS/IR
Mr Isaac - IR

BUDGET SPEECH

The Economic Secretary has read Mr Isaac's minute of 8 March, and agrees with his recommendation that there should be mention of the Friendly Society in the Budget Speech, but suggests a re-draft as follows:

I am also proposing to withdraw the special - but unfortunately widely abused - privileges for what are known as 'tax exempt' Friendly Societies and bring them into line with the normal rules for Friendly Societies doing 'mixed' business. However the limits within which in future all Friendly Societies will be able to write assurance on a tax exempt basis, ^{will be increased} from £500 to £750 and I am also proposing to increase existing limits of £50,000 up to which Friendly Societies may write assurance policies to £60,000, ^{This is} the current maximum level for Building Society mortgages outside the Special Advances category.

A M ELLIS



Covering
BUDGET SECRET

From: D G DRAPER
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

9 March 1984

- Pol 9.3.84*
1. MR O'LEARY
 2. FINANCIAL SECRETARY

STAMP DUTY : EC PROPOSALS FOR A HARMONISED TAX
ON TRANSACTIONS IN SECURITIES

1. I am sorry to have to bother you this weekend with a non-Budget matter but the Community have, within the last 7 days, taken two initiatives that affect stamp duty.
2. First the Commission called a meeting of experts for the end of this month to discuss the conditions under which capital duty could be reduced or abolished. Secondly, the French Presidency have called for next Wednesday (14 March) a meeting of the Council Working Party on Financial Questions to begin examination of a proposal for a Directive concerning indirect taxes on transactions in securities. The proposal for a Directive was submitted by the Commission to the Council in 1976. No action has been taken by the Council until now. Our Permanent Delegation in Brussels tell us that the latest development is one of a number of initiatives the French Presidency is taking with the aim of strengthening the industrial base of the Community. We will be sending you a separate note on the capital duty proposal. This minute seeks

cc Chancellor of the Exchequer
Chief Secretary
Minister of State
Economic Secretary
~~Sir P Middleton~~
Mr Cassell
Mr Battishill
Mr Lankester
Mr R I G Allen
Mr Lord
Mr Willetts

Sir Lawrence Airey
Mr Green
Mr Isaac
Mr O'Leary
Mr Taylor-Thompson
Mr Pipe
Miss Rhodes
PS/IR
Mr Draper

instructions on the line we should take at next Wednesday's meeting on taxes on transfers of securities.

3. The proposed draft Directive was formulated by the Commission with the help of a Working Party at which Inland Revenue officials represented the United Kingdom. The aim of the proposed Directive is to eliminate tax obstacles to the free movement of capital between Member States. In the context of taxes on transfers of securities the chief difficulties are seen as double taxation and discrimination. The Commission's preference was for the elimination of taxes on transfers of securities altogether but they recognised that this would cause budgetary difficulties for certain Member States. They therefore sought to eliminate double taxation and certain disparities, and to this end the Directive proposes to harmonise the structure of the taxes and their rates.

4. The main point to note is that the Directive would set a maximum rate of stamp duty on share transfers of 0.6 per cent. Member States do not have to levy a tax if they do not want to do so. The other important point is that the Directive might ultimately force us to convert stamp duty on shares into a transactions tax levied on both the seller and buyer. A fuller background ... note is attached.

5. In the past United Kingdom representatives have adopted a somewhat cool approach to this Directive. The Budget changes make it easier for us to support this latest initiative.

6. Other Member States will have had as little time as we have to prepare for next Wednesday's meeting. Most countries are likely, therefore, to want to reserve their positions to a greater or lesser extent. We shall also need to do the same but would you be content if we were:-

a. to welcome this timely initiative to harmonise and reduce rates; but

b. say that the proposed maximum rate of 0.6 per cent may pose some budgetary difficulties for the United Kingdom; and

c. continue to insist on the need for derogations to enable all the stamp duty to be continued to be collected from the purchaser, if we should wish to do so (see paragraphs 1 and 5 of background note.)



D G DRAPER

BACKGROUND NOTE

1. The proposed Directive provides for the optional imposition of a tax on securities to be charged separately on the seller and buyer. The maximum permitted rate is 0.15 per cent for bonds and 0.3 per cent for other securities making a total of 0.3 per cent and 0.6 per cent respectively. The proposed system is geared towards existing Continental practice where securities are primarily bearer instruments. However, there is provision for a derogation for the United Kingdom and Ireland enabling us to regard as one transaction the sale and acquisition of registered securities. The Council retained the right to remove this derogation if it was found to disrupt the movement in transactions.

Previous United Kingdom attitude

2. When the Directive was a live issue in 1976 the United Kingdom line was that whilst it welcomed the move towards harmonisation in principle the proposals raised a number of important practical problems. First, there was the loss of revenue resulting from the cut in the rate of duty on transfers of shares to 0.6 per cent. (The Labour administration had just increased the rate to 2 per cent.) Secondly, the Directive required an extensive overhaul of the machinery for administering stamp duty making it both more complicated to administer and more difficult to enforce. In particular, it would require the collection of tax on both the sale and purchase of securities whereas the United Kingdom system is geared to collecting from the purchaser alone. Whilst the proposed derogation reduced this problem, there would be no guarantee of it being a permanent feature of the proposed system. The then Minister of State (Mr Denzil Davies) told a House of Commons Committee that the United Kingdom opposed the Directive for these reasons. Mr Ridley, the only Conservative Member to take part in the debate, welcomed the Directive.

Comment

3. The cut in the rate of stamp duty to 1 per cent makes it much easier for the United Kingdom to support the Directive. Reducing the rate further would, however, have a significant cost. Following the Budget the cost of reducing the rate to 0.6 per cent would be £m125.* But, we do not think it would be possible to have a lower rate on transfers of securities without putting at risk the duty on the transfer of land and buildings, this would add to the cost. The proposed system, with its need to collect tax from both the buyer and seller, would be administratively more costly not only for us but also for the Stock Exchange. Although stamp duty has its own enforcement problems, the proposed system would also have enforcement problems. It would be much more difficult to enforce a stamp duty levied partly on the seller.

4. There are essentially two separate proposals, one is the harmonisation of structure proposal and the other is the proposal to harmonise rates. As far as the rate of duty is concerned the Stock Exchange would like to see stamp duty on shares abolished or the rate reduced at least to $\frac{1}{2}$ per cent. The Chancellor may, however, take the view that having brought the rate down to 1 per cent other taxes now have a higher priority for any resources that can be spared for further tax reductions. At this stage, therefore, it may be best to seek at least a transitional provision allowing the United Kingdom to impose a maximum rate of 1 per cent for a number of years.

5. Adopting the proposed Directive would require us to convert stamp duty on shares into a "transactions tax". You will recall that this question was examined in our paper forwarded to the Chancellor under cover of Mr Lankester's minute of 3 February 1984. The Chancellor said that it would be premature to move to a transactions tax before the reform of existing stamp duties is accomplished. Your own view was

* No turnover effect assumed.

that we should not seek to introduce a transactions tax if the ultimate aim is to abolish the duty. Although a transactions tax is one of the options we should want to consider in the future, it is at present far from clear that there is any balance of advantage in changing stamp duty over to a Continental style tax. We certainly do not want to be forced into a premature decision. On structure, therefore, we would recommend that the United Kingdom should continue to insist on the derogation necessary to enable us to collect stamp duty on registered shares in much the same way as we do now.

6. In view of the lapse of time since the Directive was drafted we obviously need to take a fresh look at the various technical provisions. One of the points the Working Party may need to consider is the risk of leakage from taxes on land transfers. Other Member States seem less concerned about this than we are but this may be due to differences in legal systems.



FROM: M E Corcoran

DATE: 9 March 1984

PS/CHIEF SECRETARY

cc PS/Chancellor
 PS/Financial Secretary
 PS/Economic Secretary
 Sir Peter Middleton
 Mr Battishill
 Mr Martin
 Mr Norgrove
 Mr Kuczys - IR
 Mr Wilmott - C&E

OUTSTANDING DECISIONS

There are three minor starters on our side of the house and I should be grateful if - from the point of view of the length of the Finance Bill - you could establish whether the Chief Secretary would be content for their inclusion in the Bill.

1. VED provision - to mitigate the consequential effects of a recent Court judgement about the proper use of trade licences for recovery vehicles. The Secretary of State for Transport recently wrote about this and the Minister of State is content to reply agreeing that provision should be included in this year's Finance Bill to restore the status quo, subject to there being room in the Bill. 8-10 lines are needed and I have asked the Department of Transport to instruct Parliamentary Counsel to begin drafting. *Negligible Revenue effect.*
2. VAT: financial sector supplies by overseas branches - the intention to legislate was announced last October, without commitment to legislation being in the 1984 Finance Bill. 5 lines would be needed and drafting has been completed. There would be a revenue yield of £5 million.
3. EC Directive: simplified Customs procedures - this would bring us into line with Community legislation and give full legislative cover for simplified procedures currently in use or likely to be required in the future. The provision is revenue neutral and has been drafted. Approximately 2 pages of legislation would be needed, but most of this would be in a schedule.

M E CORCORAN
 Private Secretary

- 9 MAR 1984

BUDGET SECRET



FROM: A P HUDSON

DATE: 9 March 1984

MR MACE - IR

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Battishill
Mr Monger
Mr Ridley
Mr Lord
Mr Portillo
PS/IR

ABOLITION OF INVESTMENT INCOMES SURCHARGE: DRAFTING OF LEGISLATION:
DEFINITION OF ADDITIONAL RATE

The Financial Secretary was grateful for the explanation in your
7 March minute.

AH
A P HUDSON

LD

- 9 MAR 1984

BUDGET

SECRET

FROM: JOHN GIEVE
DATE: 9 March 1984



MINISTER OF STATE

cc PPS
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Battishill
Mr Martin
Mr Norgrove
Mr Kuczys - IR
Mr Wilmott - C&E

OUTSTANDING DECISIONS

The Chief Secretary has read your Private Secretary's note of 9 March. He is content for the three measures to be included in the Finance Bill. He thinks that the simplification of Customs procedures in particular might be valuable in an EC context.

JG

JOHN GIEVE

BUDGET

SECRET

- 9 MAR 1984

BUDGET SECRET



FROM: A P HUDSON
DATE: 9 March 1984

PS/CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Mr Cassell
Mr Monck
Mr Battishill
Mr Lovell
Mr Monger
Mr R I G Allen
Mr Lord
Mr Graham - Parly Counsel
PS/IR
Mr Beighton - IR

SHIPPING: MR RIDLEY'S LETTER OF 7 MARCH

1. The Financial Secretary has seen Mr Beighton's 8 March minute.
2. He thinks Mr Beighton makes points which are sufficiently strong to enable Ministers to send a letter to Mr Ridley which puts a much better gloss on shipping without conceding the extension of the BES. The difficulty in extending BES to shipping is that nothing else is planned for this year except an exclusion - thus adding shipping alone would look very odd.

A P HUDSON

7.14

BUDGET SECRET

CH/EX REF. NO. B(84) 569



FROM: MISS M O'MARA

DATE: 9 March 1984

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Bailey
Mr Cassell
Mr Monck
Mr Battishill
Mr Lovell
Mr Monger
Mr R I G Allen
Mr Lord
PS/IR
Mr Graham - Parly. Counsel

MR BEIGHTON - INLAND REVENUE

SHIPPING: MR RIDLEY'S LETTER OF 7 MARCH

The Chancellor has seen your minute of 8 March. He does not want to offer the concession on the BES which you have identified.

Mom
MISS M O'MARA

Sir PM - to see
 Board
 12/3

(F)

cc Sir P. Middleton ✓

Monday also see



FROM: JOHN GIEVE
 DATE: 9 March 1984

14 MAR 1984

OB
 .. 7/12/3

MR MAKEHAM

cc PS/Chancellor
 PS/Financial Secretary
 PS/Minister of State
 PS/Economic Secretary
 PS/Sir P Middleton
 PS/Inland Revenue
 Sir Terence Burns
 Mr Cassell
 Mr Monck
 Mr Monger
 Mr Battishill ✓
 Mr Lankester
 Mr Scholar
 Mr G Smith
 Mr Folger
 Mr Hall
 Mr Ridley
 Mr Lord
 Mr Portillo

CHIEF SECRETARY'S BUDGET DEBATE SPEECH: 14 MARCH

Following discussion with the Chief Secretary this morning, you agreed to provide on Monday morning a revised draft Speech - partly in note form - for the Chief Secretary to work on. This should be on the following lines. Pieces in square brackets are for use in response to interventions.

- Introduction
- Budget is forward looking, original and radical but still consistent with strategy since 1979
 - Twin themes: (a) sound finance & the reduction of inflation
 (b) sustained programme of tax reform
- Macroeconomic
- Key importance of reducing PSBR for inflation/ interest rates
 - NB 1981 Budget and subsequent success on inflation and growth
 - Step-down now because oil, asset sales etc.

- [Response to TCSC on asset sales and Sir I Gilmour on reflation]
- Determination not to compromise on the PSBR makes more difficult tax reform and reductions and, therefore, Chancellor's achievements notable.

Personal incomes

- Thresholds part of a long term strategy
- Key facts and figures on thresholds [not much on poverty trap and unemployment trap]
- [Indirect taxes - not the feared assault on beer but help for claret-drinkers
 - VAT extension: impact on RPI, total cost
 - figures of effect on families at various levels of earnings of IT and VAT taken together; IT, VAT, NICs and housing benefit
 - Budget effect on construction]
- no apology for shifting balance from direct to indirect taxes (compare other European countries)

Tax reform (persons)

- LAPR
- IIS
- Stamp duty (+ reference to consultative document)
- removing distortions and discouragements to direct investment.

Tax reform (companies)

- Corporation tax (brief)
- with NIS removes disincentives to job creation.
- [VAT on imports]
- strategy for the medium term

Long term approach

- MTFS (brief)
- Green Paper (substantial)

Hattersley

Poration

In addition you are putting together a block containing the announcements the Chief Secretary is to make on cable ducting, holiday lettings and residential shareholdings. Mr Hall has agreed to provide a defensive paragraph on the Guardian leak. GEP is to provide a brief note on the 'options' identified in the Green Paper.

JL

JOHN GIEVE

9 MAR 1984

BUDGET - SECRET

FROM: F CASSELL

9 March 1984

MISS O'MARA

cc - Economic Secretary
- Sir P Middleton
Sir T Burns
Mr Battishill
Mr Lankester
Mrs Lomax
Mr Ridley
Mr Lord

BUDGET SPEECH: MONETARY POLICY

I have shown the section on monetary policy that you circulated this morning to Eddie George.

His reactions were very much on the same points as were commented on in Tim Lankester's note to you. But he had quite a neat reformulation of paragraph 31, which the Chancellor might like to consider, and some additional suggestions on paragraphs 33, 36 and 37.

Paragraph 31. Replace last two sentences by:-

"But a large proportion of this money is in reality a form of savings, invested for the interest it can earn. In defining policy it is helpful also to make specific reference to measures of money which relate more narrowly to balances held for current spending."

Paragraph 33, last sentence. Since we say in the MTFS we are in fact going to make use of M2 in interpreting MO the phrase "may in time prove" may look odd. He would prefer:-

"... of transactions balances. This may also be a useful guide but, being new, still needs to be interpreted with particular care."


Paragraph 36, third line. Add after PSL2 ", which include building society liabilities,".

BUDGET - SECRET

Paragraph 37. There is no mention of (or for) gilts, only of National Savings. The message that the market wants to have is that we will be making less demands on it. This message could be conveyed by extending the opening of the paragraph:-

"So far as funding is concerned, the public sector's borrowing requirement, as I shall shortly explain, will be significantly lower in the coming year. In financing it, the role of the National Savings movement ..."

I think all these suggestions are helpful. I slightly prefer the George version of paragraph 31 to the Lankester; the important point, however, is that either is preferable to the existing version.


F CASSELL

9 MAR 1984

BUDGET - SECRET

Copy No 6 of 20 copies

FROM: N C MUNRO

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE



9 March 1984

1. MR O'LEARY ^{Pol} 9.3.84
2. MR ISAAC ^{Isaac} 9.3.
3. ECONOMIC SECRETARY

BUDGET PRESENTATION AND WINDING SPEECH: FINANCIAL SECTOR

1. Mr Ellis' minute of 6 March asked for briefing on a number of life assurance points (paragraph 4.i.).

Qualifying policies

2. In general, only holders of qualifying policies (ie those which satisfy the statutory conditions in Schedule 1 ICTA 1970 and Schedule 2 Finance Act 1975) may obtain tax relief on premiums. Broadly speaking, qualifying policies are life policies with an even spread of regular premiums over a minimum of 10 years. Such policies held to maturity continue to enjoy exemption from tax on the profit element.

cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Battishill
Mr Lankester
Mr Folger
Mr R I G Allen
Mr Hall
Mr G P Smith
Mr Martin
Mr Norgrove
Mr Ridley
Mr Portillo

Mr Isaac
Mr O'Leary
Mr Newstead
Mr Munro
PS/IR

3. The withdrawal of LAPR will not affect the qualifying status or otherwise of life policies taken out after Budget Day.

Increase in investment in non-qualifying policies

4. Non-qualifying policies (usually single-premium, often unit-linked) do not obtain life assurance premium relief, and the profit element is liable to higher rate tax, if appropriate.

5. The sharp increase in new non-qualifying policies in recent years (from £356 million in 1978 to £1000 million in 1982) may be due to a number of factors, such as:

- (i) the use of such policies as an integral part of many avoidance devices (secondhand bonds, capital and income bonds);
- (ii) with unit-linked policies (almost three-quarters of new non-qualifying policies in 1982) the facility of switching investment from one unit fund to another without a CGT charge;
- (iii) the ability of the investor to extract each year up to 5 per cent of his outlay without an immediate tax charge (in theory there will be a 'catching-up' charge when the policy is terminated, but only if the investor is still liable at higher rates);
- (iv) CTT avoidance; and
- (v) the cash-flow advantage (particularly to higher rate investors) of having the fund build up over a period of years and taxed at a maximum rate of 37½ per cent.

6. Mr Isaac's minute of 6 March to the Chancellor (paragraphs 6 to 8, and attached table) gives fuller details of recent trends.

Specific interest groups affected

7. Those connected with the insurance industry - life offices, friendly societies, insurance brokers - are likely to be most directly affected. Building societies who, since MIRAS, have derived commission from encouraging borrowers down the endowment route will lose that bonus if endowment mortgages become less popular - but this would only be a marginal effect.

8. Independent schools should not be significantly affected, since other types of provision for fees can be made.

The "Revenue promise"

9. The claim attributed to the LOA in recent press articles was rebutted in paragraphs 8 to 10 of Mr Isaac's minute of 5 March to PS/Chancellor. The short point is that the LOA were promised reasonable notice if changes in the rate of relief were contemplated for existing policies (to enable amendments to standing orders etc). That has no bearing on what is currently being done.

Nem.

N C MUNRO

BUDGET SECRET

B(84)612

→ cc. Sir P. Middleton
Mr Cassell



(F)

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

10 March 1984

John Bartlett Esq
Private Secretary to the
Governor
Bank of England

Dear John,

BUDGET SPEECH

.. I attach, for the Governor's information, the (very nearly final) text of the Budget Speech. I know that you and he will ensure that it is very carefully handled.

Yours ever,
J O Kerr
J O KERR

2 MAR 1984

BUDGET SECRET

FROM: G W MONGER
12 March 1984

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
✓ Sir P Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr Lankester
Mr Folger
Mr Norgrove
Mr Ridley
Mr Lord
Mr Portillo

PS/Customs & Excise
PS/Inland Revenue

MR KERR

BUDGET SPEECH

A few comments on the final draft.

Paragraph 69

2. There are four proposals on corporate bonds:
 - i. Deep discount stock
 - ii. Relief for Eurobonds
 - iii. Relief for incidental costs of convertible loan stocks
 - iv. CGT exemptions.

So "three" in the first line of this paragraph should be replaced by "four".

3. If the Chancellor wants to go further in building up this package, he could also bring in a fifth proposal: relief for discounts on bills of exchange. If he does the following changes should be made in paragraph 69:

Line 1, replace "three by "five"

Line 2 replace "encourage the issue of corporate bonds" by "make it easier for companies to raise finance"...

Line 5 after "convertible loan stock insert "or using bill finance"

Paragraph 80

4. In line 3, "most" should be inserted before "individual". Bank custom^{er}s who make annual returns, or who might lose age allowance, would still be concerned.

Paragraph 90

5. The Inland Revenue confirm that "from next year" should read "from 1985". (This is April 1985. The present wording suggests "from 1984-85 and could be misleading.)

Paragraph 124

6. I am doubtful about the words "straight away" at the end of the paragraph. It would be more accurate to say "as soon as they pay their suppliers". Customs agree with this.

Paragraph 126

7. I am also doubtful about the first sentence. It can be said that buyers of British goods are not at a competitive disadvantage because they get trade credit which has the same effect as postponement of VAT on imports. There is however another effect. British exporters to Europe do not get the advantage of postponed accounting in their main markets there whereas European import^{er}s to the UK do get it here. I would prefer to include this second effect in the statement by deleting "in the home market".

Paragraph 135

8. It means another short sentence but it might be worth taking credit for less than full revalorisation of Derv. The speech could say

"I propose to increase the duty on petrol by an amount which, including VAT, will raise the price at the pumps by 4½p a gallon. This does no more than keep pace with inflation. For derv the increase will be slightly less than indexation at 3½p a gallon. The changes will ..."

VAT registration threshold

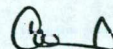
9. I see that this has been dropped from the speech. This is no doubt in the interest of shortening, but it was an attractive lollipop.

Paragraph 157

10. "Fewer" in the penultimate line reads awkwardly after the preceding sentence that 850,000 have been taken out of tax. It looks as if fewer are taken out of tax with the Budget proposal than would have been taken out by indexation. Would it be clearer to say: "The number taken out of tax is 400,000 more than if the allowances had merely been indexed".

Misprints

11. You have probably noticed the misprints in paragraphs 37 (line 4, delete "the") 42 (line 9, "lower"), 80 (line 2 "itself" not a misprint, but is it still needed?) and 126 (line 1, "have").



G W MONGER

12 MAR 1984

BUDGET SECRET



SiPM - to see
D Howard
12/3

D

FROM : M D X PORTILLO
DATE : 12 MARCH 1984

CHANCELLOR'S MORNING MEETING

59TH MEETING

NOTE FOR THE RECORD

Present: Chancellor
 Chief Secretary
 Financial Secretary
 Minister of State
 Economic Secretary
 David Hunt MP (Items 1-3 only)
 Hon Mark Lennox-Boyd MP " "
 Mr Ridley
 Mr Lord
 Mr Portillo

1. Contact with MPs

Mr Ridley will check through the MPs' register of interests to identify the interests relevant to the Budget of the most important 10 or 12 Conservative backbenchers. The area Whips, following the Budget, will need to speak to their "flocks" soothing them where their particular interest has been affected adversely and urging them to judge the Budget in the round.

2. Other important contacts

It was agreed that the Chancellor should invite the officers of the National Union and possibly also its area chairmen to a meeting this week. Miss Young should arrange a time and inform David Hunt MP. It was also agreed the CST would attend a meeting with the Conservative Research Department on Wednesday evening if this was requested.

3. Budget Day Timing

It is hoped that the Budget Speech will be the shortest for several years. The Chancellor will attend the Backbench Finance Committee ten minutes after Mr Kinnock

has sat down. He will leave the Backbench Finance Committee forty minutes after that, and the lobby should be informed that he will be with them one hour after Mr Kinnock sits down. It was agreed that the MST would stay on the bench in the House after Mr Kinnock had sat down; he will be relieved by the EST some time after the end of the Finance Committee. The FST will leave the Chamber immediately after the Chancellor has sat down so as to go on the Budget television programme in the studio at Norman Shaw. This may mean that he will miss part of the Finance Committee meeting. After the Finance Committee, the Chief Secretary will stay with the Officers of the Committee and buy them a drink.

4. CRD Budget Brief

Mr Ridley will take account of Ministers' comments today. He will clear the text with Mr Folger, and will incorporate points made in the Chancellor's Budget Statement, and a section on "nuggets".

5. Budget Presentation

Ministers accepted the proposals made in Mr Makenham's minute of 9 March, although they may wish to exchange some of the appointments between them. Each private office will be responsible today for drawing up a programme for each Minister.

6. Budget television appearances

Ministers were agreed that where they were offered the option of an interview or a discussion with other politicians, they would always choose an interview. On the other hand, where the programme was offering a discussion with no option, Ministers would accept the invitation.

7. MPs ACA

The Chancellor will wish to see the FST's redraft of a letter to MPs. The letter should incorporate a reminder of the TSRB's recommendation of a new form

Distribution

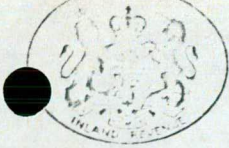
Chancellor
CST
FST
MST
EST
Sir P Middleton
Mr Bailey

Sir T Burns
Mr Littler
Mr Ridley
Mr Lord
Sir L Airey - IR
Mr Fraser - C&E



M D X PORTILLO

12 MAR 1984



FROM: L J H BEIGHTON
 INLAND REVENUE
 POLICY DIVISION
 SOMERSET HOUSE
 12 March 1984

CHANCELLOR OF THE EXCHEQUER

BUDGET SPEECH : PARAGRAPH 91

1. I understand that you would like a brief note about the use of the phrase "economic depreciation" at the end of paragraph 91 of the Speech.

2. What many people would take you to mean by a reference to "a strict system of economic depreciation" would be a system under which the replacement cost of an asset was matched by its depreciation over the years at its replacement cost in each year. Suppose for example that an asset costing 1,000 had a 10 year life and could properly be depreciated on a straight line basis, then if inflation were running at 5% the economic depreciation would be 100, 105, 110.25, 115.76, 121.55 etc compared with depreciation on a historic cost basis which would simply be 100 in each of the 10 years. To economists, in particular, it is a term of art.

3. While you can properly say in your Speech that because on average an asset has a life of more than 8 years, a measure of tax depreciation which allows for effective writing off after 8 years is more than sufficient to take care of commercial depreciation on a historic cost basis, the same is not necessarily true on a replacement cost basis - there is no empirical evidence of asset lives in the United Kingdom of which we are aware which would enable us to provide you with ammunition to support what you are

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
~~Sir Peter Middleton~~
 Mr Bailey
 Mr Cassell
 Mr Monck
 Mr Monger
 Mr Lord

Sir Lawrence Airey
 Mr Green
 Mr Beighton
 Mr Corlett
 PS/IR

proposing to say against any critics who said you had not gone far enough. The outcome might either be that you might find yourself having to raise the level of 25% annual allowances to justify your statement or else to move tax accounts onto a current cost basis, despite all the difficulties and against a background of a profession which has just about reached the point of failure to do so for reporting purposes after 10 years of agonising debate.

4. The insertion of "commercial" for "economic" at the end of paragraph 91 would substantially reduce the danger of criticism along these lines and enable you to counter any criticism which there might nonetheless be. Normal accountancy principles require depreciation to be based on historic cost figures.

LJH

L J H BRIGHTON

BUDGET-SECRET

FROM: A M W BATTISHILL
DATE: 12 March 1984

MR KERR

cc see below
Sir P. Middleton

F
BUDGET SPEECH: FINAL DRAFT

My comments on the final draft are as follows.

Paragraph 25, over the page, 10th line: this sentence uses "last" three times and with two different meanings. It might be better to talk of "the final two years of the new MFS".

Paragraph 37: in line 4 is "the" intrusive before "National Savings"?

Paragraph 45: in the last line insert "in" before "taxation".

Paragraph 48: in the last line it might be better to say "income" rather than "wage". We are not only talking about wage earners.

Paragraph 50, first line: should one not substitute "had" for "has" in the first line.

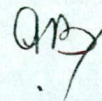
Paragraph 51: would it not be better in the fourth line to use the title of the Green Paper, not a variation on it.

Paragraph 58: in the penultimate line "subsequent" is a shade ambiguous following the reference to "the next two years" in the preceding sentence. It might be better to substitute "future".

Paragraph 80: I am puzzled at the significance of the word "extra" in line 11. The next sentence makes it clear that this does not include notional savings of staff who would be needed to deal with the spread of interest-bearing accounts. Should the word be there at all?

Paragraph 124: at the very end I still worry about the words "straightaway". But Customs are presumably content.

Paragraph 127: the last sentence is probably alright. But if the value of imports were on a rising trend (and not reversed by the present measure) accelerating the payment dates might produce a small revenue yield compared with what it would otherwise have been. But I do not suggest any change.



A M W BATTISHILL

cc

Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Fraser (C&E)
Mr Monger
Mr Ridley
Mr Lord
Mr Portillo
Mr Norgrove
Mr Knox (C&E)
Mr Folger

(F)

CONFIDENTIAL

*Sir M - to see
2/13
2/13*



FROM: A M ELLIS
DATE: 12 March 1984

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Battishill
Mr Makeham
Mr Ridley
Mr Portillo
Mr Lord

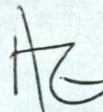
BUDGET PRESENTATION: CONTACT AFTER BUDGET

The Economic Secretary's programme does not include any contacts to be made immediately after the Budget. The plans for contact after Budget Day are as follows:

- i) London Clearing Bank: private office to contact on Budget Day with view to meeting on Friday with Kenneth Lucas, Secretary General (283 8866);
- ii) Friendly Societies Liaison Committee: letter from Economic Secretary to be delivered after Budget speech to Mr Madders, Chairman of Friendly Society Liaison Committee;
- iii) Building Societies Association: private office to contact Herbert Walden on Budget Day with a view to a meeting on Monday 19 March. (The Economic Secretary suggested it may be in impolitic to meet the BSA before their meeting on Friday.) (629 7233); *on mortgage rates*
- iv) Equipment Leasing Association: private office to contact on Budget Day with a view to a meeting on Friday;

18

- v) Sir John Sparrow: Economic Secretary to speak on phone on Wednesday (588 4545);
- vi) MPs: Economic Secretary to telephone on Wednesday Michael Grylls; Nigel Forman; John Hannam. N.B. if possible, Michael Grylls to be contacted tomorrow.



A M ELLIS

BUDGET SECRET

① Budget

FROM: D R NORRGROVE
DATE: 12 MARCH 1984

1. MR BATTISHILL *copy 12/3*
2. CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton
Mr Littler
Mr Monger

GUIDANCE TELEGRAM FOR OVERSEAS POSTS

I am sorry to bother you now with yet another note explaining the Budget to someone. The draft attached is a telegram to go to posts overseas after you have sat down. It is very largely based on the message for the Queen, with some stylistic changes, as appropriate, and also adding in a few points which are of overseas interest, though not of interest to the Queen, including a reference to the transitional arrangements for investments in development areas and special development areas and to the fact that the composite rate will not apply to non-residents. *I have also expanded the discussion of VAT on imports along the lines of the Budget speech.*

2. Could I have your approval of this please?

D R Norgrove

D R NORRGROVE

1984 BUDGET: 13 MARCH 1984

The Chancellor said today that the 1984 Budget had two aims: to bring about a further reduction in inflation and improve the prospect for jobs, and to reform and simplify the tax system. The Budget continues the fiscal and monetary policies which have been consistently applied since 1979, to secure a sustained improvement in economic performance and lay the foundations for future prosperity, better employment and lower taxation. It represents a further step towards the Government's ultimate objective of securing stable prices.

The domestic and world economic background

2. The domestic and world economic background is more encouraging than a year ago.
3. The rate of inflation in the UK has fallen steadily since 1980 from a peak of over 20 per cent, to an average level last year of about 4½ per cent, the lowest for nearly 20 years. From its present level of around 5 per cent, inflation is expected to continue falling this year to a level of 4½ per cent by the end of the year and to 4 per cent in the first half of 1985.
4. Demand, output, profits and employment all rose last year, helped by lower inflation, higher personal consumption and more investment by businesses and in housing. With continuing economic recovery at home, lower inflation and interest rates, and better world economic prospects increasing international trade, output in this country is set to rise by some 3 per cent in 1984, continuing the rate of growth seen last year. However the Chancellor pointed to the widespread concern about the size and continued growth of the US budget deficit and the risk of disruption in the oil market.
5. Unemployment still remains distressingly high, although the rate of increase has fallen during the past year. On the latest available figures, the number of people in employment increased by about 80,000 between March and September last year, the first increase for 4 years. With continued growth in output the prospect for employment should improve still more.

The Budget Strategy

6. The Government published an updated Medium Term Financial Strategy for five years ahead. Target ranges have been published for monetary growth, with separate ranges this year for broad and narrow money, and illustrative ranges for later years; the trend will continue to be firmly downward consistent with the Government's objective of continued falling inflation and lower interest rates.
7. In support of this, public sector borrowing has to come down still more as a share of total national output. In deciding upon the appropriate level of borrowing in 1984-85 account has been taken of several important factors. They include the planned increase in sales of public sector assets arising from the Government's privatisation programme, and the prospect that receipts from North Sea oil reserves will soon begin to decline from peak levels. Accordingly, the Budget has been drawn up on the basis of a Public Sector Borrowing Requirement next year of £7¼ billion. This represents a reduction from an estimated 3¼ per cent of national output in the current year, 1983-84, to 2¼ per cent in 1984-85.
8. Consistently with that figure the Budget is designed to be broadly neutral in its effect on revenues in 1984-85, as compared with simply increasing excise duties and the main income tax allowances and thresholds in line with inflation. However, for 1985-86, the Budget reduces taxes by some £1¼ billion. Much of this will accrue to businesses, which will receive a substantial net tax reduction over the two years taken together. By holding to the Government's public spending plans, it is hoped to make room for further tax reductions in next year's Budget; and to continue that process in subsequent years.
9. In line with the Government's published spending plans no expenditure measures were included in the Budget this year. In particular, announcements about social security benefits and child benefit are to be announced later in the summer, following changes in the uprating arrangements made last year.
10. This year there was also published on Budget Day a Green Paper on public spending and taxation into the 1990s: this shows how, with sustained economic growth and with public spending held in check, opportunities will arise for bringing taxation back to much more acceptable levels in the years ahead.

11. Within the broadly neutral approach this year, the Chancellor proposed structural reforms in taxation in three main areas: a further switch away from taxing what people earn to what they spend; changes to the system of business taxation; and changes in the field of personal savings.

The detailed tax proposals

12. Details of the main Budget proposals are as follows:

Income and spending:

- with two particular exceptions the excise duties are to be increased broadly in line with inflation. The first exception is cigarettes, on which the duty is to be increased by 10p a packet, in the light of the dangers of smoking to health. Second, to conform with a judgement of the European Court the duty relationship between beer and wine is to be adjusted; the duty on beer is to increase by 2p a pint and that on wine is to be reduced by about 18p per bottle. There is to be no increase on pipe tobacco and the duty on kerosene (applying also to paraffin used by many elderly people for home heating) is to be abolished.
- Coverage of the 15 per cent VAT is to be extended to 2 groups of expenditure previously excluded from the tax: hot take-away food and building alterations and extensions (bringing these in line with repairs and maintenance).
- Extra receipts from these changes are to be used to reduce the weight of income tax. The Chancellor gave priority this year to raising the basic income tax thresholds, which helps those on low incomes. The single and married allowances are to be increased by about 12½ per cent or some 7 per cent in real terms. The increases will be worth about £1.25 per week for most single people, and over £2.00 a week for most married people. This will help to ease the poverty and unemployment traps. Allowances for the elderly, and the thresholds and bands for the higher rates of tax, are to be raised in line with inflation. More than ¾ million people will be taken out of tax completely next year.

13. Business. The changes to business taxation have three main objectives. The first is to reduce distortions in the tax system between different types of asset and different forms of finance, and to reduce the cost of employing labour relative to that of investing in capital. The second is to widen the tax base and make the system simpler to apply and understand. The third is to encourage output and growth, by lightening the total tax burden on businesses. Details of the changes are as follows:

- Taxation of profits. The expensive system of first year capital allowances for investment is to be progressively dismantled over the next 3 years. The allowances for plant and machinery are to be reduced from 100 per cent to 75 per cent this year; to 50 per cent in 1985-86; and withdrawn altogether in 1986-87, when expenditure will be depreciated instead at an annual rate of 25 per cent. Similarly, the 75 per cent first year allowances for industrial buildings are to be withdrawn in stages; after 1985-86 depreciation will be at a rate of 4 per cent a year. With inflation down to 5 per cent and set to go lower, the allowance for the inflationary cost of holding stocks, stock relief, is to be abolished from Budget Day. In return, the corporation tax rate on business profits will come down from 52 per cent to 50 per cent at once for profits earned last year; to 45 per cent for 1984-85; to 40 per cent for 1985-86; and to 35 per cent for 1986-87. For small companies the rate is to fall immediately from 38 per cent to 30 per cent. To help companies plan ahead these changes are all to be included in the Finance Bill. The North Sea taxation regime will be somewhat amended to ensure that North Sea operators do not gain disproportionately from these changes. There are to be transitional tax arrangements for certain investment projects in the development areas and special development areas.
- The National Insurance Surcharge is to be abolished from October.
- Measures are to be taken to speed up the payment of VAT on imports to bring the UK into line with practice generally in the European Community; the Chancellor noted that the Commission had been seeking, with UK support, to have the UK system adopted throughout the Community but without success, and said that the UK would revert to its present system were our European partners to agree to ^{it} ~~adopt the UK system~~;

14. Personal savings. The Budget measures have a number of objectives. First, they will reduce tax privileges for institutional savings, whilst increasing the attraction for individuals to invest directly in equities. Second, they will give greater encouragement to personal savings generally. Third, they will help to put the banks and building societies on to a more equal footing in competing for personal savings. The measures here are as follows:

- Tax relief for qualifying life assurance premiums is to be withdrawn in respect of new policies taken out after Budget Day (relief will remain on existing policies).
- The 2 per cent stamp duty on share transfers will be reduced to 1 per cent. There will be a similar cut in stamp duty on land and buildings, to assist home buyers, along with an increase in the stamp duty threshold to £30,000.
- The investment income surcharge, which taxes larger investment incomes more heavily than earnings, is to be abolished.
- The arrangements whereby building societies account for tax on interest paid to their depositors at an average rate will be extended to the banks, though not to accounts held by non-residents by the corporate sector.
- On capital taxes, the annual exemption from capital gains tax and the capital transfer tax threshold will both be raised in line with prices; and the top CTT rate reduced from 75 per cent to 60 per cent for transfers over £285,000. The development land tax exemption will be raised from £50,000 to £75,000.

15. Finally, a number of other changes will be made, with the aim of countering tax avoidance, improving fairness and remedying defects in the tax system. In particular, two special reliefs will be withdrawn: the relief given to foreign employees coming to the UK to work for foreign employers and that allowed to resident taxpayers who spend at least 30 days in the tax year working abroad. To help firms wishing to reward and motivate key personnel, the tax treatment of share option schemes will, on the other hand, be eased.

Summary

16. The 1984 Budget continues the prudent monetary and fiscal policies pursued for the past 5 years. It aims to sustain and reinforce the process of economic recovery based on lower inflation and lower interest rates. The Budget combines substantial tax reductions, taking 1984-85 and 1985-86 together, with important tax reforms and the prospect of a significantly lower level of public sector borrowing.

(F) 5

FROM: P MAKEHAM
DATE: 12 MARCH 1984

MR GIEVE

cc PS/Chancellor
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
PS/Sir Peter Middleton
PS/Inland Revenue
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Monger
Mr Battishill
Mr Lankester
Mr Scholar
Mr G Smith
Mr Folger
Mr Hall
Mr Ridley
Mr Lord
Mr Portillo

CHIEF SECRETARY'S BUDGET DEBATE SPEECH: 14 MARCH

Mr Portillo and I have revised the draft speech following our discussion on Friday.

2. The attached draft contains the following sections.
- I Opening passage, including announcements (cable allowances, holiday lettings, residual shareholdings)
 - II Budget Strategy
 - III Personal Incomes
 - IV Tax reform (persons)
 - V Tax reform (companies)
 - VI Long Term Approach - MTFS
 - VII Green Paper
 - VIII Hattersley
 - IX Peroration

Peter Makeham

PETER MAKEHAM

36/12/83

I OPENING PASSAGE

I shall in due course deal with the vulgar and extravagant charges levelled at the Government by the rt hon Gentleman. But before allowing myself that pleasure, there are some important announcements which I must put on the record, and which the House I know will want to hear at the earliest opportunity.

First, cable television. I'm sure those involved in the development of cable television will be glad to know that the cost of both the provision and installation of ducting for Cable TV networks will qualify for capital allowances. [Let's hope that the events which will be televised will be more pleasing than the beargarden opposite.]

Second, holiday lettings. Our proposals on furnished holiday lettings offer generous reliefs which should assist this part of the tourist industry. In response to concern over the transitional period before the new reliefs start, we propose to move the starting date back twelve months so that the reliefs will run from 6 April 1982. This will meet the worries expressed by a number of my hon Friends and will be good news for the holiday industry.

Third, residual shareholdings. Mainly as a result of its privatisation programme, the Government holds minority shareholdings in a number of quoted companies. Questions have been asked about the Government's intentions towards these shareholdings. It has been suggested that they represent a continuing and deliberate

BUDGET-SECRET

means of exerting Government influence over the privatised companies. This is not so: indeed, it would defeat the main purpose of privatisation where it so.

Let me put the matter beyond doubt by making it clear that the Government's policy is to sell such shareholdings from its portfolio as the circumstances of the individual companies, prospectus undertakings and market conditions permit. A full announcement will be made to Parliament at the time individual sales are made. The mechanism of a Special Share can be used to safeguard national interests as has already been done in the case of Britoil, Amersham and Cable & Wireless. In line with this approach minority shareholdings have already been transferred from sponsor Departments to the Treasury and this policy will continue.

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BUDGET-SECRET**II BUDGET STRATEGY**

The Budget presented to the House yesterday by my Rt Hon Friend the Chancellor was by any standards remarkably forward-looking; accompanied as it was by a medium term financial strategy for five years, and a Green Paper on public expenditure in the longer term. It is a Budget remarkable for its clarity of thought, its originality and its radical approach to deep-seated problems in our taxation system.

The Chancellor has managed to secure a number of highly important changes in our tax structure that will improve the workings of the economy. That would be a substantial achievement at any time. But to accomplish so much within a neutral Budget has required particular skill. At the same time, the Budget fits firmly within the strategy pursued by the Conservative Government ever since coming to office in 1979, and pursued consistently. Our aim remains sustainable non-inflationary growth. The twin pillars of our policy are the Medium Term Financial Strategy and the encouragement of enterprise. We see the reduction of inflation and the increase of competition as preconditions for achieving higher employment and lower unemployment.

We have reasserted our policy of maintaining tight control on the level of government borrowing. This strategy has been crowned with success amply reinforcing our view of the importance of getting government borrowing down. In 1981-82 the PSBR was substantially reduced - to 3½ per cent of GDP compared to 5½ per cent in 1980-81.

BUDGET-SECRET

This reduction has been sustained in subsequent years. It has been followed by following inflation and economic recovery. Inflation in 1983 was the lowest since 1967 and we are now growing faster than any other country in the European Community.

We will not throw these achievements away by compromising on the fight against inflation. The level set for the PSBR in 1984-85 maintains our strategy. It takes account of the higher level of asset sales and the fact that next year could be the peak for North Sea oil revenues.

The Budget has two themes. It reaffirms our determination to continue the fight against inflation, through sound finance. It embarks on a sustained programme of tax reform. Of course, our determination not to compromise in the fight against inflation limits what we can do on taxation in the short term. The limited room for manoeuvre this gives makes the Chancellor's achievements on tax reform even more remarkable.

REFLATION AND ASSET SALES

1. PSBR 1981-82 to 1983-84 considerably lower than 79-80 and 80-81, [even adding back on asset sales]
2. Recovery occurred since mid-1981; same time as PSBR significantly reduced
3. Recovery due to reduction in inflation, interest rates which government policies have enabled
4. Have taken profile of asset sales into account in setting future PSBR path - one reason for fall in PSBR 1983-84 to 1984-85
5. Asset purchases included in public spending - no inconsistency in counting asset sales as a reduction in spending

£bn	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>
1) PSBR (% of money GDP)	8.7 (3.4)	9.2 (3.3)	10.0 (3.25)	7.2 (2.25)
2) Asset sales (excluding council houses)	-0.1	+0.5	+1	+2

III PERSONAL INCOMES

Our income tax proposals mark a important step in the long term process of improving incentives and encouraging enterprise. We have repeatedly stressed that our priority for income tax was to raise personal allowances. It will take several years and tremendous determination to take all the low paid out of tax. But that cannot be a reason for never starting on that road. We must take as big a stride as we can each year, and what we have done this year is indeed worthwhile progress.

- The 12½ per cent increase in main allowances means a tax reduction of over £2 a week for a married man. This is the third successive Budget in which the main personal allowances have been increased in real terms. As a result tax thresholds in real terms are now some 16 per cent above the levels of 1978-79 and at their highest since 1972-73. For a married man under 65 it means that the real allowance is now higher than at any time since the war.

- It means 850,000 fewer income taxpayers; something I would hope both sides of the House would welcome unreservedly. [INTERVENTION 10,000 families are removed from the poverty trap. Although this represents only about 6 per cent of the total number of households caught in the 'trap', it is a start. Labour policies would just increase the tax burden on the low paid]. We have concentrated our efforts so as to raise the main allowances by the maximum amount possible.

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- The higher rate thresholds have been raised in line with inflation, but no more. So, proportionately, the gains are greatest for those on low incomes. [This follows substantial real increases in the higher thresholds during our first term of office and the cutting of the top rate of tax from a confiscatory 83p - indeed 98p on investment income - down to 60p. It is essential that enterprise and initiative are encouraged by appropriate rewards if we are to get the economy working better. But this year we judged it right to concentrate our fire on getting the main allowances back to a sensible level.]

- Doubtless we shall hear the familiar jibes that this Budget does nothing for the elderly. But the age allowance has been fully protected against inflation - in real terms it is now some 8 per cent above its level in 1978-79. This means that pensioner couples with incomes up to £1,000 a year above the basic state pension will pay no tax.

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[INDIRECT TAXES

Excise duties

- broadly adjusted in line with inflation
- in taking account of judgement of European Court on relative taxation of wine and beer not the feared amount on beer (up about 2p a pint) but a help for claret drinkers

VAT

- coverage extended to printed matter (but not books), hot take-away food, and building alterations
- items already subject to positive rate of VAT in other EC countries (except Denmark and Italy where newspapers and some magazines are zero rated)]

Combined impact of VAT and excise duty changes on RPI less than $\frac{1}{4}$ per cent and incorporated in FSBR fogrecast.

[BUDGET AND PERSONAL SECTOR

Small but significant switch from taxation of income to taxation of spending

- net gain to personal sector in 1984-85 of about £ $\frac{1}{2}$ billion
- overall effect of income tax, NICs and indirect taxes. Those on average and $\frac{1}{4}$ average earnings gain (married couples gaining about £1 a week) [those on 1 $\frac{1}{2}$ average earnings pay extra tax of between 50p and £1 a week.] These figures do not include effect of housing benefit

changes but for about 80 per cent of working families losing housing benefit in April, cash gain from income tax changes is greater than loss from housing benefit.]

[EFFECT ON CONSTRUCTION

1. Reduction in stamp duty should increase demand for houses
2. NIS abolition particularly benefits such a labour intensive industry
3. Reduction in corporation tax rates (particularly small companies rate) helps industry..]

IV TAX REFORM (persons)

It isn't just that the tax burden on personal incomes is too high - the tax system itself has become complicated and distorted. The special reliefs and allowances built into the system have meant high basic rates of tax. They have also distorted people's investment and savings decisions so that tax advantages are a major factor in choices. We have made a start in removing these distortions. The removal of life assurance relief removes a bias against direct investment. The reduction in stamp duty removes a disincentive to direct savings in equities.

There has been a positive and constructive response to the Consultative Document on stamp duty issued last year. Before taking decisions on reform we shall want to take into account representations from the Keith Committee as well as the response to the Consultative Document. My rt hon Friend hopes to be returning to stamp duty next year.

We have abolished the investment income surcharge. It was a major and discriminatory imposition on the retired self-employed who often provide for their retirement through investment out of already-taxed income. The Opposition will doubtless build a totem pole out of the abolition, but I would urge them to check their facts before their ritual war dances. Over half of those who are caught by it are over 65. Most of those who pay it are either elderly or basic rate taxpayers, or both.

V TAX REFORM (companies)

Current rates of corporation tax are too high. Over the years we have grafted a complicated superstructure of reliefs and allowances onto the basic structure. Such reliefs are very expensive to maintain. They make a high rate of tax necessary.

Our combination of high company tax rates and generous allowances has not produced profitable investment for us.

Returns on investment seem to have been consistently lower over the years than in the USA, France or Germany. This poor performance underlies our sluggish growth in past years, our struggle to compete and today's high level of unemployment.

Our company tax system produces very great distortions. It has picked out plant and machinery for very special treatment and favours industrial buildings over any others. Businessmen have come to see tax as one of the most important considerations when deciding how, when and where to invest.

What is more our current corporation tax structure tilts the balance in favour of capital and against labour. That is far from appropriate at a time of high unemployment.

As the House will remember, one of the threads running through my rt hon Friend's Budget was the need to help the creation of more jobs. That is why we are to abolish the National Insurance Surcharge.

I hope that hon Members opposite will not feel the need to mourn too openly their party's tax on jobs. The abolition achieved under this Government is worth £3 billion a year to business compared with its peak rate under the Labour government.

[The Chancellor has also set aside the special treatment given to VAT payments on imports. There are administrative advantages in our deferred payment system. But for as long as the other major countries in the Community follow a different system, it seems only right to put our arrangements on all fours with theirs to avoid any competitive disadvantage.]

These changes in company taxation set the scene for business for the years ahead. That is why we shall take care to include in this year's Finance Bill the rates of corporation tax for the years ahead.

LONG TERM STRATEGY

Ours is a long term approach. Not for us, the knee jerk Budgets of the Labour government. The measures announced yesterday will reduce taxes by over £1½ billion in 1985-86 while the company tax reform will take effect over the next three years. The Medium Term Financial Strategy now covers five years.

VI MTFS

Since its inception, the MTFS has set out the framework within which policy operates. It shows clearly the direction of policy and the goals. It has guided the expectations of decision makers in the economy.

[Expectations are crucial. How much real growth and how much inflation we get from any increase in money incomes will partly depend on how people's expectations -especially over pay - respond. If realistic pay levels lead to better performance on costs there will be more scope for output - and for employment - to grow.]

Public spending and borrowing are of central importance. The MTFS shows how a further decline in public sector borrowing is needed to permit lower interest rates within the framework of declining monetary growth. The Public Expenditure White Paper, which we debated last week, showed our determination to hold spending broadly stable in real terms over the next three years. The prize to be won is shown in the MTFS. If real spending is kept

BUDGET-SECRET

constant and if pay levels are kept realistic so real growth continues, spending will fall as a percentage of GDP, leaving room for cuts in taxation. The prize is substantial - room for further tax cuts in each year, possibly around of £2 billion in 1985-86 rising to £4½ billion in 1986-87 - money that can be used, for example, to take those on lowest incomes out of tax. This is the reward for virtue - virtue in keeping public spending level in real terms.

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VII GREEN PAPER

I turn now, Mr Speaker, to the Green Paper on the next ten years, published by my right hon Friend on Budget Day.

"The Next Ten Years" addresses itself to one of the most important - some would say, to the single most important - economic issue of the day: how much public spending can our country afford over the next ten years?

We have to get to grips with this question, which has been left unanswered in the past. The growth of public spending has in the past two decades been the engine which has driven ever upwards the burden of taxation. Income tax now bites hard well down the income scale. A married man without children on average earnings was paying less than one-seventh of his income in income tax in 1963-64. By 1975 over a quarter went in income tax. The figure has fallen a bit since then, but it is still far too high: over one-fifth of such a man's income goes in income tax. It is this rise in the burden of taxation which has led to the indefensible situation of growing numbers of people who receive benefits of various kinds and pay income tax at the same time.

The Green Paper assesses the pressures for continued growth in public spending in the next decade. They will, without doubt, be very considerable. But, as a discussion document, it does not attempt to project the path of individual programme totals, or to forecast in any detail how the economy will develop. It was entirely right to frame

BUDGET - SECRET

the Green Paper in this way. To have gone into the detail would have been to distract the public debate from the main issue, so often ignored in the past. The debate must focus on the totals - national income, taxation and public expenditure. This is the central, strategic, issue.

The Green Paper is designed to carry forward the public debate by providing a framework for the discussion. [We have assumed growth of 2 per cent, or 1½ per cent a year, following the five years covered by the MTFS; and we have assumed either a constant level of public spending in real terms after that date, or growth at 1 per cent a year.] The analysis in the Green Paper points to a striking conclusion: public spending will have to be held at broadly its present level in real terms all the way to 1993-94 if we are to make any serious inroad on the burden of taxation, and get it below its levels in the early 1970s. If this firm grip on spending were to be relaxed somewhat, and public spending grew by 1 per cent or 2 per cent a year in real terms - still well below the rates at which it has grown in our recent history - the burden of tax would be about as heavy as it was when the present government took office in 1979. As the House will recall, we had good reason to consider that burden far too great.

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VIII HATTERSLEY

The House will be well aware that the Rt Hon Member for Birmingham Sparkbrook has recently completed a series of speeches purporting to be about economic policy. I must say I awaited each instalment with the sort of anticipation one reserves for a repeat showing of "All Our Yesterdays". Nonetheless we must commend his persistence, and the patience of his audience.

In one episode of this little saga we are privileged to learn of the Rt Hon Gentleman's own version of the Budget - or was it the ghost of the Member for Stepney's election - losing strategy? At any rate, it certainly appeared to be a diluted dose of the sort of medicine we have been served by Opposition for many years. Once again the blindingly obvious answer to our economic ills is that we need more of everything - but especially more government spending and more government borrowing. Of course we were not told that this would involve more inflation, higher interest rates and more unemployment. Indeed, the Rt Hon Gentleman conspicuously did not proffer any costing of his woolly meanderings. New depths of vagueness were plumbed. I cannot really believe he expects the House to take him seriously.

But I have not lost all hope that the Rt Hon Gentleman may yet come round to seeing economic sense. Why only last week in the humble surroundings of the Dorchester Hotel he was vigorously championing of "laws of classical economics" against 'evils' of the

BUDGET-SECRET

subsidy-ridden Common Agricultural Policy. I look forward to the Rt
Hon Gentleman's further support for unfettered working of the
market mechanism.

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PERORATION

Yesterday's Budget was about making the economy work better. It was aimed at removing some of the barriers and the distortions which have impaired our performance and held back our growth.

It is a Budget about trust: trusting business to make its own decisions, trusting people to spend and invest more of their own money. It is a Budget for the low income taxpayer, the person who should not be caught in the tax net at all.

It is a Budget for jobs, removing the biases in the tax system against employment and scrapping Labour's sorry tax on jobs.

It is a radical and reforming Budget which will set out course for the Parliament.

FROM: D R NORGROVE
DATE: 12 MARCH 1984

1. MR BATTISHILL ^{12/3}
2. CHANCELLOR OF THE EXCHEQUER

Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton ✓
Sir Terence Burns
Mr Bailey
Mr Littler
Mr Monger
Mr Scholar
Mr Folger
Mr Ridley

CABINET TOMORROW

We have not drafted a speaking note for you to use at Cabinet tomorrow, expecting that the message for the Queen and the scorecard may serve as an adequate aide-memoire for explaining the Budget measures. But there are a few housekeeping and other points which you may care to have in mind.

2. First, it would be useful if you could put on the record what is proposed for NIS clawback and the public expenditure effects of extending the VAT base (paragraphs 5.03 and 5.04 of the FSBR). It would be tactful to mention NIS some distance away from the VAT base, since the Treasury is trying to have this both ways.

3. On NIS you might say:

"Figures for public spending will need to be adjusted to take account of this [NIS abolition] in the way which will be familiar by now."

The effect on the public sector of abolishing NIS is estimated to be £120 million in 1984-85 and £485 million in a full year.

4. On the VAT base you might say:

"The proposals to widen the VAT base will involve some extra costs for the public sector. These should of course be absorbed within the existing programmes wherever possible."

The words "wherever possible" appear in the FSBR. The effect of the VAT base changes on the public sector is estimated to be £45 million in 1984-85 and about £50 million in a full year. These figures are very rough.

5. You might also mention what you propose on handling the Green Paper, if you have not already done so at Cabinet last Thursday, along the lines:

"I would like to thank colleagues for their very speedy and constructive comments on the draft Green Paper which I circulated immediately after Cabinet the week before last. We have amended the text to take account of the great majority of comments we received and the Green Paper is being published today.

We must do all we can to get the renewed public debate on expenditure and taxation off on the right foot.

Both the Chief Secretary and I will be making a number of speeches, and we will be glad to assist any colleagues who will help, with factual material, drafting suggestions and so on. Meanwhile, I think it important that we speak with the same voice immediately after the publication of the Green Paper (which is now called, "The Next Ten Years: Public Expenditure and Taxation into the 1990s"). We are therefore circulating a briefing pack to members of the Cabinet today."

6. Aside from these housekeeping points, you may want to try to anticipate in your opening remarks the kinds of political worries some of your colleagues may have about the Budget. These are perhaps less likely to relate to the company tax changes than to some of the changes to personal tax. Three possibilities stand out: excise duty changes (beer/wine and cigarettes), the wider VAT base and the withdrawal of LAPR. You could acknowledge that none of these changes is likely to be popular in itself. But you could point to the way that each is justified on its merits and indeed, to the widespread recognition that the changes you are proposing are necessary and worthwhile, however uncomfortable they may be. And you could also emphasise the substantial benefits to individuals, including many who are relatively poor, from the substantial real increase in tax thresholds. On the company tax changes some colleagues will be concerned particularly about the effects on investment. The answers to this concern are a key part of the Budget Speech.

7. It might also be helpful and reassuring to colleagues if you were to indicate briefly some of the main lines of criticism of the Budget which you expect and how they can be answered.

BUDGET SECRET

8. Friendly critics may pick on the role played in the Budget arithmetic by VAT on imports and asset sales, linked with an accusation that it is irresponsible to spend now some of next year's fiscal adjustment. The main answer to this is perhaps to point to the forecast of inflation, and the continuing framework set by the MTF^{*}S. The likely accusation, from unfriendly critics that a PSBR of £7¼ billion will kill the recovery is also a kind of answer: both criticisms cannot be right simultaneously.

9. The Opposition seem likely also to emphasise the benefits going to the better off. This Budget will help the better off particularly through the abolition of IIS. But the Government will be able to point to the way in which the higher rate thresholds have been revalorised solely in line with prices whereas the main allowances are to rise by some 7 per cent in real terms, the most expensive single change by far in 1984-85.

10. Serious commentators are likely to concentrate on the company tax changes. Their reactions are not easy to predict, though you could point to the helpful articles which have appeared recently, with their recognition of the present bias against employment.

11. Generally, this is not a Budget on which anyone will find it easy to make a snap judgement. Everyone should find something to welcome, and many of the changes will need time fully to understand and to analyse.

D R Norgrove

D R NORGROVE

*
Ans the
forecast
£2 billion
fiscal
adjustment
in 1985/86

(F)



FROM: A P HUDSON
DATE: 12 March 1984

PS/CHANCELLOR

cc Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Battishill
Mr Makeham
Mr Ridley
Mr Lord
Mr Portillo

BUDGET PRESENTATION: CONTACTS AFTER BUDGET

I attach the programme for the Financial Secretary and this office.

AH

A P HUDSON

FST: BUDGET PRESENTATION

CONTACTS IMMEDIATELY AFTER THE BUDGET

1. Telephone
Sir Clive Sinclair 0223 353204
George Copeman (Wider Share Ownership Council) 248 9155

2. Influential Groups to see
Bruce Sutherland (IOD)
(Private Office to contact with a view to an early meeting)

CONTACTS AFTER BUDGET DAY

1. Meetings with other representative groups
Consultative Committee of Accountancy Bodies
Union of Independent Companies
Association of Independent Businesses
(Private Office to contact on Budget Day)

2. Telephone contacts with individuals
Dr Herman Hauser - Acorn Computers

3. MPs to be contacted personally
Tim Eggar
Peter Lilley

4. North Sea Oil Industry
Send letter to UKOOA
Copy of letter to UKOOA to be sent to Brindex and UKIOTC

13 MAR 1984

CONFIDENTIAL

(f)



FROM: APS/Minister of State

DATE: 13 March 1984

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Battishill
Mr Makeham
Mr Ridley
Mr Lord
Mr Portillo

BUDGET PRESENTATION: CONTACTS AFTER THE BUDGET

The Minister of State will telephone Sir Hector Laing immediately after the Budget.

He has arranged to meet the Building Employers Confederation, formerly the National Federation of Building Trades Employers, on Thursday, 15 March at 10.30am. In addition we shall be arranging for him to meet the Tobacco Advisory Council and the Brewers' Society in the near future. The Minister is also having lunch on Thursday, 29 March with the Society of Motor Manufacturers and Traders (SMMT). Whilst this is some time ahead, they have confirmed that the Budget is one of the subjects which they wish to raise with him.

The Minister will contact the following MPs personally: Anthony Beaumont Dark, John Browne, Roger Freeman and Ralph Howell.

Debbie McCambridge

MISS D C McCAMBRIDGE

CONFIDENTIAL

12 MAR 1984

CONFIDENTIAL

(F)

FROM : M D X PORTILLO
DATE : 12 MARCH 1984

PS/CHANCELLOR

cc PS/CST
PS/FST
PS/MST
PS/EST
Sir P Middleton
Mr Battishill
Mr Makeham
Mr Ridley
Mr Lord

BUDGET PRESENTATION : CONTACTS AFTER BUDGET

This morning's Prayers discussed Mr Makeham's minute of 9 March. It was agreed, although some details will change as Ministers make changes between themselves.

2. The Chancellor was anxious that we should now move rapidly to a firm programme of contacts for each Minister. As you will have seen from the Prayers minutes, each private office will be responsible for drawing up such a programme for its Minister. I think that the Chancellor would wish these programmes to be very detailed, showing for example not only when each meeting could be fitted in, but when and by whom contact would be made to arrange it. Early contact from immediately after the moment that the Chancellor sits down, can often forestall unfavourable comment even if the meeting has to be some way ahead.
3. In the case of MPs I would remind private secretaries of the technique of putting a note "on the board" for the Member to find on Budget Day by the time Mr Kinnock sits down. It can say something like: "I know that you will be concerned about subject x, but I know too that you will want to think about the Budget as a whole before reaching a firm view on it. I should be very happy to meet you to discuss your views on it". These notes for key MPs only, would need, of course to be ready before the Budget. Mr David Hunt MP should be informed of those MPs who will be treated in this way. He can locate them in the Chamber and alert them to expect a note.
4. Special advisers will of course help private offices in any way that they can.
5. Private offices will have seen tonight's deadline for the programmes.

J. Smith
M D X PORTILLO

FROM: M T FOLGER

DATE: 12 March 1984

PRINCIPAL PRIVATE SECRETARY

copy recipients of complete briefing

PS/Chief Secretary
 PS/Financial Secretary
 PS/Minister of State
 PS/Economic Secretary
 Sir P Middleton
 Mr Bailey
 Sir T Burns
 Mr Littler
 Mr Cassell
 Mr Monck
 Mr Battishill
 Mr H P Evans
 Mr Monger
 Mr Odling-Smee
 Mr Allen
 Mr Griffiths
 Mr Hall
 Mr Riley
 Miss Edwards
 Mr F Martin
 Mr Norgrove
 Mr Perfect
 Mr Ritchie
 Mr A Smith
 Mr R K C Evans
 Miss Deyes
 Mr Collins
 Mr Lord
 Mr Portillo
 Mr Ridley
 A/26
 Mr A M Fraser C&E
 Mr Wilmott C&E
 Sir Lawrence Airey IR
 Mr P Lewis IR

BUDGET SNAPSHOT

I attach a final draft of the "snapshot". This reflects various changes on substance and presentation made over the weekend.

2. Could I please have final clearance of this text - or any drafting suggestions from you and copy addressees by lunch-time today. IDT will then be able to get it copied in good time with the rest of the Budget documentation


 M T FOLGER

BUDGET SNAPSHOT 13 MARCH 1984

LSUMMARY

This Budget sets the Government's course for the Parliament. It has two main themes: to reduce inflation and to set out a programme to reform and simplify the tax system in ways which will encourage soundly based new jobs and profitable investment. Thus it will be building on improvements already visible in the economy. The Medium Term Financial Strategy, which sets the framework for monetary and fiscal policy, is rolled forward and updated. It provides for further reductions in the rate of monetary growth and for fiscal policy consistent with a balanced economy, falling inflation and lower interest rates.

A. Main Proposals (FSBR, Part 1: Detailed proposals listed in Part 4)

Personal tax

- (i) Single Person's and Married Man's Allowances are raised by over 12 per cent - more than double the amount required by statutory indexation; other allowances and thresholds increased broadly in line with inflation.
- (ii) 15 per cent Investment Income Surcharge (IIS) abolished.
- (iii) Relief on life assurance premiums (LAPR) abolished for contracts made after Budget Day.
- (iv) Reliefs on foreign earnings and foreign emoluments to be phased out.
- (v) More generous reliefs for share option schemes.

Taxes on spending

- (vi) Most excise duties raised broadly in line with inflation. Petrol, for example, is up 4½p a gallon and DERV 3½p. Main exceptions are table wines - duty reduction means 18p a bottle price reduction; beer - duty increase means 2p extra on a pint; and cigarettes - duty up 15 per cent, 10p extra on a price of a packet of 20. Duty on kerosene (includes domestic paraffin) (1p a gallon) abolished.

Spain's

- (vii) Value Added Tax base widened; 15 per cent VAT to apply to building alterations and hot take-away food.
- (viii) Postponed accounting for VAT on imports abolished from 1 October.

Taxes on investment and saving (also includes IIS and LAPR - see above)

- (ix) Stamp Duty on share transfers reduced to 1 per cent: For land and buildings stamp duty also cut to 1 per cent with $\frac{1}{2}$ per cent reduced rate band abolished. Threshold raised from £25,000 to £30,000 for house sales.
- (x) Composite rate tax scheme for taxing bank interest to be introduced in 1985-86.

Corporation Tax and NIS

- (xi) Corporation Tax main rate progressively reduced, to a rate of 35 per cent for profits earned after 31 March 1986. Small companies rate reduced to 30 per cent on profits earned after 31 March 1983. Stock relief to be abolished. First year capital allowances for plant and machinery, and initial allowances for industrial buildings to be phased-out over three years; writing down allowances to remain.
- (xii) National Insurance Surcharge abolished from 1 October 1984.

B.Effects of Budget (FSBR, Part 1)

On the basis of conventional indexation of tax allowances and specific duties the Budget is broadly neutral in 1984-85. In 1985-86 the net revenue cost is estimated at over £1.8 billion measured from an indexed base.

Direct revenue effects of tax changes:

	Effect in 1984-85		Effect in full year	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
Income tax allowances and thresholds	-940	-1820	-1470	-2610
Corporation tax rates, stock relief and capital allowances	-280	-280	-250	-250
Other income tax and other direct taxes	+190	+175	+450	+395
Stamp Duty	-450	-450	-460	-460
National Insurance Surcharge*	-335	-335	-865	-865
Value Added Tax	+375	+375	+650	+650
Excise Duties	+200	+835	+215	+860
VAT; withdrawal of postponed accounting arrangements	+1200	+1200	0	0
	<u>-40</u>	<u>-300</u>	<u>-1730</u>	<u>-2280</u>

* Estimates exclude public sector payments

+/- indicates an increase/decrease in revenues

This is a Budget for two years as several of the Budget measures will not come into full effect until 1985-86 (and the Corporation Tax capital allowance changes will take effect for a longer period). An implied "fiscal adjustment" of £2 billion in 1985-86 within the medium term projections (see below) indicates possible room for further tax reductions in the 1985 Budget. But scope for action will depend on progress of the economy.

Business benefits from the reduction in the rates of Corporation Tax and the abolition of NIS. Importers will have to pay a one-off £1.2 billion of VAT in 1984-85 on the abolition of deferred accounting for VAT on imports. Taking 1984-85 and 1985-86 together, Budget cuts total business tax by about £900 million; substantial lasting benefits from much lower Corporation Tax rates after transition to new system.

Individuals gain from the increases in income tax allowances. (Income tax cut of at least £2 a week for married couples and £1.25 a week for single people of working age.) They also gain from the abolition of the Investment Income Surcharge and from the reductions in Stamp Duty; they lose from the widening of the VAT base and from the withdrawal of the tax relief on life assurance premiums on new policies. Over 850,000 fewer taxpayers than if income tax personal allowances had remained at 1983-84 levels; 400,000 fewer than if allowances had been simply indexed.

Widening the VAT base and the changes in excise duties will together have an impact effect on the RPI of less than $\frac{3}{4}$ per cent. This is taken fully into account in the forecast of a continuing decline in inflation to $4\frac{1}{2}$ per cent by the end of 1984.

Budget provides for a Public Sector Borrowing Requirement of £7 $\frac{1}{4}$ billion in 1984-85, about 2 $\frac{1}{4}$ per cent of gross domestic product (GDP). This compares with an expected 1983-84 outturn of about £10 billion (3 $\frac{1}{4}$ per cent of GDP), the same figure as was forecast in the Autumn Statement.

C. Medium Term Financial Strategy (FSBR Part 2)

This is the fifth annual update of the MTFs, extended on this occasion to 1988-89 to set out the strategy for a whole Parliament. It sets out the financial framework within which the anti-inflation policy operates to build on recent improvements in the performance of the economy. For the first time the monetary growth ranges for 'narrow' money are defined separately from those for 'broad' money (£M3). Narrow money targets and indicative ranges now apply to M0 instead of M1.

The MTFs projections show the growth rate of money GDP slowing down from about 8 per cent in 1983-84 to about 5 per cent in 1988-89. Over the period inflation as measured by

the year on year change in the 'GDP deflator', is assumed to moderate steadily (down to 3 per cent in 1988-89). Real output growth is assumed to average $2\frac{1}{4}$ per cent a year between 1984-85 and 1988-89.

The monetary ranges:

1984 MTFS: Monetary ranges - per cent annual rates of growth in target periods

Target for	Narrow Money: MO			
	indicative ranges for			
1984-85	1985-86	1986-87	1987-88	1988-89
4-8	3-7	2-6	1-5	0-4

Target for	Broad Money: £M3			
	indicative ranges for			
1984-85	1985-86	1986-87	1987-88	1988-89
6-10	5-9	4-8	3-7	2-6

The 1984-85 PSBR of £7 $\frac{1}{4}$ billion (equivalent to $2\frac{1}{4}$ per cent of GDP) takes account of higher asset sales than in 1983-84 and the importance of making progress in reducing borrowing while revenue from North Sea taxes is at its expected peak. The fiscal projections for future years show further gradual reductions in PSBR as a proportion of GDP to $1\frac{3}{4}$ per cent by 1988-89.

D. Public Expenditure and Taxation into the 1990's (Cmnd 9189)

This Green Paper sets out public spending trends since the 1960s and projections, on various assumptions, to the early 1990s. It is a contribution by the Government to the debate on public spending and the tax burden in the long term and sets out a framework, based on reasonable assumptions, within which the debate can be conducted. The Green Paper explains that, to avoid repetition of the past problems of spending running ahead faster than is consistent with a tolerable tax burden it is essential that available finance should determine expenditure, not the reverse. There is a need to establish a clear view of what can be afforded; set plans accordingly, and then stick to those plans.

E. Economic Developments and Outlook (FSBR, Part 3)

Output is now rising again in the main industrialised countries, led by the US. In many developing countries, rises in export volumes and commodity prices and earlier cutbacks in

imports have helped to ease financing problems. For the world economy as a whole, a period of growth in activity, combined with rising profits and no more than moderate inflation, is in prospect. In the UK, output has been rising steadily for nearly three years against a background of falling inflation and lower interest rates. Growth is forecast to continue at 3 per cent in 1984 with substantial increases in fixed investment and exports and continuing growth in consumers' expenditure. Inflation is expected to continue on a gradual downward trend.

Summary of Short-Term Forecast

(per cent changes on previous year)

	1983	1984	First half 1985
GDP	3	3	2½
Consumers' expenditure	3½	3	2½
Total fixed investment	4½	6½	4
Exports of Goods & Services	½	5	4
Imports of Goods & Services	5	7	5
Current Account Balance of Payments (£bn)	2	2	1 (1)
PSBR (£bn & % of GDP) ⁽²⁾	10 (3¼)	7¼ (2¼)	
RPI	5.3	4½	4 (3)

(1) at annual rate
(2) financial years 1983-84, 1984-85
(3) 2nd quarter 1984 to 2nd quarter 1985.

II. FULLER DETAILS ON PROPOSALS

F. Income Tax

No change in basic rate of 30 per cent nor in higher rates (40, 45, 50 and 60 per cent). Investment Income Surcharge (for 1983-84 charged at 15 per cent on investment income over £7,100) to be abolished.

Main allowances increased by over 12 per cent - some 7 percentage points more than the statutory indexation requirement of 5.3 per cent. Other allowances, including age allowance and the starting points for the higher rate bands, increased broadly in line with inflation.

Allowances

(£)	1983-84	1984-85 (Proposed)	Increase %
Married	2,795	3,155	12.9
Single (and wife's earned income)	1,785	2,005	12.3
Additional person (and widow's bereavement)	1,010	1,150	13.9
Aged - married	3,755	3,955	5.3
Aged - single	2,360	2,490	5.5
Aged - income limit	7,600	8,100	6.6
Basic rate limit	14,600	15,400	5.5

15 per cent life assurance premium relief abolished on contracts made after Budget Day.

25 per cent deduction from foreign earnings of UK residents working abroad reduced to 12½ per cent in 1984-85, withdrawn from 1985-86. (But 100 per cent relief for absence from UK for continuous period of 365 days to remain). Tax relief on UK earnings of foreign employees of foreign companies withdrawn from 6 April for newcomers and those resident in the UK for nine out of the ten previous years: five year transitional withdrawal for other claimants.

Car benefit scale charges (in respect of company cars) to be increased with effect from 1985-86, by about 10 per cent compared with 1984-85 levels.

More generous relief for share options: gains under approved schemes to be taken out of income tax and to be chargeable to CGT on disposal of shares. Monthly limit to contributions on savings increased from £50 to £100.

From April 1985 banks to account for tax at composite rate on interest paid on accounts. Depositors will receive interest net of basic rate tax, as is now done for interest received on building society deposits.

G. Excise Duties

1984-85 yield from excise duties increased by roughly £200m more than implied by rises in line with inflation.

Drink. Duty (inclusive of VAT) up 2p on a typical pint of beer, down 18p on a bottle of table wine, up 10p on a bottle of sherry, up 10p on a bottle of spirits, up 3p on a pint of cider (from 14 March 1984). Increase on beer is minimum necessary to meet European Court judgement and maintain revenue.

Tobacco. Duty (inclusive of VAT) up 10p on a packet of 20 cigarettes (from 16 March 1984), no change in duty on pipe tobacco.

Petrol. Duty (inclusive of VAT) up 4½p a gallon, derv up 3½p a gallon (from 6pm Budget Day).

Other Fuels. 1p a gallon duty on kerosene (paraffin for home heating) abolished (from 6pm Budget Day). No change in duty on heavy fuel oil, remains at 3½p a gallon.

Vehicle Excise Duty. Car and light van duty up £5 to £90. 9 to 13 per cent reduction in rate of duty on lightest lorries; no change for 12-13 tonnes lorries; 7 to 9 per cent increase for heavier lorries (from 14 March 1984).

H.Value Added Tax

No change in 15 per cent rate. VAT is to be extended to hot take-away food and drink (from 1 May), and building alterations (from 1 June 1984).

VAT on imports to be paid either at time and place of entry or at same time as Customs duty, bringing forward the time of due payment by an average of 2½ or 1½ months respectively.

Registration threshold (annual turnover below which traders are not obliged to register) up from £18,000 to £18,700.

I.Stamp Duty

Duty on transfers of shares reduced from 2 per cent to 1 per cent. Reduction to single rate of 1 per cent on all transfers of land and property above £30,000 threshold.

Changes effective from Budget Day.

J. Business Taxes

Corporation Tax - 52 per cent main rate to be reduced:

<u>Financial Year</u>	<u>Main Rate</u>	
1983 (year ending 31 March 1984)	50 %	(rate relates to year in
1984 (year ending 31 March 1985)	45 %	which taxable profits
1985 (year ending 31 March 1986)	40 %	are earned)
1986 (year ending 31 March 1987)	35 %	

Small companies rate reduced from 38 per cent to 30 per cent with immediate effect (ie for financial year 1983).

Main Capital Allowances to be reduced:

<u>Expenditure incurred on or after</u>	<u>First year allowances (100%) for machinery and plant</u>	<u>Initial allowances (75%) for industrial buildings</u>
14 March 1984	75 %	50 %
1 April 1985	50 %	25 %
1 April 1986	Nil (25% writing down allowances only)	Nil (4% writing down allowances only)

Other Capital Allowance changes: Assured tenancy properties - as industrial buildings; films - as machinery and plant (1987 expiry date removed); agricultural building, hotels and dredging - as for industrial buildings from 1986; patent rights and know-how - as machinery and plant from 1986.

Stock Relief (which removes from taxable profits the amount by which the value of stock would have increased if it had gone up in line with the value of stocks generally) abolished from March 1984. 'Claw-back' charge also abolished. Unused relief for past periods to continue to run forward.

Employers' 1 per cent National Insurance Surcharge abolished from 1 October 1984 (6 April 1985 for local authorities).

K. Capital Taxes

Capital Gains Tax annual exempt amount increased from £5,300 to £5,600, in line with inflation.

Capital Transfer Tax thresholds and lower and middle rate bands increased in line with inflation for death and lifetime transfers.

Minimum rate threshold up from £60,000 to £64,000.

New top rate of 60 per cent for transfers on death to apply to transfers over £285,000: top three rate bands for transfers on death - 75, 70 and 65 per cent - abolished.

Rate scales for lifetime transfers to be one-half of the death rate through the range. Top lifetime rate cut from 50 to 30 per cent.

L.North Sea Taxes

No major changes in special North Sea fiscal regime.

Corporation Tax changes will reduce marginal overall rate of tax and royalties for existing fields from 89.5 to 85.8 percent and for future fields from 88 to 83.75 percent.

Measures to restrict loss of Corporation Tax on "farm-outs" (transfers of licence interests) supplementing the measures announced in September 1983 to deny PRT relief against purchased interests for pre-purchase appraisal and exploration.

Repeal of provision for repayment of Advance Corporation Tax where PRT reduces the amount of Corporation Tax available for set-off.

M.Other Tax Changes

Farming to be excluded from Business Expansion Schemes.

Development Land Tax annual exempt amount up from £50,000 to £75,000: right to defer tax on development for own use extended without time limit (deferred tax extinguished after 12 years): Housing Corporation and Housing Associations to be exempt on disposals.

N.National Savings

National savings target held at £3 billion in 1984-85.

Substantial reductions in maximum permitted holdings in investment accounts and Income Bonds.

Public Expenditure

No specific public expenditure measures, simply consequentials of NIS reductions as on previous occasions.

New rates for social security benefits (including Child Benefit) to apply from November 1984 to be announced in June. Upratings will be based on increase in the RPI in the year to May 1984.

13 MAR 1984



FROM: JOHN GIEVE

DATE: 12 March 1984

MR MAKEHAM

(F)
APM - to see (comments attached below)
Edward
13/3

cc PS/Chancellor
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
PS/Sir P Middleton
PS/Inland Revenue
Sir Terence Burns
Mr Cassell *Mr Bailey*
Mr Monck
Mr Monger
Mr Battishill
Mr Lankester
Mr Scholar
Mr G Smith
Mr Folger
Mr Hall
Mr Ridley
Mr Lord
Mr Portillo
Mr Burgner
Mr Corlett (IR)
Mr Draper "
Mr Lusk

CHIEF SECRETARY'S BUDGET DEBATE SPEECH : 14 MARCH

I attach a revised draft of the Chief Secretary's speech *for* the Budget debate. The Chief Secretary will *work* on it again *tomorrow and* Wednesday morning. Please would you and other recipients let me have any comments by lunchtime tomorrow (Tuesday).

JG

JOHN GIEVE

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BUDGET DEBATE SPEECH 14th MARCH.

OPENING PASSAGE

WE HAVE BEEN TREATED TO A VINTAGE PERFORMANCE BY RHG SPARKBROOK. IT DEMONSTRATES PERHAPS THAT WITHIN THE CALCULATING FIGURE SEATED ON THE OPPOSITION FRONT BENCH LURKS A ROMANTIC DEMAGOGUE STRUGGLING TO BE FREE - STRUGGLING PERHAPS TO JOIN RHG ISLWYN IN HIS SOFT SHOE SHUFFLE ON TV. I SHALL OF COURSE COME IN DUE TIME TO ^{THE} SERIOUS PART OF HIS SPEECH AND TO SUCH OF HIS PARTY'S ECONOMIC POLICIES AS WE HAVE BEEN ABLE TO GLEAN THEM FROM THE RATHER RANDOM SERIES OF SPEECHES WHICH HE HAS BEEN MAKING OF LATE.

I WILL START IN MORE PROSAIC VEIN, WITH ONE OR TWO ANNOUNCEMENTS WHICH MY RHF WAS UNABLE TO FIT INTO HIS BUDGET SPEECH YESTERDAY BUT WHICH THE HOUSE WILL, I BELIEVE, WISH TO HEAR AT THE EARLIEST OPPORTUNITY.

CABLE TELEVISION

THE COST OF BOTH THE PROVISION AND INSTALLATION OF DUCTING A TABLE FOR CABLE TV NETWORKS WILL FROM BUDGET

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DAY QUALIFY FOR CAPITAL ALLOWANCES. I HOPE THAT THIS WILL GIVE SOME SATISFACTION TO THE HOUSE AS A WHOLE AND IN PARTICULAR TO THOSE INVOLVED IN THE DEVELOPMENT OF CABLE TELEVISION.

HOLIDAY LETTINGS

LAST SUMMER OUR RHF FOR CIRENCESTER AND TEWKESBURY ANNOUNCED THAT IT WAS NOT POSSIBLE TO DEAL IN THE ABBREVIATED FINANCE BILL AFTER THE GENERAL ELECTION WITH THE TAX PROBLEMS OF HOLIDAY LETTINGS BUT THAT WE WOULD COME BACK TO THIS QUESTION IN THIS BUDGET AND FINANCE BILL. MANY REPRESENTATIONS HAVE SUBSEQUENTLY BEEN MADE TO US ABOUT THE DIMENSIONS OF THE PROBLEM, IN PARTICULAR BY MY RHF FOR BLACKPOOL SOUTH. ^{WHEN FRAMING} THE CLAUSES WHICH WE SHALL INTRODUCE IN THE FINANCE BILL WE WILL ^{OF COURSE} TAKE ACCOUNT OF THESE MANY REPRESENTATIONS.

I CAN HOWEVER SAY NOW THAT HOLIDAY LETTINGS WILL COUNT AS A TRADE WITHIN THE AND THAT THIS WILL TAKE EFFECT FROM THE 6th APRIL 1982. I HOPE THAT THIS WILL GO A LONG WAY TO ALLAYING THE ANXIETIES OF THOSE INVOLVED IN THIS FIELD ^{WHO ARE RESPONSIBLE} FOR MAKING IMPORTANT CONTRIBUTIONS TO OUR TOURIST INDUSTRY.

RESIDUAL SHAREHOLDINGS.

AS A RESULT OF IT'S PRIVATISATION PROGRAMME - WHICH WILL CONTINUE TO BE A MAIN THEME OF THIS PARLIAMENT - THE GOVERNMENT HOLDS MINORITY SHAREHOLDINGS IN A NUMBER OF QUOTED COMPANIES. QUESTIONS HAVE BEEN ASKED FROM TIME TO TIME ABOUT THE GOVERNMENT'S INTENTION WITH REGARD TO THE SHAREHOLDINGS. IT HAS BEEN SUGGESTED THAT THEY REPRESENT A CONTINUING AND DELIBERATE MEANS OF EXERTING GOVERNMENT INFLUENCE OVER THESE COMPANIES AFTER THEY ^{HAVE} PASSED INTO THE PRIVATE SECTOR. I WOULD LIKE TO REASSURE THE HOUSE THAT THIS IS NOT SO. INDEED IF IT WERE IT WOULD BE QUITE CONTRARY TO THE MAIN PURPOSE OF THE GOVERNMENT'S PRIVATISATION POLICY. TO PUT THE MATTER BEYOND DOUBT I WANT TO MAKE IT CLEAR THAT IT IS THE GOVERNMENT'S POLICY TO SELL SUCH SHAREHOLDINGS AS THE CIRCUMSTANCES OF THE INDIVIDUAL COMPANIES, THE PROSPECTUS UNDERTAKINGS AND MARKET CONDITIONS PERMIT. I CAN ASSURE THE HOUSE THAT A FULL ANNOUNCEMENT WILL BE MADE HERE AT THE TIME INDIVIDUAL SALES ARE MADE. THE MECHANISM OF A SPECIAL SHARE MAY BE USED IN APPROPRIATE CASES TO SAFEGUARD THE NATIONAL INTEREST - AS INDEED HAS ALREADY BEEN DONE IN THE CASE OF BRITOil, AMERSHAM AND CABLE AND WIRELESS. IN LINE WITH THIS APPROACH MINORITY SHAREHOLDINGS IN QUOTED PUBLIC COMPANIES STILL HELD BY THE

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GOVERNMENT HAVE ALREADY BEEN TRANSFERRED FROM
SPONSORED DEPARTMENTS TO THE TREASURY.

BUDGET STRATEGY

[HERE I WILL COMMENT ON THE REACTION OF THE MEDIA OVERNIGHT AND THE COMMENTS OF THE OPPOSITION] FOR MY PART I WOULD LIKE TO SAY THAT IT IS A BUDGET REMARKABLE FOR ITS CLARITY OF THOUGHT, ITS ORIGINALITY AND ITS RADICAL APPROACH TO SOME OF THE DEEP-SEATED PROBLEMS OF OUR TAXATION SYSTEM.

THE BUDGET HAS TWO THEMES. IT RE-EMPHASISES OUR DETERMINATION TO CONTINUE THE FIGHT AGAINST INFLATION, THROUGH SOUND FINANCIAL POLICIES. AND IT EMBARKS ON A SUSTAINED PROGRAMME OF TAX REFORMS. OF COURSE OUR DETERMINATION NOT TO COMPROMISE OUR INFLATION OBJECTIVES ^{LIMITS} / WHAT WE CAN DO IN THE TAX FIELD IN THE SHORT TERM. MY RHF THE CHANCELLOR'S ROLE AS A TAX REFORMER MAY BE MORE DIFFICULT, BUT HIS ACHIEVEMENTS WILL I HOPE BE SEEN AS THE MORE REMARKABLE.

NOR SHOULD THIS BUDGET BE SEEN AS A ONE OFF EXERCISE. IT WILL I HOPE SET THE TONE FOR A PARLIAMENT AND WILL GIVE THE LIE TO THOSE WHO HAVE SUGGESTED WITH A LITTLE EVIDENCE TO SUPPORT THEM THAT THIS GOVERNMENT HAS NO ENERGY AND NO POLICIES.

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IT IS ALSO A BUDGET GUIDED BY A MEDIUM TERM FINANCIAL STRATEGY COVERING THE LIKELY LIFETIME OF THIS PARLIAMENT AND A TAX AND EXPENDITURE GREEN PAPER WHICH CARRIES US ON INTO THE 1990'S. A WEEK MAY HAVE BEEN A LONG TIME IN POLITICS FOR THE NOBLE LORD LORD WILSON OF RIEVAULX. SO IT MUST HAVE SEEMED TO HIM AND HIS RHF'S AS THEY LIMPED FROM CRISIS TO CRISIS. THIS GOVERNMENT AND INVITES JUDGEMENT OF IT'S MEASURES FROM THE LONGER TERM.

IN ORDER TO MAINTAIN THE STRONGEST PRESSURE TO REDUCE INFLATION AND INTEREST RATES WE RE-ASSERT OUR POLICY OF TIGHT CONTROL ON THE LEVEL OF GOVERNMENT BORROWING. I SHALL LEAVE TO OTHERS A MINUTE ANALYSIS OF PROFESSOR FRIEDMAN'S WRITINGS. THE DOWNWARD PATH OF INFLATION AND THE UPWARD PATH OF GDP OVER THE PAST 2 OR 3 YEAR'S SHOULD BE SUFFICIENT EVIDENCE FOR ANY FAIR-MINDED OBSERVER OF THE SUCCESS OF OUR POLICIES. IN 1981-82 THE PSBR WAS REDUCED FROM 5 $\frac{3}{4}$ % OF GDP IN 1980-81 TO 3 $\frac{1}{2}$ % OF GDP. 1981-82 MARKED START OF OUR RECOVERY FROM THE TROUGH OF THE RECESSION.

THE 364 ECONOMISTS' WHO CRITICISED GOVERNMENT POLICY SO SAVAGELY THEN HAVE YET TO COME TO TERMS WITH SUBSEQUENT FACTS. FOR MOST PEOPLE THESE FACTS SHOULD PROVE MORE IMPORTANT THAN THE THEOLOGICAL DEBATES IN THE SENIOR COMMON ROOMS OF CAMBRIDGE AND ELSEWHERE.

WE DO NOT PROPOSE TO THROW THESE ACHIEVEMENTS AWAY BY ANY COMPROMISES . THE LEVEL NOW SET FOR THE PSBR IN 1984-85 OF £7½ BILLION OR 2.25% OF GDP SHOULD MAKE IT CLEAR TO THE WORLD THAT WE INTEND TO MAINTAIN THIS CENTRAL PLANK IN OUR STRATEGY. I HOPE IT WILL ALSO SATISFY THOSE WHO HAVE BEEN URGING US TO TAKE ACCOUNT OF THE HIGHER LEVEL OF ASSET SALES PLANNED FOR 1984-85 AND THE FACT THAT NEXT YEAR COULD PROVE TO BE THE PEAK FOR NORTH SEA OIL REVENUES.

I TURN NEXT TO OUR INCOME TAX PROPOSALS —
A FURTHER IMPORTANT STEP IN THE LONG TERM PROCESS
OF IMPROVING INCENTIVES AND ENCOURAGING
ENTERPRISE. WE HAVE REPEATEDLY STRESSED
THAT OUR PRIORITY IN THE FIELD OF INCOME
TAX IS TO RAISE ———— - PERSONAL ALLOWANCES.
OUR OBJECTIVE IS NOTHING LESS THAN TAKE
THE LOW PAID OUT OF TAX. IT WILL TAKE SEVERAL
YEARS AND TREMENDOUS DETERMINATION - DETERMINATION
ABOVE ALL TO KEEP A TIGHT GRIP ON PUBLIC EXPENDITURE.
I HOPE THAT WE WILL HAVE THE SUPPORT OF THE WHOLE
HOUSE IN THAT OBJECTIVE.

THE 12½% INCREASE IN THE MAIN PERSONAL ALLOWANCES
THIS YEAR WILL BRING A TAX REDUCTION OF OVER £2 A WEEK FOR
A MARRIED MAN. ^{THE} COSTS IN TAX FOREGONE FOR THIS
YEAR WILL BE £1820 MILLION (OR £940 MILLIONS
IF ONE STARTS FROM AN INDEXED BASE).

THIS IS THE THIRD SUCCESSIVE BUDGET IN WHICH THE MAIN PERSONAL ALLOWANCES HAVE BEEN INCREASED IN REAL TERMS. AS A RESULT TAX THRESHOLDS IN REAL TERMS ARE NOW SOME 16% ABOVE THE LEVELS OF 1978-79 AND AT THEIR HIGHEST SINCE 1973-74. (AND FOR A MARRIED MAN UNDER 65 THE REAL ALLOWANCE IS NOW HIGHER THAN AT ANY TIME SINCE THE WAR).

THE BUDGET WILL REDUCE THE NUMBER OF INCOME TAX PAYERS BY 850,000. THAT TOO IS SOMETHING I HOPE BOTH SIDES OF THE HOUSE CAN WELCOME WITHOUT RESERVATION. [10,000 FAMILIES WILL BE REMOVED FROM POVERTY TRAP . THIS REPRESENTS ONLY ABOUT 6% OF THE TOTAL NUMBER OF HOUSEHOLDS CAUGHT IN THIS TRAP BUT IT IS A VERY DEFINITE START. OPPOSITION SPOKESMEN WILL HAVE GREAT DIFFICULTY IN PERSUADING THE COUNTRY THAT THEIR POLICIES WOULD NOT INCREASE THE TAX BURDEN ON THE LOWER PAID).

THE HIGHER RATE THRESHOLDS HAVE ^{BEEN} RAISED IN LINE WITH INFLATION, BUT NO MORE. SO, PROPORTIONATELY, THE GAINS ARE GREATEST FOR THOSE ON LOW INCOMES. WE CERTAINLY BELIEVE THAT IT IS ESSENTIAL THAT ENTERPRISE AND INITIATIVE ARE ENCOURAGED BY APPROPRIATE REWARDS IF WE ARE TO GET THE ECONOMY WORKING BETTER. BUT THIS YEAR WE JUDGED IT RIGHT TO

CONCENTRATE ON GETTING THE MAIN ALLOWANCES BACK TO A SENSIBLE LEVEL.

DOUBTLESS WE SHALL HEAR THE FAMILIAR JIBE THAT THIS BUDGET DOES NOTHING FOR THE ELDERLY. PUTTING ASIDE THE ABOLITION OF THE INVESTMENT INCOME SURCHARGE, TO WHICH I SHALL COME IN A MOMENT, THE AGE ALLOWANCE HAS BEEN FULLY PROTECTED AGAINST INFLATION - IN REAL TERMS IT IS NOW SOME 8% ABOVE ITS LEVEL IN 1978-79. THIS MEANS THAT PENSIONER COUPLES WITH INCOMES UP TO A THOUSAND A YEAR ABOVE THE BASIC STATE PENSION WILL PAY NO TAX.

WHILE ^{MY} RHF'S BUDGET REPRESENTS A SMALL SWITCH FROM TAXATION OF INCOME TO TAXATION OF SPENDING THE INCREASE OF INDIRECT TAXES ^{etc} MODEST. HAVE BEEN EXCISE DUTIES/INCREASED BROADLY IN LINE WITH INFLATION.

THE JUDGEMENT OF THE EUROPEAN COURT ON THE RELATIVE TAXATION OF WINE AND BEER HAS BEEN MET BY A MODEST INCREASE ON BEER (UP BY ABOUT 2p A PINT) - NOT THE SWINGEING INCREASE FORECAST IN HORROR HEADLINES - AND EVER SENSITIVE TO THE NEEDS OF THE SDP - WE HAVE REDUCED THE DUTY ON WINE.

THE EXTENSION OF VAT TO TAKE -AWAY

FOOD SHOULD SURELY BE WELCOMED ON GROUNDS
OF CONSISTENCY. THE EXTENSION OF VAT
TO ALTERATIONS TO BUILDINGS
MUST OF COURSE BE
MORE SENSITIVE. BUT AT PRESENT REPAIRS AND
MAINTENANCE ARE TAXED WHILE ALTERATIONS ARE NOT.
THE LINE IS CONFUSED AND DETERMINING IT TAKES UP
A GREAT DEAL OF ADMINISTRATIVE AND PROFESSIONAL
TIME. HOWEVER OVERALL/^{THE}COMBINED IMPACT OF VAT
AND EXCISE DUTY CHANGES/_{ON THE}RPI WILL BE LESS THAN
 $\frac{3}{4}$ s OF 1% AND FULL ACCOUNT HAS BEEN TAKEN OF ~~THIS~~
IN THE FSBR FORECAST OF AN INFLATION RATE OF
4½% FOR 1984-85.

SHARE OPTIONS

THE BUDGET ALSO TAKES FURTHER OUR POLICY TO ENCOURAGE
ENTERPRISE AND TO INVOLVE EMPLOYEES MORE
CLOSELY WITH THE FORTUNES OF THEIR COMPANIES.
THE SAYE SHARE OPTION LIMIT WILL BE INCREASED
FROM £50 FOR MONTHLY CONTRIBUTIONS TO £100.

BEYOND THAT A NEW SHARE OPTION SCHEME OF GREATER
SIMPLICITY THAN ANY OF THE SCHEMES OVER WHICH THE
HOUSE HAS AGONISED SINCE 1972 IS TO BE INTRODUCED.

UNDER THIS SCHEME EMPLOYEES MAY TAKE UP SHARES SUBJECT TO AN UPPER LIMIT OF £100,000 OR THREE TIMES THEIR ANNUAL SALARY. THEY WILL ALSO PAY CAPITAL GAINS TAX RATHER THAN INCOME TAX WHEN THEY COME FINALLY TO DISPOSE OF THE SHARES SUBJECT TO THE OPTION.

IN A WORLD WHERE EXECUTIVES ARE INCREASINGLY MOBILE, WHERE ENTREPRENEURIAL SKILL IS INTERNATIONAL, IT IS RIGHT THAT THE TERMS ^{BEING} COMPANIES SHOULD BE IN A POSITION TO MATCH OFFERED BY COMPANIES BASED ABROAD - PARTICULARLY COMPANIES BASED IN THE UNITED STATES.

I HOPE THAT THIS SCHEME WILL SERVE TO GIVE A FURTHER IMPETUS TO THE SPIRIT OF ENTERPRISE AND DYNAMISM WHICH 5 YEARS OF CONSERVATIVE GOVERNMENT HAVE ENGENDERED.

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Tax Reform

Looking wider than the field of personal taxation,

we have to face the fact that many rates are too high, many reliefs are too complicated, and too many decisions are dictated by fiscal considerations. This is a system that cries out for reform. My RHF made a notable start for Surrey East, with a substantial switch from direct to indirect taxation. We propose to carry the process of reform further. It is against that background that I hope the House will judge the various and important measures included in this budget.

LIFE ASSURANCE RELIEF

Many HGs will no doubt view the disappearance of this relief ^{with} anxiety and reserve. Although it has over the years changed its application and its scope it has been with us since []. But I also have to say that it has distorted the pattern of saving in this country. Personal saving and investment as opposed to institutional saving and investment has dwindled. This cannot be right. I should emphasise that the measure

WILL NOT AFFECT EXISTING POLICIES. IT WILL NOT BE RETROSPECTIVE IN EFFECT. IT SHOULD NOT MAKE IT IMPOSSIBLE FOR TAXPAYERS TO PROTECT THEIR FAMILIES ON DEATH. SUFFICIENT PROVISION CAN BE MADE AT LOW COST WITHOUT THIS FORM OF RELIEF. INDEED IN 1982 TWO-THIRDS OF LIFE COMPANIES NEW PREMIUM INCOME CAME FROM NON-QUALIFYING POLICIES. I ^{MIGHT MENTION ALSO} THAT IN AUSTRALIA WHEN A SIMILAR RELIEF WAS ABOLISHED BUSINESS PICKED UP VERY QUICKLY.

THE ESSENTIAL POINT IS THAT OUR TAX SYSTEM SHOULD MAKE IT POSSIBLE FOR PEOPLE TO SAVE - AND HOLD SHARES DIRECTLY - WITHOUT COSTLY AND DISTORTING RELIEFS. THIS RELIEF IN 1983-84 COST OVER £700 MILLION.

THE THEME OF THIS GOVERNMENT IS STILL THAT OF EVERY MAN A PROPERTY OWNER, EVERY MAN A CAPITALIST. BUT THE CHOICE WHETHER TO SAVE AND INVEST DIRECTLY OR THROUGH INSTITUTIONS MUST BE HIS, NOT DICTATED BY THE TAX SYSTEM.

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SECRET

CONSISTENT WITH THIS THEME WE PROPOSE THE HALVING OF STAMP-DUTY. THIS SHOULD HELP BOTH SHARE AND HOUSE BUYERS. IN THIS FIELD WE ISSUED A CONSULTATIVE DOCUMENT LAST YEAR. BEFORE REFORMING THE STRUCTURE OF STAMP-DUTY ANYMORE WE SHALL WANT TO TAKE INTO ACCOUNT REPRESENTATIONS FROM THE KEITH COMMITTEE AS WELL AS THE RESPONSE TO THE DOCUMENT. MY RHF WILL HOPE TO RETURN TO THIS FIELD NEXT YEAR.

AGAIN CONSISTENTLY WITH THIS THEME WE PROPOSE THE ABOLITION OF THE INVESTMENT INCOME SURCHARGE. (THE COST IN 1984-85 WILL BE £25 MILLION AND IN A FULL YEAR £360 MILLION). THIS WILL REMOVE A PENALTY ON THRIFT AND ENTERPRISE AND WILL SIMPLIFY THE TAX SYSTEM. IT WILL SAVE 230 INLAND REVENUE STAFF. IT WILL TAKE 280,000 TAXPAYERS OUT OF (IT'S CHART) HALF OF THESE ARE OVER 65. AND 40 PER CENT ARE OTHERWISE LIABLE ONLY AT THE BASIC RATE. 70 PER CENT ARE EITHER OVER 65 OR LIABLE ONLY AT THE BASIC RATE (OR BOTH). IT WILL OF COURSE BE DESCRIBED AS A BONANZA TO THE RICH. THE FACTS - BUT HGs OPPOSITE HAVE SCANT REGARD FOR THE FACTS ^{POINT TO} -/A QUITE CONTRARY CONCLUSION. I BELIEVE THAT THE SURCHARGE

BY
WILL PASS UNLAMENTED UNLESS/ THE PREJUDICED ON
THE OPPOSITION BENCHES. IF WE WANT MORE INVESTMENT
- HGs OPPOSITE AFFECT TO BELIEVE THAT WE DO - THEN
WE CANNOT DISCRIMINATE IN THIS WAY AGAINST PRIVATE
SAVINGS AND PRIVATE INVESTMENT.

COMPANY TAXATION

I TURN NEXT TO THE FIELD OF CORPORATE TAXATION.
I HOPE IT WILL BE COMMON GROUND THAT THE FIELD
OF CORPORATE TAXATION HAS BEEN LONG OVERDUE FOR
RADICAL REFORM. WE HAVE LIVED THROUGH A
PERIOD OF DECLINING CORPORATE PROFITS
WHICH HAVE ALL TOO OFTEN EXISTED ON PAPER ONLY.
WE HAVE HAD FIRST THE CLASSICAL AND THEN THE
IMPUTATION SYSTEM OF CORPORATION TAX. IN
A PERIOD OF RECESSION RATES HAVE OFTEN PROVED
A HEAVIER IMPOST ON COMPANIES THAN CORPORATION
TAX. TO MITIGATE THE EFFECTS OF INFLATION WE
HAVE HAD A COMPLEX FORM OF STOCK RELIEF. THE
MOMENT HAS NOW COME FOR A BOLD CLEAR LOOK AT
THE PROBLEM AND THIS MY RHF HAS PROVIDED.
COMPANY PROFITS ARE IMPROVING. COMPANY LIQUITY
IS GOOD. INFLATION IS SHARPLY ON THE DECLINE.

THE FIRST AND MOST OBVIOUS REFORM IS THE ABOLITION
THIS WILL
OF STOCK RELIEF. / ONLY APPLY TO PERIODS OF ACCOUNT
STARTING ON OR AFTER BUDGET DAY. I SHOULD EMPHASISE
THAT THIS DOES NOT MEAN THE GOVERNMENT IS OPPOSED
TO THE ACCOUNTANCY PROFESSION'S ATTEMPT TO FIND
AN ACCEPTABLE SUCCESSOR TO THE CURRENT COST ACCOUNTING
STANDARD SSAP16. BUT THE ABOLITION OF STOCK
RELIEF WILL MAKE FOR SIMPLICITY AND ECONOMY.

NEXT WE PROPOSE A REDUCTION IN CAPITAL ALLOWANCES
- FIRST YEAR ALLOWANCES FOR MACHINERY AND PLANT
AND INITIAL ALLOWANCES FOR INDUSTRIAL BUILDINGS.
OUR SYSTEM OF CAPITAL ALLOWANCES HAS BEEN
ONE OF THE MOST GENEROUS IN THE WORLD. THERE
IS NO EVIDENCE THAT IT HAS IN FACT SUBSTANTIALLY
INCREASED
INVESTMENT WHERE IT HAS BEEN NEEDED. THERE IS
EVIDENCE THAT SOME INVESTMENT HAS ^{BEEN} DICTATED BY
TAX RATHER THAN COMMERCIAL CONSIDERATIONS. THE
CHANGES PROPOSED BY MY RHF WILL I HOPE
GO SOME WAY TO CORRECTING THAT DISTORTION. MORE
IMPORTANTLY, THE SAVING - [] IN 1984-85
RISING TO [] IN A FULL-YEAR WHEN THE FIRST YEAR
ALLOWANCES AND THE INITIAL ALLOWANCES HAVE BEEN

PHASED OUT COUPLED WITH THE SAVINGS FROM THE ABOLITION OF STOCK RELIEF WILL ENABLE MY RHF TO MAKE SUBSTANTIAL CUTS IN THE RATE OF CORPORATION TAX. FROM 52 PER CENT IN 1982 TO 35 PER CENT IN 1986 FOR ALL COMPANIES AND FROM 38 PER CENT TO 30 PER CENT FOR 1983 AND FUTURE YEARS FOR SMALL FIRMS. TO SHOW OUR CONFIDENCE IN WHAT WE PROPOSE WHICH WILL BE SPREAD OVER A PERIOD OF YEARS THE WHOLE PROGRAMME OF REDUCTIONS WILL BE EMBODIED IN THIS YEAR'S FINANCE BILL.

WE HOPE THAT THESE VERY CONSIDERABLE REFORMS IN THE CORPORATE SECTOR WILL REDRESS THE BALANCE BETWEEN ^{THE} PROFITABLE AND THE UNPROFITABLE COMPANY WILL MAKE FOR MORE EVEN-HANDEDNESS AS BETWEEN SOURCES OF FINANCE, WILL SIMPLIFY THE TAX SYSTEM AND WILL HELP FUTURE BUSINESS PLANNING.

IT USED TO BE SAID THAT BRITAIN WAS AN ADMIRABLE PLACE IN WHICH TO MAKE A LOSS. / I HOPE IT WILL BE MORE ATTRACTIVE TO MAKE A PROFIT. PROFIT FOR US IS NOT A DIRTY WORD. PROFIT IS THE TRUE BASIS OF INVESTMENT AND JOBS.

I COME FINALLY TO THE ABOLITION OF THE NATIONAL INSURANCE SURCHARGE. IT REMAINS A MATTER OF AMAZEMENT TO ME THAT THE LABOUR PARTY WHICH AFFECTS AN OVERRIDING CONCERN WITH UNEMPLOYMENT SHOULD FORGET SO RAPIDLY AND SO COMPLETELY THAT UNDER ITS LAST REGIME UNEMPLOYMENT DOUBLED AND THAT TO COMPOUND ITS FOLLIES AND ITS INCOMPETENCE IT IMPOSED A TAX ON JOBS, IN THE FORM OF NIS. THIS TAX HAS NOW ^{BEEN} CONSIGNED TO THE DUSTBIN OF FISCAL HISTORY. I HOPE THAT THE WHOLE HOUSE WILL APPLAUD ITS ABOLITION. BUT I HAVE TO EMPHASISE THAT THE ABOLITION OF INITIAL AND FIRST YEAR ALLOWANCES AND THE ABOLITION OF STOCK RELIEF IS PART AT LEAST THE PRICE WE HAVE TO PAY FOR THIS MOVE.

GREEN PAPER

I TURN NOW TO THE GREEN PAPER ON THE NEXT 10 YEARS PUBLISHED BY MY RHF ON BUDGET DAY. A BUDGET MUST BE JUDGED NOT ONLY AGAINST THE CIRCUMSTANCES IN WHICH IT IS PUBLISHED BUT ALSO AGAINST THE LONG-TERM PATTERN OF SPENDING AND RESOURCES. IT IS THEREFORE SINGULARLY APPROPRIATE THAT MY RHF SHOULD HAVE PUBLISHED THIS LOOK INTO THE 90s AT THE SAME TIME AS THIS GREAT REFORMING BUDGET. ~~THE~~ THE GREEN PAPER ADDRESSES ITSELF TO ONE OF THE MOST IMPORTANT - SOME WOULD SAY - ~~THE~~ MOST IMPORTANT ECONOMIC ISSUE OF THE DAY: HOW MUCH PUBLIC SPENDING CAN OUR COUNTRY AFFORD OVER THE NEXT 10 YEARS? THE GROWTH OF PUBLIC SPENDING HAS OVER THE PAST TWO DECADES BEEN THE ENGINE WHICH HAS DRIVEN UPWARDS THE BURDEN OF TAXATION. I WOULD SAY CANDIDLY THAT INCOME TAX NOW BITES HARD TOO FAR DOWN THE INCOME SCALE. THERE IS TOO THE INDEFENSIBLE SITUATION OF GROWING NUMBERS OF PEOPLE WHO RECEIVE BENEFITS OF VARIOUS KINDS AND PAY INCOME TAX AT THE SAME TIME. IT WAS FOR THESE REASONS THAT THIS ~~YEAR~~ YEAR WE HAVE PLACED SUCH EMPHASIS ON INCREASING THE

INCOME TAX THRESHOLD. ^{WP} THE GREEN PAPER ASSESSES THE PRESSURES FOR CONTINUED GROWTH IN PUBLIC SPENDING OVER THE NEXT DECADE. THESE PRESSURES WILL, ON PAST FORM, BE VERY CONSIDERABLE. AS A DISCUSSION DOCUMENT, THE PAPER DOES NOT ATTEMPT TO PROJECT THE PATH OF INDIVIDUAL PROGRAMME TOTALS OR TO FORECAST IN ANY DETAIL HOW THE ECONOMY WILL DEVELOP. I MAKE NO APOLOGIES. TO HAVE GONE INTO THE DETAIL WOULD HAVE BEEN TO DISTRACT PUBLIC DEBATE FROM THE MAIN ISSUE WHICH HAS BEEN SO OFTEN IGNORED IN THE PAST. THE DEBATE SHOULD FOCUS ON THE TOTALS - THE TOTALS OF NATIONAL INCOME, TAXATION AND PUBLIC EXPENDITURE. THIS IS THE CENTRAL STRATEGIC QUESTION.

THE GREEN PAPER IS DESIGNED TO CARRY FORWARD THE PUBLIC DEBATE BY PROVIDING A FRAMEWORK FOR DISCUSSION. [WE HAVE ASSUMED GROWTH OF 2%, OR 1½% A YEAR, FOLLOWING THE FIVE YEARS COVERED BY THE MTFS. WE HAVE ALSO ASSUMED EITHER A CONSTANT LEVEL OF PUBLIC SPENDING IN REAL TERMS AFTER THAT DATE OR GROWTH AT 1% A YEAR.] THE ANALYSIS

POINTS TO A STRIKING CONCLUSION:

SPENDING WILL HAVE TO BE HELD BROADLY AT ITS PRESENT LEVEL IN REAL TERMS RIGHT

THROUGH TO 1993-1994 IF WE ARE TO MAKE ANY SERIOUS

INROADS INTO THE BURDEN OF TAXATION AND TO GET IT BELOW THE LEVELS ~~OF~~ THE EARLY 1970s. IF WE WERE TO FAIL IN THIS OBJECTIVE IF PUBLIC SPENDING WERE TO GROW BY 1 OR 2% A YEAR IN REAL TERMS - AND I EMPHASISE THAT THIS WOULD STILL BE BELOW THE RATES AT WHICH IT HAS GROWN IN RECENT HISTORY
^{THE BURDEN}
- OF TAX WOULD BE ABOUT AS HEAVY AS IT WAS WHEN WE TOOK OFFICE IN 1979. I BELIEVE - AND I THINK THAT THIS VIEW HAS BEEN ENDORSED BY THE MAJORITY OF ~~OUR~~ FELLOW-COUNTRYMEN - THAT THIS WAS AND IS TOO HIGH A BURDEN FOR US TO CARRY. SO I HOPE THAT THE GREEN PAPER WILL SHARPEN THE DEBATE, AND WILL ENABLE US TO JUDGE THE REALISM OF THE POLICIES WHICH EACH PARTY PROPOSE IN THIS AND SUBSEQUENT DEBATES.

HATTERSLEY

THIS BRINGS ME INEVITABLY TO THE CONTRIBUTION OF RHG FOR BIRMINGHAM SPARKBROOK. HE HAS, AS THE HOUSE WILL BE WELL AWARE, RECENTLY COMPLETED A SERIES OF SPEECHES PURPORTING TO BE ABOUT THE LABOUR PARTY'S, OR PERHAPS JUST HIS, ECONOMIC POLICY. I MUST SAY THAT I HAVE WAITED EACH INSTALMENT WITH . SORT OF ANTICIPATION ONE RESERVES FOR A REPEAT SHOWING "ALL OUR YESTERDAY'S".

IN ONE EPISODE WE ~~WERE~~ PRIVILEGED TO LEARN OF RHG'S OWN VERSION OF THE BUDGET. IT APPEARED TO BE A DILUTED DOSE OF THE SORT OF MEDICINE WE HAVE BEEN SERVED BY THE OPPOSITION FOR MANY YEARS - OVER TWO LONG PERIODS OF GOVERNMENT. IT WOULD I THINK BE A LITTLE UNFAIR TO THE ~~BOURBONS~~ TO COMPARE THE PRESENT LEADERS OF THE OPPOSITION TO THAT GIFTED DYNASTY. BUT THE MIXTURE IS PAINFULLY ^{BEFORE,} AS SPICED WITH JUST A LITTLE MORE ENVY AND A LITTLE BIT MORE IGNORANCE OF THE REAL WORLD. INCREASED PUBLIC EXPENDITURE OF COURSE. EXCHANGE CONTROL OF COURSE - OBLIVIOUS OF THE EFFECT ON THE EXCHANGE RATE. THE WEALTH TAX OF COURSE. OBLIVIOUS OF THE IMPACT ON INVESTMENT. SELECTIVE IMPORT CONTROLS OF COURSE - OBLIVIOUS OF THE IMPACT ON OUR EXPORTS.

WE HAVE NOT BEEN TOLD THE COST. ONE OF THE BENEFITS OF THE LONG-TERM PUBLIC EXPENDITURE DEBATE IS THAT PERHAPS THE COUNTRY WILL DEMAND MORE REALISM OF THE SUPERFICIAL PANACEAS. I CAN TELL THE HOUSE THAT RHGS *REMEDIES* WOULD INVOLVE EITHER MORE INFLATION OR HIGHER INTEREST *RATES, OR MORE UNEMPLOYMENT* OR *HIGHER TAXATION* ^{OR} - MORE LIKELY - A MIXTURE OF ALL FOUR. ~~THE~~ MOST CHARITABLE EXPLANATION ^{IS} THAT WE ARE TO CONCENTRATE ON THE SOFT-SHOE SHUFFLE OF RHG *ISLBYN* ^{AND NOT BE DISTRACTED BY} THE SHALLOW FISCAL AND ECONOMIC SPECULATION OF RHG SPARKBROOK.

OR PERHAPS WE SHOULD REGARD THEM AS BOTH PART OF THE SAME INCONSEQUENTIAL *VAUDEVILLE* TURN *GOOD* FOR SOME LIGHT RELIEF. BUT NOT TO BE TAKEN SERIOUSLY.

PERORATION

WAS A
 BY CONTRAST YESTERDAY'S BUDGET HUMANE BUDGET,
 A RESPONSIBLE BUDGET, AN IMAGINATIVE BUDGET. IT BUILDS
 ON THE FOUNDATIONS SO COURAGEOUSLY AND PAINSTAKINGLY
 LAID BY BY RHF SURREY-EAST. IT DEPENDS ON ^{THE} FIRM AND
 REALISTIC CONTROL ^{OF} PUBLIC EXPENDITURE EXHIBITED
 IN THE WHITE PAPER WE DEBATED LAST WEEK. IT TAKES
 OUT OF TAX 850,000 OF FELLOW-COUNTRYMEN WHO SHOULD
 NOT HAVE BEEN THERE. IT ELIMINATES MANY OF THE
 DISTORTING PROVISIONS THAT WERE INSEPARABLE FROM
 A SYSTEM OF PENAL TAX RATES. ^{ENCOURAGES} IT DYNAMIC AND
 REALISTIC WORKING OF THE CORPORATE SECTOR. IT
 OPENS THE WAY . . . BALANCE [?]
 IT OPENS UP THE POSSIBILITY FOR ^{OF} MORE OUR FELLOW-COUNTRYMEN OF
 EARNING A DIRECT STAKE ^{SUCCESS} IN THE OF THE COUNTRY. IT ^{MOVES US}
 STILL FURTHER AWAY ^{FROM THE} WHICH THE OPPOSITION
 SO PRIZE WHERE EVERY MAN ^{IS A TAXPAYER.} THIS IS A BUDGET WHICH
 IS CONSISTENT WITH OUR GRAND STRATEGY—
 WITH TURNING OUR FELLOW-COUNTRYMEN INTO A
 NATION OF CAPITALISTS AND OUR COUNTRY INTO A
 PLACE WHERE CAPITALISM CAN FLOURISH.

BUDGET

SECRET

ON THAT BASIS /¹ COMMEND THIS BUDGET TO THE HOUSE.

13 MAR 1984

BUDGET SECRET

FROM: A. M. BAILEY

13th March, 1984.

MR. GIEVE

c.c. PPS
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir Peter Middleton /
Sir Terence Burns
Mr. Cassell
Mr. Monck
Mr. Battishill
Mr. Scholar, o.r.
Mr. Folger
Mr. Hall
Mr. Makeham
Mr. Ridley
Mr. Lord
Mr. Portillo

PS/Inland Revenue

CHIEF SECRETARY'S BUDGET DEBATE SPEECH: 14th March

You have asked, in your minute of yesterday, for comments on the current draft of the Chief Secretary's speech for tomorrow.

- (i) As to the order, it seems to me that the section on the LTPE Green Paper right at the end looks rather like a token after-thought; could it come earlier in the speech? The section on "Budget strategy", after the special announcements, (beginning on page 5) has a space for comments on media reactions: either the Green Paper will have attracted a good deal of attention, in which case it would be natural to comment here -or it will have been largely ignored, in which case again it would be natural for the Chief Secretary with his responsibility for public expenditure to call attention to its importance early on. But if this would disrupt the structure of the speech, he might at least make it clear, when he refers to the Green Paper in passing (top of page 6) that he will have more to say about it later.

BUDGET SECRET

- (ii) At the top of page 17 there is a rather half-hearted reference to the accountancy profession's "attempt" to find a successor to SSAP 16, implying that the abolition of stock relief might be thought by some to mean that the government is "opposed" to this attempt. That seems questionable, and indeed the whole reference might in my view be dropped without much loss. But if it remains, I think it might be warmed up a little to read:

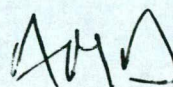
"I should emphasise that this does not mean the government is opposed to the accountancy profession's efforts to find an acceptable successor to the current cost accounting standard SSAP 16. On the contrary, we welcome those efforts. But the abolition of stock relief is an immediate step we can take in the direction of simplicity and economy."

- (iii) On page 21, the rebuttal of any criticism of the Green Paper for not going into sufficient detail might be expanded:

"I make no apologies. Detailed forecasts of economic variables or of individual programme totals so far ahead are bound to be wildly uncertain, depending as they do on a host of factors including policy decisions not yet taken. To have gone into all these details would have been to distract public debate from the main issue"

- (iv) In the second paragraph on the same page, the Green Paper itself talks about alternative "projections" rather than "assumptions". In line with this, the two sentences in square brackets might begin:

"We have given projections based on GDP growthThe projections also assume"



A. M. BAILEY

3 MAR 1984

Copy 5

BUDGET - SECRET

FROM: G W MONGER
DATE: 13 March 1984

MR GIEVE

- cc PS/Chancellor
- PS/Financial Secretary
- PS/Minister of State
- PS/Economic Secretary
- PS/Sir P Middleton
- PS/Inland Revenue
- Sir Terence Burns
- Mr Cassell
- Mr Bailey
- Mr Monck
- Mr Battishill
- Mr Lankester
- Mr Scholar
- Mr G P Smith
- Mr Folger
- Mr Hall
- Mr Ridley
- Mr Lord
- Mr Portillo
- Mr Burgner
- Mr Corlett - IR
- Mr Draper - IR
- Mr Lusk - IR
- PS/Customs & Excise

CHIEF SECRETARY'S BUDGET DEBATE SPEECH: 14 MARCH

A few comments on the draft dated yesterday.

Page 5

The insertion of "a" gives the sentence a meaning opposite to that intended.

Page 8

In the last sentence it is not true that all married men will get a tax reduction of over £2 a week. Pensioners below the age income limit will not. You could either insert the words "of working age" or refer to the "great majority of married men". The Chancellor used the second formulation in the (penultimate draft of) his speech. Married men below pensionable age will also, obviously, not get a tax reduction of £2 a week if they would otherwise pay less than that because they are only just over the present threshold. We have thought this point so obvious as not to require a qualification. But it is an additional reason for using the formulation "the great majority of".

The first sentence of the second paragraph says that the budget will reduce the number of income tax payers by 850,000. This might give the misleading impression that there will be 850,000 fewer taxpayers in 1984-85 than in 1983-84. It would be more precise to say: "As a result of the Budget, there will be 850,000 fewer taxpayers than if allowances had not been changed." Further in the same paragraph, I wonder if it is necessary to volunteer the statement that only a very few families will be taken out of the poverty trap. It seems to be more a defensive point. If it is to go in, it would be better to replace the rather lame words "but it is a very definite start" by something like:

"This is because the threshold is now so low that it is below even the levels of income earned by most of those in the poverty trap. We have to make real increases in the threshold now to get it up to the level from which further increases really will have a big impact on the poverty trap."

In the third paragraph, it would be better to insert "most" before "excise duties". Beer and tobacco are very major exceptions.

Is it necessary, in line 5, to admit that the extension of VAT to alterations is "sensitive"?

Four lines from the bottom, the drafting suggests that "it" - ie LAPR - has been responsible for the relative fall in personal investment. It would be better to insert the words "It has been one of the reasons for...."

It is a matter of taste, but I would have thought the reference to Australia at the end of the first paragraph was defensive and suggested some scraping of the barrel.

The Revenue may wish to comment on this but I do not think the reference to stock relief in the second sentence is quite right. It will be withdrawn after March 1984 for periods of account in which budget day fall. It would be better to follow the line of the Budget speech: "This will apply only from this month."

In the second paragraph it would be better to replace the sentence beginning "There is no evidence...." by the following: "There is evidence that some investment has been unjustified or unprofitable."

Finally, the reference in the penultimate line to the full year savings from the action on the allowances. The FSBR does not give such a figure, whose calculation raises considerable difficulties. In the very long run there is no saving from the action on the allowances, since the reduction in the initial allowances is eventually offset by the increase in the annual allowances. I would suggest starting the sentence by saying: "More importantly, the savings from phasing out the first year and initial allowances coupled with...."

Page 18

The reference to "all" companies in line 5 is not right since, as the sentence goes on to say small companies (better than "firms") pay less. I suggest recasting the sentence so as to refer to the "main" rate.

Page 19

I wonder about the last sentence. It suggests that reduction of the allowances is a penalty for abolition of NIS, whereas the general thrust of presentation is to put it forward as a desirable change, both in itself and because it allows a reduction in the CT rate.

Page 22

You could strengthen the passage at the top of the page by substituting "down to" for "below" in the first line.

Further on, a 1% growth in public expenditure would be sufficient to keep the burden of tax as high as in 1978-9. I suggest the deletion of "or 2%" in line 4 with, if the Chief Secretary wants to retain a reference to 2%, the insertion of a new sentence: "If spending were to grow at 2% the tax burden would be well above its level in 1979."
G.W.M.

What the Chancellor says on Budget Day, Tuesday 13th March

1. If no questions about leaks are raised:

Nothing.

2. If questioned in the House before or during the Budget speech:

"I hope the House will allow me to deal with this in its proper place";

and then at the end of the Budget speech -

"I can assure the hon Member that there will be a full investigation into the matter he has raised".

3. If pressed -

"I will of course keep the House informed."

4. If there is a major issue on the point -

"There is prima facie evidence of an unauthorised disclosure of secret information. Until now it has been impossible to pursue this without serious risk of compounding the problem. I can now say that I have ^{arranged} ~~referred~~ the matter to the Attorney General with a view to a possible police investigation."

On Wednesday, 14 March

N.B. The Question would have to be tabled by 10pm Tuesday 13 March.

1. If there has been no mention of leaks on Tuesday:

Q. for Urgent Written Reply:

To ask the Chancellor of the Exchequer what steps he will take to deal with the clear evidence of a leak of his Budget in the Guardian of 1 March?

A. Chancellor of the Exchequer:

In recent weeks there have been indications which give rise to a suspicion of unauthorised disclosure of Budget information. Until now it has not been possible to pursue this without serious risk of compounding the problem. My Right Hon. and Learned Friend the Attorney General has now arranged for a police investigation, which

is under way.

2. If the Chancellor has referred on Tuesday to an investigation but not a police investigation -

Q. What form of investigation will be undertaken into the suspected Budget leak about which he told the House in the course of his Budget speech?

A. Until now it has not been possible to pursue this prima facie disclosure of secret information without serious risk of compounding the problem. My Right Hon. and Learned Friend has now arranged for a police investigation, which is under way.

3. If the Chancellor has referred on Tuesday to a police investigation, no PQ on Wednesday.

FROM: R I G ALLEN
6 JUNE 1984

SIR TERENCE BURNS *-118/2*

cc Mr Sisk (IR)

FOREIGN EMOLUMENTS RELIEF

I attach a draft reply for you to send to Mr Tandberg, President of ARCO Chemicals Europe Inc. This was kindly prepared by the Inland Revenue.

RA

OK ✓

R I G ALLEN

89/6



Inland Revenue
POLICY DIVISION
Somerset House
London
WC2R 1LB

Telephone Enquiries 01-438 6708

Mr R I G Allen
HM Treasury
Parliament Street
LONDON SW1

Your reference

Our reference

Date

4 June 1984

Dear Richard

FOREIGN EMOLUMENTS RELIEF

1. You asked for a draft reply for Sir Terence Burns to the attached letter from ARCO Chemicals Europe Inc. I am replying in Peter Driscoll's absence and hope that Sir Terence will find the attached draft a suitable basis for a reply.

2. A letter in identical terms was also sent to Peter Rees and John Moore and I attach a copy of the full draft reply sent to Ministers.

Yours sincerely

M SISK

10/6

M
Type please

Mr Erik G Tandberg
President
ARCO Chemical Europe Inc
Windsor Bridge House
1 Brocas Street
ETON
Berkshire
SL4 6BW

Thank you for your letter of 15 May about the proposed withdrawal of the foreign emoluments deduction.

I understand that you have written in similar terms to Peter Rees the Chief Secretary and John Moore the Financial Secretary and that you will be receiving a full reply from Ministers.

I do understand the concern you express in your letter but may I say that I hope that when you have fully considered the matter you will feel able to retain your headquarters in the United Kingdom.

T BURNS



Treasury Chambers, Parliament Street, SW1P 3AG

June 1984

Mr Erik G Tandberg
President
ARCO Chemical Europe Inc
Windsor Bridge House
1 Brocas Street
ETON
Berkshire
SL4 6BW

The Financial Secretary, John Moore, has asked me to thank you for your letter of 13 May about the proposed withdrawal of tax relief for certain foreign nationals. He is dealing with this matter and he hopes that you will also accept this letter as a reply to your letter of the same date to the Chief Secretary.

Mr Moore thinks it may help to explain the position if it is said from the start that the decision to withdraw this relief and those available to United Kingdom residents working and trading abroad was taken primarily for the reason that however much such reliefs were justified in the days of penally high tax rates, they make little sense now that tax rates have been substantially reduced and tax thresholds increased in real terms. Indeed many foreign domiciled workers receiving relief on their 'foreign emoluments' are now often paying less tax than they would be in their own country or indeed in most other European countries.

In assessing the likely impact of this measure on your United Kingdom operations you say that you will be forced to give consideration to locating your headquarters elsewhere. Treasury Ministers naturally sincerely hope that you will find it possible to maintain your operations in the United Kingdom at the same level and I know they would wish to draw your attention to some particular points.

First, while acknowledging that companies like yours will eventually face additional costs if you compensate your employees for the extra tax they will bear when the

proposals in Clause 30 begin to have effect - although no doubt the 5 year transitional relief proposed will be some help in this respect - they hope that you will also have regard to other changes proposed in this Budget. In particular the phased reduction in corporation tax rates may well have a much greater (favourable) impact on the profitability of your business in the United Kingdom.

Second, you will no doubt have in mind that United Kingdom top and average rates of income tax are no longer out of line with those of our competitors and that any tax disadvantage that may remain in comparison with particular countries may well be outweighed by other factors in the commercial and cultural environment that the United Kingdom offers.

You probably know that Ministers' aim, and you will acknowledge the progress already made in that direction, is to ensure that the basic structure of this country's tax system is right and thereby to avoid the need for special reliefs for special groups. The elimination of the foreign earnings and foreign emoluments reliefs is an essential measure if further progress is to be made towards raising tax thresholds and reducing tax rates which is a central aim of the Government's fiscal policy. Ministers believe that building a tax structure based on higher thresholds and lower nominal rates and free from distortions will help encourage initiative and enterprise among all groups whether United Kingdom domiciled or not and whether employed by a United Kingdom resident company or not.

You will probably also be aware that since you wrote the Clause in the Finance Bill has been considered in Committee. In the Debate Mr Moore said that he recognised the difficulties of foreign nationals on short-term stays in the United Kingdom. However, he went on to make it clear that notwithstanding these difficulties the Government does not believe it is right that they should be taxed on any different basis from British people working here. I am sorry to send you a reply which I fear you will find disappointing.

Private Secretary

51st Floor
Great George Street
Windsor, Berkshire SL4 6DD
England
Telephone Windsor (07535) 57157
Telex 847436 a/b Archem G

Erik G. Tandberg
President

Transmit to [unclear]

High priority

15th May, 1984

Sir Terence Burns
The Treasury
Great George Street
London SW1

Dear Sir Terence:

U.K. TAX LEGISLATION

There is one aspect of the 1984 Finance Bill that is causing us great concern. This is the new tax proposal relating to expatriate employees in the U.K.

ARCO Chemical Europe, Inc., is a subsidiary of Atlantic Richfield Company of the United States. Its function is to coordinate the chemical activities of the Company in Europe, the Middle East and Africa. All of these activities pertain to products manufactured outside the U.K. Nonetheless, in 1978 ARCO Chemical Europe chose to locate its headquarters in the U.K. where today we have 72 employees of which 33 are expatriates. Annual expenditures of the company in the U.K. are in excess of £3 Million. The organization has grown rapidly in recent years with projections for further increased staffing through 1985/86.

The prevailing reason for locating the ARCO Chemical Europe headquarters in the U.K. in 1978 was cost. The new tax as proposed by the Government as it relates to expatriate employees would remove a major component of the cost advantage that the U.K. has heretofore enjoyed and would force ARCO either to compensate its expatriate employees for their increased taxes or to hold current gross salaries thereby losing the ability to attract and retain talented specialist employees from abroad that are essential to our business.

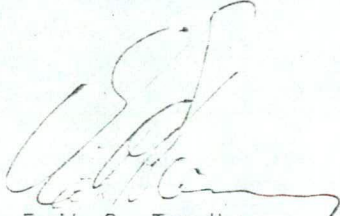
It is suggested that the benefit to the U.K. of offices like ours outweighs the additional revenue that the new proposal would generate. If the proposal is enacted, we will be forced to give serious consideration to locating elsewhere.

277/5

We urge you to work toward the deletion of this proposal from the tax legislation.

Thank you very much for your consideration.

Sincerely yours,



Erik G. Tandberg