PO-CH/NL/0817
PART A

START 5-03-84
END 28-03-84

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PART A

1984 PRESS NOTICES + BUDGET DAY PRESS RELEASE.

DDS 25 years NA3(i) 25/04/94

PO -CH /NL/~~0013~~ 0817
PART A

BUDGET SECRET

5 MAR 1984

FINANCIAL SECRETARY TO THE TREASURY

FROM: MISS F P BOGAN

DATE: 5 March 1984

MR DRAPER

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

BUDGET DAY PRESS RELEASE: STAMP DUTY RATES

The Financial Secretary has seen your minute of 2 March and has commented that in view of the large number of minor anomolies which we are not even touching this year, largely because of sheer volumn, might it be a good idea to mention these in the press release? We could also point out our intention for action in these areas after consultation. The Financial Secretary would be grateful for your views on this.

FPBogan

MISS F P BOGAN

95

UNCLASSIFIED

FROM: A P HUDSON
DATE: 6 March 1984

MR PRESCOTT - IR

cc PPS
Chief Secretary
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr M A Hall
PS/IR

BUDGET DAY PRESS RELEASES

1. The Financial Secretary has approved the three press releases attached to your 2 March minute.

APH

A P HUDSON

- 7 MAR 1984

FINANCIAL SECRETARY TO THE TREASURY

FROM: MISS F P BOGAN

DATE: 6 March 1984

MR DRAPER

cc Chancellor
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
Mr Carse - B of E
PS/IR

BUDGET DAY PRESS RELEASE: STAMP DUTY ON CONVERTIBLE LOAN STOCKS

The Financial Secretary has seen and approved the Press Release attached to your minute of 5 March.

F P Bogan

MISS F P BOGAN

- 7 MAR 1984

FROM: MISS F P BOGAN
DATE: 6 March 1984

MR REX

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Cassell
Mr Monck
Mr Battishill
Mr Allen
Mr Ridley
Mr Lord
Mr Portillo

TREASURY PRESS NOTICE - NATIONAL INSURANCE SURCHARGE

The Financial Secretary has seen and approves the draft Press Release attached to your minute of 5 March.

FPBogan

MISS F P BOGAN

- 7 MAR 1984

COPY NO. 6

FROM: A P HUDSON
DATE: 7 March 1984

MR DRAPER - IR

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Battishill
Mr R I G Allen
Mr Hopkinson
Mr Lord
Mr Graham - Parly Counsel
PS/IR

BUDGET DAY PRESS RELEASE: STAMP DUTY RATES

1. The Financial Secretary has approved the press release attached to your 5 March minute.

APH

A P HUDSON

BUDGET SECRET

- 7 MAR 1984

FINANCIAL SECRETARY TO THE TREASURY

FROM: A P HUDSON
DATE: 7 March 1984

MR S W JONES - IR

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monck
Mr Monger
Mr Hall
Mr Ridley
Mr Lord
Mrs Lomax
PS/IR

BUDGET DAY PRESS RELEASES: CORPORATION TAX, STOCK RELIEF, AND ACT

1. The Financial Secretary is happy with the press releases attached to your 5 March minute.

2. The decision on the 37½% "pegged rate" has now, of course, been finalised.

APH

A P HUDSON

67

BUDGET SECRET

-8 MAR 1984

FROM: A M ELLIS

DATE: 7 March 1984

MR MARTIN

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Sir P Middleton
Mr Cassell
Mr Battishill
Mr R I G Allen
Mr Monger
Mr Griffiths
Mr Folger
Mr Hall
Mr Ridley
Mr Lord
Mr Portillo
PS/IR
PS/C&E

BUDGET PRESS NOTICE: INCOME TAX

The Economic Secretary suggested (re paragraph 11 of your minute of 6 March) that it would be better to avoid tabulation of the IIS effect.

AE

A M ELLIS

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BUDGET SECRET

FROM : N C MUNRO
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE
8 March 1984

1. MR O'LEARY PGL 8.3.84

2. MR ISAAC 8.3. We have kept the technicalities in paras 5 + 6 very short and bland. I do not think we should say less than that.

3. FINANCIAL SECRETARY

BUDGET DAY PRESS RELEASES

1. I enclose suggested press releases on Life Assurance Premium Relief and on Section 394(3) of the 1970 Taxes Act. Recent developments made it impossible to get these to you before now.

2. The LAPR release states that the relief will be withdrawn from policies in respect of insurances made after midnight on Budget Day. This is the normal procedure for making such changes: there is always the danger of a last-minute rush, as occurred in the case of the recent announcement on building society gilts. But a change applying from midnight on 12 March would be retrospective† - and, in this case, those inclined to 'beat the Budget' will have already reacted, following the articles in the Guardian and other papers.

3. The second of the two releases concerns the so-called 'maximum investment bond' marketed by Skandia Life. We have not used this heading because -

---

cc Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Monger
Mr Battishill
Mr R I G Allen
Mr M A Hall
Mrs Lomax
Mr Lord
Mr Isaac
Mr O'Leary
Mr Newstead
Mr Munro
Mr Williams T1/6
Mr J P O Lewis
PS/IR

† and a change applying from say 4pm on Budget Day impracticable

- other life offices have for a long time been offering similarly named packages which do not exploit the loophole in Section 394(3); and

- the problem has a wider application anyway.

4. If you are content, could your private secretary telephone me as soon as possible?

Neil.

N C MUNRO

INLAND REVENUE
Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01–438 6692 OR 6706

[3x] 13 March 1984

LIFE ASSURANCE PREMIUM RELIEF

The Chancellor proposes in his Budget to abolish Life Assurance Premium Relief for life assurance policies in respect of insurances made after midnight tonight. Relief will continue to be available for policies in respect of insurances made before midnight tonight, unless the terms of such policies are subsequently altered so as to enhance the benefits secured. This notice sets out the main points of the change and explains how policyholders and those issuing life assurance policies will be affected.

A. THE PRESENT POSITION

1. Under present law, UK residents who hold a qualifying life assurance policy are entitled to relief at a flat-rate 15 per cent on the premiums they pay, provided that such premiums do not exceed £1,500 or one-sixth of their total income in the relevant year, which ever is greater. Since 6 April 1979, they have obtained this relief by deducting from the total premium due an amount equal to the relief; the insurer has then claimed repayment of the 'deficiency' from the Inland Revenue.

B. EFFECT OF THE CHANGE ON POLICYHOLDERS

2. Tax relief is withdrawn from premiums paid in respect of new insurances made after midnight tonight, and insurances made before then if the policyholder subsequently chooses to alter the terms of his policy in order to enhance the benefits secured (whether by exercising an option or otherwise).

3. Policies in respect of insurances made before midnight (other than enhanced policies) will not be affected by the proposed change. Policyholders will be entitled to continue paying premiums after deducting tax relief until the policy is terminated.

C. ADMINISTRATIVE DETAILS

4. As a general rule it is expected that life offices and friendly societies will offer new policies only on gross terms after today. The provisions cover a wide variety of institutions and types of business and detailed guidelines are being sent today to individual life offices and those friendly societies which conduct assurance business.

/5.

5. The Finance Bill provisions will not become law until Royal Assent. The legislation will therefore contain measures to enable the Inland Revenue and insurers to adjust the position if, in exceptional circumstances, premiums on new policies are paid after deduction during the period up to Royal Assent.

6. The necessary Regulations are being made to empower those Friendly Societies and Industrial Life Offices which operate a scheme within paragraph 13, Schedule 4, Finance Act 1976 to write gross business immediately. Those few Friendly Societies not within this category are being advised separately.

INLAND REVENUE
Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01–438 6692 OR 6706

[3x]

13 March 1984

LIFE ASSURANCE: CHARGEABLE EVENTS PROVISIONS: AMENDMENT OF SECTION 394(3), ICTA 1970

The Chancellor proposes in his Budget to include legislation in this year's Finance Bill to remedy a defect in the 'roll over' provision in Section 394(3) of the 1970 Taxes Act ('chargeable events' provisions). This defect enabled higher rate taxpayers to extract their profits from non-qualifying life assurance policies without incurring the tax liability which normally applies. In recent weeks, some life assurance companies were marketing packages specifically aimed at exploiting this defect. This notice explains how the defect arises and how the Government proposes to remedy it.

THE PROBLEM

1. The law provides for different tax regimes for qualifying and non-qualifying life assurance policies. Qualifying policies enjoy more advantageous tax treatment: in particular, any profits on maturity are normally exempt from tax. The corollary is that they must satisfy certain statutory requirements. Non-qualifying policies are not subject to such restrictions, but enjoy less favourable tax treatment and, in particular, profits on maturity should normally be subject to income tax. However, there is no basic rate liability: this is regarded as satisfied by the tax charged on the investment income of the life office.

2. Sections 393 to 402 of the Taxes Act (the 'chargeable events' legislation) contain the relevant provisions for taxing, inter alia, the profits arising from non-qualifying policies. But Section 394(3) provides that the maturity of a life assurance policy is not a chargeable event if an option conferred by that policy to take out a new policy is exercised. The purpose of this provision is that, where the proceeds of a non-qualifying policy are reinvested in a new policy, the gain on the maturity of the old policy should be 'rolled over' and not taxed until a chargeable event arises on the new policy. But because the legislation does not require the proceeds from the old policy to be reinvested in the new one, the aim of the provision can be frustrated if the new policy is a term assurance with a nominal premium, since no chargeable event will arise unless the policyholder dies within the term.

/3.

3. At least two life assurance companies have recently begun to offer 'packages' of policies which exploit this defect in order to allow investors annual tax free income during the life of the 'package' and a tax free capital sum after as little as seven and a half years. But any non-qualifying policy in isolation could, by including a guaranteed insurability option in its terms, take advantage of the loophole in Section 394(3) to avoid any income tax on maturity.

THE PROPOSED SOLUTION

4. The legislation will therefore provide, for any such option exercised after midnight tonight, that the 'roll over' provision in Section 394(3) will only apply if all the proceeds from the old policy are reinvested in the new one. This approach follows the line taken on policy options in other life assurance changes.

- 9 MAR 1984

BUDGET CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: A P HUDSON

DATE: 9 March 1984

MR DRAPER - IR

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Battishill
Mr Hopkinson
Mr R I G Allen
Mr Lord
Mr Graham - Parly Counsel
PS/IR

BUDGET DAY PRESS RELEASE: STAMP DUTY: TECHNICAL MATTERS

1. The Financial Secretary was grateful for your 7 March minute.

2. He has approved the press release attached.

3. The Financial Secretary agrees with you that there is no need for taking special action to tell the House of our intentions, beyond paragraph 3 of the press release. But thank you for considering the point.

APH

A P HUDSON

43

CHIEF SECRETARY TO THE TREASURY

FROM: JOHN GIEVE

DATE: 9 March 1984

MR MARTIN

cc
PPS
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Hall
Mr Ridley
Mr Lord
Mr Portillo
PS/Inland Revenue

PRESS RELEASE ON INCOME TAX

We spoke about the draft press release you had prepared on income tax. This is to confirm that after further discussion between Ministers, it has been decided that the press release should not include a table showing the effect of the abolition of investment income surcharge.

JC

JOHN GIEVE

9 MAR 1984

BUDGET SECRET

FROM: A M ELLIS
DATE: 9 March 1984

MR MUNRO - IR

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Battishill
Mr Monger
Mr Lankester
Mr Bridgeman- RFS
Mr O'Leary) IR
Mr Isaac)
PS/IR

PRESS RELEASE ON FRIENDLY SOCIETIES TAX EXEMPT BUSINESS

I am minuting to confirm that the Economic Secretary is content with the press release covered by your minute of 8 March subject to the four minor amendments over the phone and to an inclusion in it of at least a reference (preferably at the end of the introductory paragraph) to the decision to increase the limit on taxable business from £50,000 to £60,000. Mr Bridgeman is providing a draft Treasury press release on the increase in limits on taxable business during the course of today to which the Inland Revenue press release should therefore refer.

AE

A M ELLIS

- 9 MAR 1984

BUDGET SECRET

FINANCIAL SECRETARY TO THE TREASURY

FROM: MISS F P BOGAN
DATE: 9 March 1984

MR MUNRO - IR

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Mr Battishill
Mr R I G Allen
Mr M A Hall
Mrs Lomax
Mr Lord
PS/IR

PPS ρ/

BUDGET DAY PRESS RELEASES

This is to confirm, as I mentioned to you on the telephone, that the Financial Secretary is content with both press releases attached to your minute of 8 March, subject to the Chancellor's comment on the LAPR press release, that the section in brackets in paragraph 3 should read "(other than subsequently enhanced policies)".

FPBogan

MISS F P BOGAN

BUDGET SECRET

9 MAR 1984

CH/EX REF. NO. B(84) 579

COPY NO 5 OF 28 COPIES

FROM: MISS M O'MARA

DATE: 9 March 1984

cc PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Littler
Mr Byatt
Mr Cassell
Mr Monck
Mr Battishill
Mr Lovell
Mr Monger
Mr Smee
Mr Allen
Mr Folger
Mr Norgrove
Mr Ridley
Mr Lord
Mr Portillo
PS/IR
Mr Beighton - IR
PS/C&E

PS/FINANCIAL SECRETARY

THE BUDGET AND BUSINESS:

THE TREASURY PRESS NOTICE AND BRIEFING ON SECTORAL IMPACT

The Chancellor has seen both Mr Monck's and Mr Ridley's minutes of 8 March covering different versions of the Treasury Press Release. His preference is for Mr Monck's version with the following amendments:

Paragraph 7 line 1: Amend to ".... certain types of capital investment ...."

Paragraph 13 line 3: Delete "some".

Paragraph 14 line 1: Amend to "Stock relief was introduced as a rough-and-ready measure to counter ...."

Paragraph 14 line 5: Amend to ".... It will also simplify the system ...."

BUDGET SECRET

I have already passed these comments to Mr Monck.

2. Although the Chancellor felt that the Ridley/Allen versions of the Press Release were too long for that purpose, he has commented that they contain some very useful speech material and should be used as such.

MOM

MISS M O'MARA

Copy No 6

FROM: N MONCK
DATE: 8 March 1984

FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Byatt
Mr Littler
Mr Cassell
Mr Battishill
Mr Lovell
Mr Monger
Mr Smee
Mr Allen
Mr Folger
Mr Norgrove
Mr Ridley
Mr Lord
Mr Portillo
PS/IR
Mr Beighton IR
PS/C&E

THE BUDGET AND BUSINESS: THE TREASURY PRESS NOTICE AND BRIEFING ON SECTORAL IMPACT

I attach a revised draft Press release. I understand that Mr Ridley is also circulating possible drafts.

2. Apart from taking your amendments and removing the detail on the CT package, the main change is that it no longer highlights, as an alternative basis of scoring the effect of the Budget on business, the treatment of earlier payment of VAT on imports in terms of interest. The old paragraph 3 has gone entirely. However paragraph 9 brings in the concept in a low key way. It switches to describing the effects of the main Budget changes on profitability after tax and says:

> "The CT and NIS changes will increase profits after tax and the gain to profits will be only partly offset by the interest paid or forgone as a result of earlier payment of VAT on imports. The post-tax profits of all broad business sectors are expected to benefit from the Budget over the next 2 years taken together."

Advantages of this Approach

3. There are two main advantages in getting this approach on to the record somewhere in a low key way:

a. without it we cannot refute probable charges that manufacturing as a whole is a loser. The latest figures show that if early payment of VAT on imports is scored in cash terms in 1984/85, manufacturing will be a net loser unless it is claimed that the share of the cash effect borne by manufacturing is implausibly close to the bottom of the range. If, on the other hand, it is scored in terms of interest costs the after tax profits of manufacturing should gain in both years taken separately. (I will attach tables if they are ready in time or else circulate them tomorrow.)

b. Ministers have decided that they do not want to give any detailed figures for the effects of the Budget on individual sectors. To carry that through we need to have an explicitly prepared position. The formula I have quoted in paragraph 2 above from the draft Press release provides that. Ministers and officials could refuse to go beyond it, except in words by talking about the relative importance of the different measures for these broad sectors in these 2 years. They need to be taken together because it looks as though oil is a loser in 1984/85.

4. If we tried to hold the line in this way, we would no doubt be asked with mock incredulity whether we had failed to look at the sectoral effects. Our answer would be that we had made rough estimates but that the figures were highly uncertain for such reasons as the inadequacy of data about the distribution of stock holding and tax exhaustion between sectors given the fact that company groups for tax purposes may be spread over several sectors. The figures were therefore not good enough to quote - let alone sub-divide and project beyond 1985/86 - but sufficient to justify the reassuring expectation about broad sectors expressed in the draft Press notice, although the position for individual business would of course vary very widely.

Possible Difficulties

5. There are two possible difficulties. The first is that highlighting the interest cost approach to the cash flow effect of early payment of VAT on imports runs the risk of undermining the low PSBR figures for

1984/85 or of looking like a conjuring trick. But I hope that using the approach in the low key way embodied in the revised draft of the Press notice avoids that danger.

6. The second point is that the guidance on Accounting Practice suggests that the phasing out of first year capital allowances will lead companies to deduct, as an extraordinary item, a special provision for deferred taxation in arriving at reported net profits. Whether these will outweigh the sort of gains we expect is impossible to foresee. But there is clearly a risk that critics will point to the need for provisions if we make excessive quantified or claims about the effects of the Budget on profits. Giving numbers based on the ex ante figures in the FSBR would also be risky, though we believe the aggregate effect will be substantial.

7. Ministers clearly need to be aware of this accounting point (which may also affect some candidates for privatisation). But, provided you choose your words carefully, it need not deter you from making claims about the benefits of the Budget measures for "profits after tax". The extraordinary item reinstating "deferred tax" affects "net profits" ie profits after tax <u>and</u> extraordinary items. But it does not affect "profits after tax" which are struck before extraordinary items. Moreover our accounting advisers tell us that City confidence is mainly determined by trends in profits after tax before extraordinary items and is little influenced by changes in extraordinary items and "net profits".

<u>Conclusion</u>

8. Treasury Ministers will need to consider the attached draft Treasury Press notice and the drafts Mr Ridley is submitting together. I hope we can get a decision tomorrow.

NM

N MONCK

BUDGET SECRET

8 March 1984

Draft Treasury Press Notice

THE BUDGET, BUSINESS AND TAX REFORM

The Budget will help business in two main ways:

a. first, by keeping the economy on a course consistent with the firm financial policies which the Government will be maintaining over the period of this Parliament. Among other things this should make it possible to resume the reduction in interest rates ; each x reduces the costs by y

b. secondly, through major reforms which will lighten and simplify the tax burden on business within the next two years and in the longer term. It will also reduce the distortions built into the present system. The reform will encourage and reward efficiency, enterprise and a stronger economic performance.

These policies are the only basis for sustained growth of output and jobs.

Overall Financial Effect in the Next Two Years

2. The Budget measures directly affecting business will reduce its tax burden over the next two years taken together by about £[900 million]. In 1984/85 alone, within a neutral Budget, business will pay up to £[500] million more tax, but this will be outweighed by the gain to business in 1985/86 of about £[1400] million. The measures reflected in these figures

include those mentioned in paragraph 3, the North Sea changes, early payment of VAT on imports fromnext October, and the halving of Stamp Duty.

Tax Reform

3. Within the major reform package for company taxation, announced by the Chancellor of the Exchequer, the essential structure of corporation tax will be unchanged and will continue to be based on the imputation system.

4. The reform package has the following components:

- large phased reductions in the rates of corporation tax;

- phased reductions in the capital allowances for machinery and plant and for industrial buildings and their replacement by writing down allowances;

- the immediate abolition of stock relief;

- the abolition of National Insurance Surcharge from October.

Details are given in separate Press releases by the Treasury Inland Revenue and Customs.

5. The package reflects the Government's overall aims for tax reform: to produce simpler taxes and lower tax rates so as to leave taxpayers with more freedom to choose how to spend and invest their money. The company tax reforms will offer greater

opportunity and reward for risk-taking and innovation by business. This will make for a more efficient economy able to provide new jobs and rising living standards.

6. The changes in CT will:

a. reduce the tax bite on profits;

b. reduce the tax subsidy given to certain types of investment, and the major distortions which can lead to wasteful investment and which have favoured capital against labour. In future more investment will be undertaken because it is truly profitable and productive and not merely because tax subsidy makes it so. The quality of investment will improve;

c. remove the bias against risk taking which results from the current discrimination in favour of borrowing rather than funding by equity.

7. The reduction of the tax subsidy on certain types of investment will be accompanied by the removal of the tax penalty on jobs (the NIS). The choice for businessmen between more capital investment or taking on more labour will be much less distorted by tax considerations. That is one reason why the package should lead to an increase in employment.

THE EFFECTS OF THE PACKAGE

Businesses will be left with more money to make their own decisions

9. The CT and NIS changes will increase profits after tax; and these gains to profits will be only partly offset by the interest paid or forgone as a result of earlier payment of VAT on imports. The profits of all broad business sectors are expected to benefit from the Budget over the next two years taken together. In particular all employers will have a continuing gain from the abolition of NIS.

10. With higher profits after tax, companies will be able to engage in more R&D, more intensive product development, more active search for process innovation, to make greater marketing efforts and offer improved services.

Investment will be more productive

11. The profitability of investment is crucial to economic success. The economy loses if money is channelled into investment which produces a return lower than might have been achieved elsewhere. The current system has tended to distort the

appraisal of returns, and may have contributed to the exceptionally low pre and post-tax return on investment in this country. Removing the tax distortions will encourage investment which does not need a subsidy and that will strengthen the economy.

12. For some investments that a company expects to be profitable the pre-tax real returns can be lower than the post-tax return, or even negative. The current system also favours debt finance at the expense of equity. The effect of the package is to reduce these differences.

13. Some unproductive investment may be curtailed at the margin. But in the transitional period, aggregate investment is likely to rise as some projects are brought forward in order to benefit from the remaining first year allowances. After the transitional period of adjustment, the Government is confident that there will be a movement to investment within a higher pre-tax return. Moreover the post-tax returns on this investment will be enhanced by immediate and future cuts in the CT rate.

Stock Relief Abolition

14. Stock relief was introduced to counter the impact of high inflation. Its value and the need for it have been declining with the reduction in inflation which will continue over this Parliament. The impact on business is more than offset by other components of the package. It will also simplifying the system.

Summary

15. In the early years of transition, as the reforms come into effect, there will be some losers among individual

businesses though the majority will benefit. This is inevitable in any major measure of tax reform. The Government believes that the many distortions in the existing business tax system are partly to blame for the persistent past failures in the United Kingdom's economic performance. The Chancellor has made clear the Government's intentions for the tax system over a number of years ahead, so that companies can plan and invest with confidence. He will be proposing legislation which will reduce the main corporation tax rate by one third (ie 17 percentage points) over the next few years. During the transition this will be partly offset by the withdrawal of stock relief and first year capital allowances. But in the longer run there will be a permanent cut in the tax burden. The reform will produce investment of higher quality than the present tax regime and stimulate risk-taking and expenditure on innovation in all its forms. The Government believes that the benefits for business will bring more jobs and help the economy as a whole over the period of this Parliament and beyond.

Budget Box

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415
Telex 262405

A62

13 March 1984

THE BUDGET, BUSINESS AND TAX REFORM

The Budget will help business in two main ways:

(a) first, by keeping the economy on a course consistent with the firm financial policies which the Government will be maintaining over the period of this Parliament. Among other things this should make it possible to resume the reduction in interest rates;

(b) secondly, through major reforms which will lighten and simplify the tax burden on business in the next two years and in the longer term. It will also reduce the distortions built into the present tax system. The reform will encourage and reward efficiency, enterprise and a stronger economic performance.

These policies are the only basis for sustained growth of output and jobs.

Overall effect on tax payments in the next two years

2. The Budget measures directly affecting business will reduce its tax burden over the next two years taken together by about £900 million. In 1984-85 alone, within a neutral Budget, business will pay up to £500 million more tax, compared with an indexed base. But this will be outweighed by the gain to business in 1985-86 of about £1400 million. The measures reflected in these figures include those mentioned in paragraph 4, the North Sea changes, early payment of VAT on imports from next October, and the halving of Stamp Duty.

Tax reform

3. The Chancellor of the Exchequer announced a major reform of company taxation. But the essential structure of corporation tax will be unchanged and will continue to be based on the imputation system.

4. The reform package has the following components:

- large phased reductions in the main rate of corporation tax to 35 per cent; immediate reduction of the small companies rate to 30 per cent;

- phased abolition of first year capital allowances for machinery and plant and for industrial buildings, leaving annual writing down allowances;
- the immediate abolition of stock relief;
- the abolition of National Insurance Surcharge from October.

Details are given in separate press notices by the Treasury and Inland Revenue. The changed arrangements for paying VAT on imports are described in a Customs press notice.

5. The package reflects the Government's overall aims for tax reform: to produce simpler taxes and lower tax rates so as to leave taxpayers with more freedom to choose how to spend and invest their money. The company tax reforms will offer greater reward for risk-taking and innovation by business. This will make for a more efficient economy able to provide new jobs and rising living standards.

6. The changes in CT will:

(a) reduce the tax bite on profits;

(b) reduce the tax subsidy given to certain types of investment, and reduce the major distortions which are an incentive to wasteful investment and which have favoured capital against labour. In future more investment will be undertaken because it is truly profitable and productive and not merely because tax subsidy makes it so. The quality of investment will improve;

(c) remove the bias against risk taking which results from the current discrimination in favour of borrowing rather than funding by equity.

7. The reduction of the tax subsidy on certain types of capital investment will be accompanied by the removal of the tax penalty on jobs (the NIS). The choice for businessmen between increasing capital or taking on more labour will be much less distorted by tax considerations. That is one reason why the package should lead to an increase in employment.

International Comparisons

8. After the changes have been fully implemented the main rate of CT will be lower in the UK than in most of our major competitor countries. The treatment of small companies is already generous by international standards and will be more so as a result of the changes proposed. For the generality of plant and machinery the rates of capital allowance will be comparable to those in most other countries. Our existing stock relief provisions are very generous by international standards; some countries are curtailing or phasing out their provisions and, in others, they are only applied when stock prices increase very rapidly.

THE EFFECTS OF THE PACKAGE

Businesses will be left with more money to make their own decisions

9. The CT and NIS changes will increase profits after tax; and these gains to profits will be only partly offset by the interest paid or foregone as a result of earlier payment of VAT on imports. There are expected to be benefits from the Budget measures for all broad business sectors over the next two years taken together. In particular all employers will have a continuing gain from the abolition of NIS.

10. With higher profits after tax, companies will be able to engage in more R&D, more intensive product development, more active search for process innovation, to make greater marketing efforts and offer improved services.

Investment will be more productive

11. The profitability of investment is crucial to economic success. The economy loses if money is channelled into investment which produces a return lower than might have been achieved elsewhere. The current tax system has tended to distort the appraisal of returns, and may have contributed to the exceptionally low pre- and post-tax return on investment in this country.

12. For some investments that a company expects to be profitable the pre-tax real returns can be lower than the post-tax return, or even negative. The current system also favours debt finance at the expense of equity. The effect of the package is to reduce these differences. Reducing the tax distortions will encourage investment which does not need a subsidy and that will strengthen the economy.

13. Some unproductive investment may be curtailed at the margin. But in the transitional period, aggregate investment is likely to rise as projects are brought forward in order to benefit from the remaining first year allowances. After the transitional period of adjustment, the Government is confident that there will be a movement to investment with a higher pre-tax return. Moreover the post-tax returns on this investment will be enhanced by immediate and future cuts in the CT rate.

Stock relief abolition

14. Stock relief was introduced as a rough and ready measure to counter the impact of high inflation. Its value and the need for it have been declining with the reduction in inflation. The impact on business is more than offset by other components of the package. It will also simplify the system.

Summary

15. In the early years of transition, as the reforms come into effect, there will be some losers among individual businesses though the majority will benefit. This is inevitable in any major measure of tax reform. The Government believes that the many distortions in the existing business tax system are partly to blame for the persistent past failures in the United Kingdom's economic performance. The Chancellor has made clear the Government's intentions for the tax system over a number of years ahead, so that companies can plan and invest with confidence. He will be proposing legislation which will reduce the main corporation tax rate by one third (ie 17 percentage points) over the next few years. This reduction, together with the changes to capital allowances and ending of stock relief, should have a broadly neutral effect on the financial position of companies during the transitional period as a whole. But when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay. The reform will produce investment of higher quality than the present tax regime and stimulate risk-taking and expenditure on innovation in all its forms. The National Insurance Surcharge is to be abolished. The Government believes that the benefits for business will bring more jobs and help the economy as a whole over the period of this Parliament and beyond.

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13 March 1984

THE BUDGET 1984: INCOME TAX

In his Budget Statement today the Chancellor announced increases in the main income tax allowances which go well beyond those needed to compensate for inflation over the past year. These increases in allowances will be worth £2.08 a week to a married man and £1.27 a week to a single person or wife with a job who pay tax at the basic rate. The tax reductions - including any tax overpaid after 6 April - should be reflected in pay packets on the first pay day after 10 May. The increases in allowances mean that some 850,000 fewer people will pay income tax in 1984-85 than if the allowances had remained at the 1983-84 levels, and 400,000 fewer than if allowances had been increased only in line with inflation.

2. The married man's allowance and the single allowance will be increased by around 12½ per cent. These increases are some 7 percentage points higher than the increases required by the indexation provisions of the Finance Act 1980. This indexation requirement is for increases to match the increase in the Retail Prices Index in the year to December 1983, which is 5.3 per cent. For married men paying tax at the basic rate, income tax payments in 1984-85 will be £1.21 per week lower than if the married man's allowance had only been indexed; the corresponding reduction for single people and earning wives is 69 pence per week. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by just under 14 per cent.

3. The age allowances, the income limit for age allowance and the threshold and rate bands for the higher rates of tax, are to be increased by the amounts required by the indexation provisions.

4. The Chancellor also announced the abolition of the investment income surcharge. This will benefit about 280,000 taxpayers, of whom about 160,000 are over 65.

5. The Chancellor's proposals in detail are as follows:-

(i) **Personal allowances**

	1983-84 level	Proposed increase		1984-85 proposed level
	£	£	%	£
Single person's allowance (and wife's earned income relief)	1785	220	12.3	2005
Married man's allowance	2795	360	12.9	3155
Additional personal allowance and widow's bereavement allowance	1010	140	13.9	1150
Age allowance (single)	2360	130	5.5	2490
Age allowance (married)	3755	200	5.3	3955

(ii) **Rates and rate bands**

Rate of tax	1983-84 taxable income	Proposed increase in starting point		1984-85 taxable income
%	£	£	%	£
30	0-14,600	-	-	0-15,400
40	14,601-17,200	800	5.5	15,401-18,200
45	17,201-21,800	1000	5.8	18,201-23,100
50	21,801-28,900	1300	6.0	23,101-30,600
55	28,901-36,000	1700	5.9	30,601-38,100
60	over 36,000	2100	5.8	over 38,100

Note: The variations in the percentage increases in the starting points result from the statutory rounding requirements of the Finance Act 1980.

(iii) An increase from £7,600 to £8,100 (6.6 per cent) in the age allowance income limit.

(iv) The additional rate on an individual's investment income (15 per cent on investment incomes over £7,100 in 1983-84) will be abolished.

6. The total revenue cost of these proposals will be some £1.8 billion in 1984-85 and £2.6 billion in a full year: that is some £940 million in 1984-85 and £1.47 billion in a full year in excess of the cost of implementing only the statutory indexation requirement. Details are in the following table: the bulk of the cost is for the increase in personal allowances.

Costs (£ million)

	Total cost		Cost above indexation	
	1984-85	Full year	1984-85	Full year
Personal allowances	1715	2110	915	1130
Basic rate limit	45	75	0	0
Further higher rate thresholds	35	65	0	0
Investment income surcharge	25	360	25	340
TOTALS	1820	2610	940	1470

Illustrative changes

7. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance and that all income is earned. Tables 1 to 5 show the effects of the changes in income tax proposed in the Budget on single and married taxpayers. Table 3 is for elderly people. Tables 4 and 5 give the information in weekly instead of annual terms for levels of income up to £400 a week.

8. Tables 6A, 6B, 7A and 7B show the weekly net income of single and married taxpayers and families with two children, after taking account of National Insurance Contributions. Tables 6A and 7A are for those paying National Insurance Contributions at the contracted-in rate; tables 6B and 7B for those paying at the contracted-out rate.

9. Tables 7A and 7B also include illustrative figures for child benefit. Child benefit and one parent benefit are assumed to increase in November 1984 in line with the movement in the RPI between May 1983 and May 1984. Table 7A and 7B (and 10A and 10B) show figures for child benefit on the assumption of an increase of 5½ per cent, as in the Public Expenditure White Paper (Cmnd 9143).

10. Tables 8, 9A and 9B illustrate the effect of the income tax changes after taking account of the effects of increases in earnings between 1983-84 and 1984-85. Table 8 shows incomes after tax for single people and married men on the strictly illustrative assumption that earnings for 1984-85 rise by 6½ per cent over earnings in 1983-84 (the assumption made by the Government Actuary in his published report on the draft of the Social Security (Contributions, Re-rating) Order, 1983, Cmnd 9092). Tables 9A and 9B give figures on the same basis but take account of National Insurance Contributions (for contracted-in and contracted-out) as well as income tax.

11. Tables 10A and 10B include the effect of child benefit for a married couple with two children (on the same illustrative assumption mentioned in paragraph 9 above). Finally, tables 11, 12A and 12B show changes in the net weekly income of a married couple where both partners are earning.

Investment Income

12. The tables assume that all income is earned. The figures for income tax in 1983-84 would not be altered if the incomes shown (except for the wife's income in tables 11, 12A and 12B) were taken to include investment income not exceeding £7,100 (the threshold for the surcharge on investment income in 1983-84). It is proposed to abolish the surcharge on investment income in 1984-85. With the exception of tables 11, 12A and 12B which include wife's earned income, the figures for income tax in 1984-85 would be unaltered if the incomes shown were wholly or partly investment income. The reduction in tax compared to 1983-84 on a given amount of investment income resulting from abolition of the surcharge may be calculated as 15 per cent of the excess of the investment income over £7,100.

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Note for Editors

The indexed figures for allowances and thresholds are set out in the Annex to this notice and also in an Order made today by the Treasury as required by S.24(9) of the Finance Act 1980.

ANNEX

THE BUDGET 1984: INCOME TAX

MAIN ALLOWANCES AND THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. **Allowances**	1983-84	1984-85 indexed	1984-85 proposed
	£	£	£
Single person's allowance and wife's earned income relief	1,785	1,885	2,005
Married man's allowance	2,795	2,945	3,155
Age allowance (single)	2,360	2,490	2,490
Age allowance (married)	3,755	3,955	3,955
Age allowance (income limit)	7,600	8,100	8,100
Additional personal allowance and widow's bereavement allowance	1,010	1,060	1,150

Thresholds

(i) Investment income surcharge threshold: 1983-84 £7,100. For 1984-85 it is proposed to abolish the surcharge; the indexed threshold would have been £7,500.

(ii) Higher rate thresholds and bands:-

Rate	1983-84	1984-85 indexed and proposed
%	£	£
30	0-14,600	0-15,400
40	14,601-17,200	15,401-18,200
45	17,201-21,800	18,201-23,100
50	21,801-28,900	23,101-30,600
55	28,901-36,000	30,601-38,100
60	over 36,000	over 38,100

*NOTE Section 24 requries 1983-84 allowances and rate bands to be increased by the same percentage (5.3 per cent) as the percentge increase in the general index of retail prices (RPI) between December 1982 and December 1983; and

(i) in the case of the rate bands, the investment income surcharge threshold and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and

(ii) otherwise, the increase to be rounded up to the nearest multiple of £10.

TABLE 1

SINGLE PERSONS - INCOME ALL EARNED - ANNUAL FIGURES

Income	Charge for 1983-84		Proposed charge for 1984-85		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
2,000	64	3.2	0	0.0	64	3.2
2,500	214	8.6	148	5.9	66	2.6
3,000	364	12.1	298	10.0	66	2.2
4,000	664	16.6	598	15.0	66	1.7
5,000	964	19.3	898	18.0	66	1.3
6,000	1,264	21.1	1,198	20.0	66	1.1
7,000	1,564	22.3	1,498	21.4	66	0.9
8,000	1,864	23.3	1,798	22.5	66	0.8
9,000	2,164	24.0	2,098	23.3	66	0.7
10,000	2,464	24.6	2,398	24.0	66	0.7
12,000	3,064	25.5	2,998	25.0	66	0.6
14,000	3,664	26.2	3,598	25.7	66	0.5
16,000	4,264	26.7	4,198	26.2	66	0.4
18,000	5,026	27.9	4,858	27.0	168	0.9
20,000	5,877	29.4	5,658	28.3	219	1.1
25,000	8,198	32.8	7,898	31.6	300	1.2
30,000	10,697	35.7	10,392	34.6	305	1.0
40,000	16,274	40.7	15,762	39.4	512	1.3
50,000	22,274	44.5	21,757	43.5	517	1.0

TABLE 2

MARRIED COUPLES - INCOME ALL EARNED - ANNUAL FIGURES

Income	Charge for 1983-84		Proposed charge for 1984-85		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	61	2.0	0	0.0	61	2.1
3,500	211	6.0	103	3.0	108	3.1
4,000	361	9.0	253	6.3	108	2.7
5,000	661	13.2	553	11.1	108	2.2
6,000	961	16.0	853	14.2	108	1.8
7,000	1,261	18.0	1,153	16.5	108	1.5
8,000	1,561	19.5	1,453	18.2	108	1.4
9,000	1,861	20.7	1,753	19.5	108	1.2
10,000	2,161	21.6	2,053	20.5	108	1.1
12,000	2,761	23.0	2,653	22.1	108	0.9
14,000	3,361	24.0	3,253	23.2	108	0.8
16,000	3,961	24.8	3,853	24.1	108	0.7
18,000	4,621	25.7	4,453	24.7	168	0.9
20,000	5,422	27.1	5,198	26.0	224	1.1
25,000	7,692	30.8	7,380	29.5	312	1.2
30,000	10,192	34.0	9,817	32.7	375	1.3
40,000	15,668	39.2	15,130	37.8	538	1.3
50,000	21,668	43.3	21,067	42.1	601	1.2

Calculations assume that only the husband has earned income.

TABLE 3

ELDERLY SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - ANNUAL FIGURES

Income	Charge for 1983-84		Proposed charge for 1984-85		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
ELDERLY SINGLE PERSONS						
2,500	42	1.7	3	0.1	39	1.6
3,000	192	6.4	153	5.1	39	1.3
3,500	342	9.8	303	8.7	39	1.1
4,000	492	12.3	453	11.3	39	1.0
5,000	792	15.8	753	15.1	39	0.8
6,000	1,092	18.2	1,053	17.6	39	0.7
7,000	1,392	19.9	1,353	19.3	39	0.6
8,000	1,772	22.2	1,653	20.7	119	1.5
8,500	2,014	23.7	1,883	22.2	131	1.5
9,000	2,164	24.0	2,098	23.3	66	0.7
10,000	2,464	24.6	2,398	24.0	66	0.7
12,000	3,064	25.5	2,998	25.0	66	0.6
	(1)					
ELDERLY MARRIED COUPLES						
4,000	73	1.8	13	0.3	60	1.5
4,500	223	5.0	163	3.6	60	1.3
5,000	373	7.5	313	6.3	60	1.2
6,000	673	11.2	613	10.2	60	1.0
7,000	973	13.9	913	13.1	60	0.9
8,000	1,353	16.9	1,213	15.2	140	1.8
8,500	1,603	18.9	1,443	17.0	160	1.9
9,000	1,853	20.6	1,693	18.8	160	1.8
10,000	2,161	21.6	2,053	20.5	108	1.1
12,000	2,761	23.0	2,653	22.1	108	0.9

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

(1) Calculations assume that only the husband has earned income.

TABLE 4

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

Income	Charge for 1983-84		Proposed charge for 1984-85		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
35.00	0.20	0.6	0.00	0.0	0.20	0.6
40.00	1.70	4.3	0.43	1.1	1.27	3.2
50.00	4.70	9.4	3.43	6.9	1.27	2.5
60.00	7.70	12.8	6.43	10.7	1.27	2.1
80.00	13.70	17.1	12.43	15.5	1.27	1.6
100.00	19.70	19.7	18.43	18.4	1.27	1.3
120.00	25.70	21.4	24.43	20.4	1.27	1.1
140.00	31.70	22.6	30.43	21.7	1.27	0.9
160.00	37.70	23.6	36.43	22.8	1.27	0.8
180.00	43.70	24.3	42.43	23.6	1.27	0.7
200.00	49.70	24.9	48.43	24.2	1.27	0.6
220.00	55.70	25.3	54.43	24.7	1.27	0.6
240.00	61.70	25.7	60.43	25.2	1.27	0.5
300.00	79.70	26.6	78.43	26.1	1.27	0.4
350.00	98.19	28.1	94.96	27.1	3.23	0.9
400.00	119.93	30.0	115.53	28.9	4.40	1.1
MARRIED COUPLES (1)						
60.00	1.88	3.1	0.00	0.0	1.88	3.1
80.00	7.88	9.9	5.80	7.2	2.08	2.6
100.00	13.88	13.9	11.80	11.8	2.08	2.1
120.00	19.88	16.6	17.80	14.8	2.08	1.7
140.00	25.88	18.5	23.80	17.0	2.08	1.5
160.00	31.88	19.9	29.80	18.6	2.08	1.3
180.00	37.88	21.0	35.80	19.9	2.08	1.2
200.00	43.88	21.9	41.80	20.9	2.08	1.0
220.00	49.88	22.7	47.80	21.7	2.08	0.9
240.00	55.88	23.3	53.80	22.4	2.08	0.9
300.00	73.88	24.6	71.80	23.9	2.08	0.7
350.00	90.42	25.8	86.80	24.8	3.62	1.0
400.00	111.20	27.8	106.12	26.5	5.08	1.3

(1) Calculations assume that only the husband has earned income.

TABLE 5

ELDERLY SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

Income	Charge for 1983-84		Proposed charge for 1984-85		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
ELDERLY SINGLE PERSONS						
50.00	1.38	2.8	0.63	1.3	0.75	1.5
60.00	4.38	7.3	3.63	6.1	0.75	1.3
80.00	10.38	13.0	9.63	12.0	0.75	0.9
100.00	16.38	16.4	15.63	15.6	0.75	0.8
120.00	22.38	18.7	21.63	18.0	0.75	0.6
140.00	28.38	20.3	27.63	19.7	0.75	0.5
160.00	37.15	23.2	34.48	21.6	0.75	0.5
180.00	43.70	24.3	42.43	23.6	2.67	1.7
200.00	49.70	24.9	48.43	24.2	1.27	0.7
					1.27	0.6
ELDERLY MARRIED COUPLES	(1)					
80.00	2.33	2.9	1.18	1.5	1.15	1.4
100.00	8.33	8.3	7.18	7.2	1.15	1.2
120.00	14.33	11.9	13.18	11.0	1.15	1.0
140.00	20.33	14.5	19.18	13.7	1.15	0.8
160.00	29.11	18.2	26.03	16.3	3.08	1.9
180.00	37.88	21.0	35.80	19.9	2.08	1.2
200.00	43.88	21.9	41.80	20.9	2.08	1.0

For incomes above these levels, the figures are the same as those in Table 4.

(1) Calculations assume that only the husband has earned income.

TABLE 6A

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS
NIC - CONTRACTED IN

Income	Charge for 1983-84			Proposed charge for 1984-85			Change in income after tax and NIC
	Income tax	NIC	Net income after tax and NIC	Income tax	NIC	Net income after tax and NIC	
£	£	£	£	£	£	£	£
SINGLE PERSONS							
35.00	0.20	3.15	31.65	0.00	3.15	31.85	0.20
40.00	1.70	3.60	34.70	0.43	3.60	35.97	1.27
50.00	4.70	4.50	40.80	3.43	4.50	42.07	1.27
60.00	7.70	5.40	46.90	6.43	5.40	48.17	1.27
80.00	13.70	7.20	59.10	12.43	7.20	60.37	1.27
100.00	19.70	9.00	71.30	18.43	9.00	72.57	1.27
120.00	25.70	10.80	83.50	24.43	10.80	84.77	1.27
140.00	31.70	12.60	95.70	30.43	12.60	96.97	1.27
160.00	37.70	14.40	107.90	36.43	14.40	109.17	1.27
180.00	43.70	16.20	120.10	42.43	16.20	121.37	1.27
200.00	49.70	18.00	132.30	48.43	18.00	133.57	1.27
220.00	55.70	19.80	144.50	54.43	19.80	145.77	1.27
240.00	61.70	21.15	157.15	60.43	21.60	157.97	0.82
300.00	79.70	21.15	199.15	78.43	22.50	199.07	-0.08
350.00	98.19	21.15	230.66	94.96	22.50	232.54	1.88
400.00	119.93	21.15	258.92	115.53	22.50	261.97	3.05
MARRIED COUPLES (1)							
60.00	1.88	5.40	52.72	0.00	5.40	54.60	1.88
80.00	7.88	7.20	64.92	5.80	7.20	67.00	2.08
100.00	13.88	9.00	77.12	11.80	9.00	79.20	2.08
120.00	19.88	10.80	89.32	17.80	10.80	91.40	2.08
140.00	25.88	12.60	101.52	23.80	12.60	103.60	2.08
160.00	31.88	14.40	113.72	29.80	14.40	115.80	2.08
180.00	37.88	16.20	125.92	35.80	16.20	128.00	2.08
200.00	43.88	18.00	138.12	41.80	18.00	140.20	2.08
220.00	49.88	19.80	150.32	47.80	19.80	152.40	2.08
240.00	55.88	21.15	162.97	53.80	21.60	164.60	1.63
300.00	73.88	21.15	204.97	71.80	22.50	205.70	0.73
350.00	90.42	21.15	238.43	86.80	22.50	240.70	2.27
400.00	111.20	21.15	267.65	106.12	22.50	271.38	3.73

Employees' National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the State additional (earnings related) pension scheme.
(1) Calculations assume that only the husband has earned income.

TABLE 6B

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS
NIC - CONTRACTED OUT

Income	Charge for 1983-84			Proposed charge for 1984-85			Change in income after tax and NIC
	Income tax	NIC	Net income after tax and NIC	Income tax	NIC	Net income after tax and NIC	
£	£	£	£	£	£	£	£
SINGLE PERSONS							
35.00	0.20	3.10	31.70	0.00	3.13	31.87	0.17
40.00	1.70	3.44	34.86	0.43	3.47	36.10	1.24
50.00	4.70	4.12	41.18	3.43	4.15	42.42	1.24
60.00	7.70	4.81	47.49	6.43	4.84	48.73	1.24
80.00	13.70	6.18	60.12	12.43	6.21	61.36	1.24
100.00	19.70	7.55	72.75	18.43	7.58	73.99	1.24
120.00	25.70	8.92	85.38	24.43	8.95	86.62	1.24
140.00	31.70	10.29	98.01	30.43	10.32	99.25	1.24
160.00	37.70	11.66	110.64	36.43	11.69	111.88	1.24
180.00	43.70	13.03	123.27	42.43	13.06	124.51	1.24
200.00	49.70	14.40	135.90	48.43	14.43	137.14	1.24
220.00	55.70	15.77	148.53	54.43	15.80	149.77	1.24
240.00	61.70	16.80	161.50	60.43	17.17	162.40	0.90
300.00	79.70	16.80	203.50	78.43	17.86	203.71	0.21
350.00	98.19	16.80	235.01	94.96	17.86	237.18	2.17
400.00	119.93	16.80	263.27	115.53	17.86	266.61	3.34
MARRIED COUPLES (1)							
60.00	1.88	4.81	53.31	0.00	4.84	55.16	1.85
80.00	7.88	6.18	65.94	5.80	6.21	67.99	2.05
100.00	13.88	7.55	78.57	11.80	7.58	80.62	2.05
120.00	19.88	8.92	91.20	17.80	8.95	93.25	2.05
140.00	25.88	10.29	103.83	23.80	10.32	105.88	2.05
160.00	31.88	11.66	116.46	29.80	11.69	118.51	2.05
180.00	37.88	13.03	129.09	35.80	13.06	131.14	2.05
200.00	43.88	14.40	141.72	41.80	14.43	143.77	2.05
220.00	49.88	15.77	154.35	47.80	15.80	156.40	2.05
240.00	55.88	16.80	167.32	53.80	17.17	169.03	1.71
300.00	73.88	16.80	209.32	71.80	17.86	210.35	1.03
350.00	90.42	16.80	242.78	86.80	17.86	245.35	2.57
400.00	111.20	16.80	272.00	106.12	17.86	276.03	4.03

Employees' National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.
(1) Calculations assume that only the husband has earned income.

TABLE 7A

FAMILIES WITH CHILDREN
MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME
NIC - CONTRACTED IN

Weekly earnings	Weekly income in 1983-84 post November 1983				Weekly income in 1984-85 up to November 1984					Weekly income in 1984-85 post November 1984		
	Child benefit	Income tax	NIC	Net income	Child benefit	Income tax	NIC	Net income	Change in net income	Child benefit	Net income	Overall change in net income
£	£	£	£	£	£	£	£	£	£	£	£	£
60.00	13.00	1.88	5.40	65.72	13.00	0.00	5.40	67.60	1.88	13.70	68.30	2.58
80.00	13.00	7.88	7.20	77.92	13.00	5.80	7.20	80.00	2.08	13.70	80.70	2.78
100.00	13.00	13.88	9.00	90.12	13.00	11.80	9.00	92.20	2.08	13.70	92.90	2.78
120.00	13.00	19.88	10.80	102.32	13.00	17.80	10.80	104.40	2.08	13.70	105.10	2.78
140.00	13.00	25.88	12.60	114.52	13.00	23.80	12.60	116.60	2.08	13.70	117.30	2.78
160.00	13.00	31.88	14.40	126.72	13.00	29.80	14.40	128.80	2.08	13.70	129.50	2.78
180.00	13.00	37.88	16.20	138.92	13.00	35.80	16.20	141.00	2.08	13.70	141.70	2.78
200.00	13.00	43.88	18.00	151.12	13.00	41.80	18.00	153.20	2.08	13.70	153.90	2.78
220.00	13.00	49.88	19.80	163.32	13.00	47.80	19.80	165.40	2.08	13.70	166.10	2.78
240.00	13.00	55.88	21.15	175.97	13.00	53.80	21.60	177.60	1.63	13.70	178.30	2.33
300.00	13.00	73.88	21.15	217.97	13.00	71.80	22.50	218.70	0.73	13.70	219.40	1.43
350.00	13.00	90.42	21.15	251.43	13.00	86.80	22.50	253.70	2.27	13.70	254.40	2.97
400.00	13.00	111.20	21.15	280.65	13.00	106.12	22.50	284.38	3.73	13.70	285.08	4.43

Notes:
Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit. It is assumed that only the husband is earning.

National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the State additional (earnings related) pension scheme.

Child benefit and one parent benefit are assumed to increase in November 1984 in line with the movement in the general index of retail prices (RPI) between May 1983 and May 1984. The illustrative assumption used in the table is an increase of 5.5 per cent in November 1984, as in the Public Expenditure White Paper (Cmnd 9143).

TABLE 7B

FAMILIES WITH CHILDREN
MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME
NIC - CONTRACTED OUT

	Weekly income in 1983-84 post November 1983				Weekly income in 1984-85 up to November 1984					Weekly income in 1984-85 post November 1984		
Weekly earnings	Child benefit	Income tax	NIC	Net income	Child benefit	Income tax	NIC	Net income	Change in net income	Child benefit	Net income	Overall change in net income
£	£	£	£	£	£	£	£	£	£	£	£	£
60.00	13.00	1.88	4.81	66.31	13.00	0.00	4.84	68.16	1.85	13.70	68.86	2.55
80.00	13.00	7.88	6.18	78.94	13.00	5.80	6.21	80.99	2.05	13.70	81.69	2.75
100.00	13.00	13.88	7.55	91.57	13.00	11.80	7.58	93.62	2.05	13.70	94.32	2.75
120.00	13.00	19.88	8.92	104.20	13.00	17.80	8.95	106.25	2.05	13.70	106.95	2.75
140.00	13.00	25.88	10.29	116.83	13.00	23.80	10.32	118.88	2.05	13.70	119.58	2.75
160.00	13.00	31.88	11.66	129.46	13.00	29.80	11.69	131.51	2.05	13.70	132.21	2.75
180.00	13.00	37.88	13.03	142.09	13.00	35.80	13.06	144.14	2.05	13.70	144.84	2.75
200.00	13.00	43.88	14.40	154.72	13.00	41.80	14.43	156.77	2.05	13.70	157.47	2.75
220.00	13.00	49.88	15.77	167.35	13.00	47.80	15.80	169.40	2.05	13.70	170.10	2.75
240.00	13.00	55.88	16.80	180.32	13.00	53.80	17.17	182.03	1.71	13.70	182.73	2.41
300.00	13.00	73.88	16.80	222.32	13.00	71.80	17.86	223.35	1.03	13.70	224.05	1.73
350.00	13.00	90.42	16.80	255.78	13.00	86.80	17.86	258.35	2.57	13.70	259.05	3.27
400.00	13.00	111.20	16.80	285.00	13.00	106.12	17.86	289.03	4.03	13.70	289.73	4.73

Notes:
Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit. It is assumed that only the husband is earning.

National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

Child benefit and one parent benefit are assumed to increase in November 1984 in line with the movement in the general index of retail prices (RPI) between May 1983 and May 1984. The illustrative assumption used in the table is an increase of 5.5 per cent in November 1984, as in the Public Expenditure White Paper (Cmnd 9143).

TABLE 8

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - COMPARISON WITH 1983-84 WHERE EARNINGS INCREASE BY 6.5 PER CENT BETWEEN 1983-84 and 1984-85

Income in 1983-84	Charge for 1983-84		Adjusted income in 1984-85 (1)	Proposed charge for 1984-85		Percentage change in income after tax
	Income tax	Percentage of total income taken in tax		Income tax	Percentage of total income taken in tax	
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
2,000	64	3.2	2,130	37	1.7	8.1
2,500	214	8.6	2,662	197	7.4	7.8
3,000	364	12.1	3,195	357	11.2	7.7
3,500	514	14.7	3,727	517	13.9	7.5
4,000	664	16.6	4,260	676	15.9	7.4
6,000	1,264	21.1	6,390	1,315	20.6	7.2
8,000	1,864	23.3	8,520	1,954	22.9	7.0
10,000	2,464	24.6	10,650	2,593	24.3	6.9
12,000	3,064	25.5	12,780	3,232	25.3	6.8
15,000	3,964	26.4	15,975	4,191	26.2	6.8
20,000	5,877	29.4	21,300	6,233	29.3	6.7
25,000	8,198	32.8	26,625	8,705	32.7	6.7
40,000	16,274	40.7	42,600	17,317	40.7	6.6
50,000	22,274	44.5	53,250	23,707	44.5	6.6
MARRIED COUPLES (2)						
3,000	61	2.0	3,195	12	0.4	8.3
3,500	211	6.0	3,727	172	4.6	8.1
4,000	361	9.0	4,260	331	7.8	8.0
6,000	961	16.0	6,390	970	15.2	7.6
8,000	1,561	19.5	8,520	1,609	18.9	7.3
10,000	2,161	21.6	10,650	2,248	21.1	7.2
12,000	2,761	23.0	12,780	2,887	22.6	7.1
15,000	3,661	24.4	15,975	3,846	24.1	7.0
20,000	5,422	27.1	21,300	5,718	26.8	6.9
25,000	7,692	30.8	26,625	8,130	30.5	6.9
40,000	15,668	39.2	42,600	16,627	39.0	6.7
50,000	21,668	43.3	53,250	23,017	43.2	6.7

(1) The adjusted incomes shown for 1984-85 are for illustration. They have been obtained by increasing the corresponding incomes in 1983-84 by 6.5 per cent.
(2) Assuming that only the husband has earned income.

TABLE 9A

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - COMPARISON WITH 1983-84 WHERE EARNINGS INCREASE BY 6.5 PER CENT BETWEEN 1983-84 AND 1984-85 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

Income in 1983-84	Charge for 1983-84: Income tax	Charge for 1983-84: NIC (2)	Charge for 1983-84: Percentage of total income taken in tax and NIC	(1) Adjusted income in 1984-85	Proposed charge for 1984-85: Income tax	Proposed charge for 1984-85: NIC (2)	Proposed charge for 1984-85: Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
2,000	64	180	12.2	2,130	37	192	10.8	8.3
2,500	214	225	17.6	2,662	197	239	16.4	8.0
3,000	364	270	21.1	3,195	357	287	20.2	7.8
3,500	514	315	23.7	3,727	517	335	22.9	7.6
4,000	664	360	25.6	4,260	676	383	24.9	7.6
6,000	1,264	540	30.1	6,390	1,315	575	29.6	7.2
8,000	1,864	720	32.3	8,520	1,954	767	31.9	7.1
10,000	2,464	900	33.6	10,650	2,593	958	33.3	7.0
12,000	3,064	1,080	34.5	12,780	3,232	1,150	34.3	6.9
15,000	3,964	1,100	33.8	15,975	4,191	1,170	33.6	6.8
20,000	5,877	1,100	34.9	21,300	6,233	1,170	34.8	6.7
25,000	8,198	1,100	37.2	26,625	8,705	1,170	37.1	6.7
40,000	16,274	1,100	43.4	42,600	17,317	1,170	43.4	6.6
50,000	22,274	1,100	46.7	53,250	23,707	1,170	46.7	6.6
MARRIED COUPLES (3)								
3,000	61	270	11.0	3,195	12	287	9.4	8.5
3,500	211	315	15.0	3,727	172	335	13.6	8.3
4,000	361	360	18.0	4,260	331	383	16.8	8.1
6,000	961	540	25.0	6,390	970	575	24.2	7.7
8,000	1,561	720	28.5	8,520	1,609	767	27.9	7.4
10,000	2,161	900	30.6	10,650	2,248	958	30.1	7.3
12,000	2,761	1,080	32.0	12,780	2,887	1,150	31.6	7.2
15,000	3,661	1,100	31.7	15,975	3,846	1,170	31.4	7.0
20,000	5,422	1,100	32.6	21,300	5,718	1,170	32.3	6.9
25,000	7,692	1,100	35.2	26,625	8,130	1,170	34.9	6.9
40,000	15,668	1,100	41.9	42,600	16,627	1,170	41.8	6.8
50,000	21,668	1,100	45.5	53,250	23,017	1,170	45.4	6.7

(1) The adjusted incomes shown for 1984-85 are for illustration. They have been obtained by increasing the corresponding incomes in 1983-84 by 6.5 per cent.

(2) National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the State additional (earnings related) pension scheme.

(3) Assuming that only the husband has earned income.

TABLE 9B

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - COMPARISON WITH 1983-84 WHERE EARNINGS INCREASE BY 6.5 PER CENT BETWEEN 1983-84 AND 1984-85 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED OUT)

Income in 1983-84	Charge for 1983-84: Income tax	Charge for 1983-84: NIC (2)	Charge for 1983-84: Percentage of total income taken in tax and NIC	(1) Adjusted income in 1984-85	Proposed charge for 1984-85: Income tax	Proposed charge for 1984-85: NIC (2)	Proposed charge for 1984-85: Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
2,000	64	173	11.9	2,130	37	184	10.4	8.3
2,500	214	208	16.9	2,662	197	220	15.7	8.0
3,000	364	242	20.2	3,195	357	257	19.2	7.8
3,500	514	276	22.6	3,727	517	293	21.7	7.6
4,000	664	310	24.4	4,260	676	330	23.6	7.6
6,000	1,264	447	28.5	6,390	1,315	476	28.0	7.2
8,000	1,864	584	30.6	8,520	1,954	622	30.2	7.1
10,000	2,464	721	31.9	10,650	2,593	768	31.6	7.0
12,000	3,064	858	32.7	12,780	3,232	913	32.4	6.9
15,000	3,964	873	32.2	15,975	4,191	929	32.0	6.8
20,000	5,877	873	33.8	21,300	6,233	929	33.6	6.7
25,000	8,198	873	36.3	26,625	8,705	929	36.2	6.7
40,000	16,274	873	42.9	42,600	17,317	929	42.8	6.6
50,000	22,274	873	46.3	53,250	23,707	929	46.3	6.6
MARRIED COUPLES (3)								
3,000	61	242	10.1	3,195	12	257	8.4	8.5
3,500	211	276	13.9	3,727	172	293	12.5	8.3
4,000	361	310	16.8	4,260	331	330	15.5	8.1
6,000	961	447	23.5	6,390	970	476	22.6	7.7
8,000	1,561	584	26.8	8,520	1,609	622	26.2	7.4
10,000	2,161	721	28.8	10,650	2,248	768	28.3	7.3
12,000	2,761	858	30.2	12,780	2,887	913	29.7	7.1
15,000	3,661	873	30.2	15,975	3,846	929	29.9	7.0
20,000	5,422	873	31.5	21,300	5,718	929	31.2	6.9
25,000	7,692	873	34.3	26,625	8,130	929	34.0	6.9
40,000	15,668	873	41.4	42,600	16,627	929	41.2	6.8
50,000	21,668	873	45.1	53,250	23,017	929	45.0	6.7

(1) The adjusted incomes shown for 1984-85 are for illustration. They have been obtained by increasing the corresponding incomes in 1983-84 by 6.5 per cent.
(2) National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.
(3) Assuming that only the husband has earned income.

TABLE 10A

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES
COMPARISON WITH 1983-84 (POST NOVEMBER) WHERE EARNINGS INCREASE
BY 6.5 PER CENT BETWEEN NOVEMBER 1983 AND NOVEMBER 1984
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED-IN)

Income	1983-84 (Post November 1983)				1984-85 (Post November 1984)					Percentage change in net income
	Income tax	NIC	Child benefit	Net income	(1) Adjusted income	Income tax	NIC	Child benefit	Net income	
£	£	£	£	£	£	£	£	£	£	per cent
60.00	1.88	5.40	13.00	65.72	63.90	0.97	5.75	13.70	70.88	7.8
80.00	7.88	7.20	13.00	77.92	85.20	7.36	7.67	13.70	83.87	7.6
100.00	13.88	9.00	13.00	90.12	106.50	13.75	9.58	13.70	96.87	7.5
120.00	19.88	10.80	13.00	102.32	127.80	20.14	11.50	13.70	109.86	7.4
140.00	25.88	12.60	13.00	114.52	149.10	26.53	13.42	13.70	122.85	7.3
160.00	31.88	14.40	13.00	126.72	170.40	32.92	15.34	13.70	135.84	7.2
180.00	37.88	16.20	13.00	138.92	191.70	39.31	17.25	13.70	148.84	7.1
200.00	43.88	18.00	13.00	151.12	213.00	45.70	19.17	13.70	161.83	7.1
220.00	49.88	19.80	13.00	163.32	234.30	52.09	21.09	13.70	174.82	7.0
240.00	55.88	21.15	13.00	175.97	255.60	58.48	22.50	13.70	188.32	7.0
300.00	73.88	21.15	13.00	217.97	319.50	77.65	22.50	13.70	233.05	6.9
350.00	90.42	21.15	13.00	251.43	372.75	95.21	22.50	13.70	268.74	6.9
400.00	111.20	21.15	13.00	280.65	426.00	117.28	22.50	13.70	299.92	6.9

(1) The adjusted incomes shown for November 1984 are for illustration. They have been obtained by increasing the corresponding incomes in November 1983 by 6.5 per cent.

Employees' National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the State additional (earnings related) pension scheme.

Calculations assume that only the husband has earned income.

Child benefit and one parent benefit are assumed to increase in November 1984 in line with the movement in the general index of retail prices (RPI) between May 1983 and May 1984. The illustrative assumption used in the table is an increase of 5.5 per cent in November 1984, as in the Public Expenditure White Paper (Cmnd 9143).

TABLE 10B

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES
COMPARISON WITH 1983-84 (POST NOVEMBER) WHERE EARNINGS INCREASE
BY 6.5 PER CENT BETWEEN NOVEMBER 1983 AND NOVEMBER 1984
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED OUT)

Income	1983-84 (Post November 1983)				1984-85 (Post November 1984)					Percentage change in net income
	Income tax	NIC	Child benefit	Net income	(1) Adjusted income	Income tax	NIC	Child benefit	Net income	
£	£	£	£	£	£	£	£	£	£	per cent
60.00	1.88	4.81	13.00	66.31	63.90	0.97	5.11	13.70	71.52	7.8
80.00	7.88	6.18	13.00	78.94	85.20	7.36	6.57	13.70	84.97	7.6
100.00	13.88	7.55	13.00	91.57	106.50	13.75	8.03	13.70	98.42	7.5
120.00	19.88	8.92	13.00	104.20	127.80	20.14	9.48	13.70	111.88	7.4
140.00	25.88	10.29	13.00	116.83	149.10	26.53	10.94	13.70	125.33	7.3
160.00	31.88	11.66	13.00	129.46	170.40	32.92	12.40	13.70	138.78	7.2
180.00	37.88	13.03	13.00	142.09	191.70	39.31	13.86	13.70	152.23	7.1
200.00	43.88	14.40	13.00	154.72	213.00	45.70	15.32	13.70	165.68	7.1
220.00	49.88	15.77	13.00	167.35	234.30	52.09	16.78	13.70	179.13	7.0
240.00	55.88	16.80	13.00	180.32	255.60	58.48	17.86	13.70	192.96	7.0
300.00	73.88	16.80	13.00	222.32	319.50	77.65	17.86	13.70	237.69	6.9
350.00	90.42	16.80	13.00	255.78	372.75	95.21	17.86	13.70	273.38	6.9
400.00	111.20	16.80	13.00	285.00	426.00	117.28	17.86	13.70	304.56	6.9

(1) The adjusted incomes shown for November 1984 are for illustration. They have been obtained by increasing the corresponding incomes in November 1983 by 6.5 per cent.

Employees' National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

Calculations assume that only the husband has earned income.

Child benefit and one parent benefit are assumed to increase in November 1984 in line with the movement in the general index of retail prices (RPI) between May 1983 and May 1984. The illustrative assumption used in the table is an increase of 5.5 per cent in November 1984, as in the Public Expenditure White Paper (Cmnd 9143).

TABLE 11

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING - INCOME ALL EARNED
COMPARISON OF INCOME AFTER TAX IN 1983-84 AND 1984-85,
WHERE EARNINGS INCREASE BY 6.5 PER CENT

Weekly income in 1983-84			Charge in 1983-84		Adjusted weekly income in 1984-85			Proposed charge in 1984-85		Percentage change in income after tax
Husband	Wife	Joint	ncome tax	Percentage of income taken in tax	Husband	Wife	Joint	Income tax	Percentage of income taken in tax	
£	£	£	£	per cent	£	£	£	£	per cent	per cent
120.00	40.00	160.00	21.58	13.5	127.80	42.60	170.40	21.35	12.5	7.7
	80.00	200.00	33.58	16.8		85.20	213.00	34.13	16.0	7.5
	100.00	220.00	39.58	18.0		106.50	234.30	40.52	17.3	7.4
	160.00	280.00	57.58	20.6		170.40	298.20	59.69	20.0	7.2
	200.00	320.00	69.58	21.7		213.00	340.80	72.47	21.3	7.2
160.00	40.00	200.00	33.58	16.8	170.40	42.60	213.00	34.13	16.0	7.5
	80.00	240.00	45.58	19.0		85.20	255.60	46.91	18.4	7.3
	100.00	260.00	51.58	19.8		106.50	276.90	53.30	19.2	7.3
	160.00	320.00	69.58	21.7		170.40	340.80	72.47	21.3	7.2
	200.00	360.00	81.58	22.7		213.00	383.40	85.25	22.2	7.1
200.00	40.00	240.00	45.58	19.0	213.00	42.60	255.60	46.91	18.4	7.3
	80.00	280.00	57.58	20.6		85.20	298.20	59.69	20.0	7.2
	100.00	300.00	63.58	21.2		106.50	319.50	66.08	20.7	7.2
	160.00	360.00	81.58	22.7		170.40	383.40	85.25	22.2	7.1
	200.00	400.00	96.69	24.2		213.00	426.00	101.09	23.7	7.1
250.00	40.00	290.00	60.58	20.9	266.25	42.60	308.85	62.88	20.4	7.2
	80.00	330.00	72.58	22.0		85.20	351.45	75.66	21.5	7.1
	100.00	350.00	78.58	22.5		106.50	372.75	82.05	22.0	7.1
	160.00	410.00	100.69	24.6		170.40	436.65	105.35	24.1	7.1
	200.00	450.00	114.40*	25.4		213.00	479.25	120.64*	25.2	6.9
300.00	40.00	340.00	75.58	22.2	319.50	42.60	362.10	78.86	21.8	7.1
	80.00	380.00	88.69	23.3		85.20	404.70	92.57	22.9	7.1
	100.00	400.00	96.69	24.2		106.50	426.00	101.09	23.7	7.1
	160.00	460.00	117.40*	25.5		170.40	489.90	123.83*	25.3	6.9
	200.00	500.00	129.40*	25.9		213.00	532.50	136.61*	25.7	6.8

Notes:
(1) The adjusted incomes shown for 1984-85 are for illustration. They have been obtained by increasing the corresponding incomes in 1983-84 by 6.5 per cent.
(2) * Denotes wife's earnings election beneficial.

TABLE 12A

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING - INCOME ALL EARNED COMPARISON OF INCOME AFTER TAX AND NATIONAL INSURANCE CONTRIBUTIONS IN 1983-84 AND 1984-85, WHERE EARNINGS INCREASE BY 6.5 PER CENT (NIC - CONTRACTED IN)

Weekly income in 1983-84			Charge in 1983-84			Adjusted weekly income in 1984-85			Proposed charge in 1984-85			Change in income after tax and NIC
Husband	Wife	Joint	Income tax	NIC	Income taken in tax and NIC	Husband	Wife	Joint	Income tax	NIC	Income taken in tax and NIC	
£	£	£	£	£	per cent	£	£	£	£	£	per cent	per cent
120.00	40.00	160.00	21.58	14.40	22.5	127.80	42.60	170.40	21.35	15.34	21.5	7.8
	80.00	200.00	33.58	18.00	25.8		85.20	213.00	34.13	19.17	25.0	7.6
	100.00	220.00	39.58	19.80	27.0		106.50	234.30	40.52	21.09	26.3	7.5
	160.00	280.00	57.58	25.20	29.6		170.40	298.20	59.69	26.84	29.0	7.3
	200.00	320.00	69.58	28.80	30.7		213.00	340.80	72.47	30.67	30.3	7.2
160.00	40.00	200.00	33.58	18.00	25.8	170.40	42.60	213.00	34.13	19.17	25.0	7.6
	80.00	240.00	45.58	21.60	28.0		85.20	255.60	46.91	23.00	27.4	7.4
	100.00	260.00	51.58	23.40	28.8		106.50	276.90	53.30	24.92	28.2	7.4
	160.00	320.00	69.58	28.80	30.7		170.40	340.80	72.47	30.67	30.3	7.2
	200.00	360.00	81.58	32.40	31.7		213.00	383.40	85.25	34.51	31.2	7.2
200.00	40.00	240.00	45.58	21.60	28.0	213.00	42.60	255.60	46.91	23.00	27.4	7.4
	80.00	280.00	57.58	25.20	29.6		85.20	298.20	59.69	26.84	29.0	7.3
	100.00	300.00	63.58	27.00	30.2		106.50	319.50	66.08	28.75	29.7	7.3
	160.00	360.00	81.58	32.40	31.7		170.40	383.40	85.25	34.51	31.2	7.2
	200.00	400.00	96.69	36.00	33.2		213.00	426.00	101.09	38.34	32.7	7.2
250.00	40.00	290.00	60.58	24.75	29.4	266.25	42.60	308.85	62.88	26.33	28.9	7.3
	80.00	330.00	72.58	28.35	30.6		85.20	351.45	75.66	30.17	30.1	7.2
	100.00	350.00	78.58	30.15	31.1		106.50	372.75	82.05	32.08	30.6	7.2
	160.00	410.00	100.69	35.55	33.2		170.40	436.65	105.35	37.84	32.8	7.2
	200.00	450.00	114.40*	39.15	34.1		213.00	479.25	120.64*	41.67	33.9	6.9
300.00	40.00	340.00	75.58	24.75	29.5	319.50	42.60	362.10	78.86	26.33	29.0	7.2
	80.00	380.00	88.69	28.35	30.8		85.20	404.70	92.57	30.17	30.3	7.2
	100.00	400.00	96.69	30.15	31.7		106.50	426.00	101.09	32.08	31.3	7.2
	160.00	460.00	117.40*	35.55	33.3		170.40	489.90	123.83*	37.84	33.0	6.9
	200.00	500.00	129.40*	39.15	33.7		213.00	532.50	136.61*	41.67	33.5	6.9

Notes:
(1) The adjusted incomes for 1984-85 are for illustration. They have been obtained by increasing the corresponding incomes in 1983-84 by 6.5 per cent.
(2) National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the State additional (earnings related) pension scheme.
(3) * Denotes wife's earnings election beneficial.

TABLE 12B

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING - INCOME ALL EARNED COMPARISON OF INCOME AFTER TAX AND NATIONAL INSURANCE CONTRIBUTIONS IN 1983-84 AND 1984-85, WHERE EARNINGS INCREASE BY 6.5 PER CENT (NIC - CONTRACTED OUT)

Weekly income in 1983-84			Charge in 1983-84			Adjusted weekly income in 1984-85			Proposed charge in 1984-85			
Husband	Wife	Joint	Income tax	NIC	Income taken in tax and NIC	Husband	Wife	Joint	Income tax	NIC	Income taken in tax and NIC	Change in income after tax and NIC
£	£	£	£	£	per cent	£	£	£	£	£	per cent	per cent
120.00	40.00	160.00	21.58	12.36	21.2	127.80	42.60	170.40	21.35	13.13	20.2	7.8
	80.00	200.00	33.58	15.10	24.3		85.20	213.00	34.13	16.05	23.6	7.6
	100.00	220.00	39.58	16.47	25.5		106.50	234.30	40.52	17.51	24.8	7.5
	160.00	280.00	57.58	20.58	27.9		170.40	298.20	59.69	21.89	27.4	7.3
	200.00	320.00	69.58	23.32	29.0		213.00	340.80	72.47	24.81	28.5	7.2
160.00	40.00	200.00	33.58	15.10	24.3	170.40	42.60	213.00	34.13	16.05	23.6	7.6
	80.00	240.00	45.58	17.84	26.4		85.20	255.60	46.91	18.97	25.8	7.4
	100.00	260.00	51.58	19.21	27.2		106.50	276.90	53.30	20.43	26.6	7.4
	160.00	320.00	69.58	23.32	29.0		170.40	340.80	72.47	24.81	28.5	7.2
	200.00	360.00	81.58	26.06	29.9		213.00	383.40	85.25	27.72	29.5	7.2
200.00	40.00	240.00	45.58	17.84	26.4	213.00	42.60	255.60	46.91	18.97	25.8	7.4
	80.00	280.00	57.58	20.58	27.9		85.20	298.20	59.69	21.89	27.4	7.3
	100.00	300.00	63.58	21.95	28.5		106.50	319.50	66.08	23.35	28.0	7.3
	160.00	360.00	81.58	26.06	29.9		170.40	383.40	85.25	27.72	29.5	7.2
	200.00	400.00	96.69	28.80	31.4		213.00	426.00	101.09	30.64	30.9	7.2
250.00	40.00	290.00	60.58	20.23	27.9	266.25	42.60	308.85	62.88	21.50	27.3	7.3
	80.00	330.00	72.58	22.97	29.0		85.20	351.45	75.66	24.42	28.5	7.2
	100.00	350.00	78.58	24.34	29.4		106.50	372.75	82.05	25.88	29.0	7.2
	160.00	410.00	100.69	28.45	31.5		170.40	436.65	105.35	30.26	31.1	7.2
	200.00	450.00	114.40*	31.19	32.4		213.00	479.25	120.64*	33.18	32.1	6.9
300.00	40.00	340.00	75.58	20.23	28.2	319.50	42.60	362.10	78.86	21.50	27.7	7.2
	80.00	380.00	88.69	22.97	29.4		85.20	404.70	92.57	24.42	28.9	7.2
	100.00	400.00	96.69	24.34	30.3		106.50	426.00	101.09	25.88	29.8	7.2
	160.00	460.00	117.40*	28.45	31.7		170.40	489.90	123.83*	30.26	31.5	6.9
	200.00	500.00	129.40*	31.19	32.1		213.00	532.50	136.61*	33.18	31.9	6.9

Notes:

(1) The adjusted incomes shown for 1984-85 are for illustration. They have been obtained by increasing the corresponding incomes in 1983-84 by 6.5 per cent.

(2) National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

(3) * Denotes wife's earnings election beneficial.

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13 March 1984

THE BUDGET 1984: NATIONAL INSURANCE SURCHARGE

The Chancellor announced in his Budget Statement today that the National Insurance Surcharge (NIS) will be abolished with effect from 1 October 1984.

2. The rate of the surcharge is currently 1 per cent. Abolition will reduce private sector employers' costs by £335 million in 1984-85 and £865 million in a full year. Compared with the 3½ per cent rate prior to August 1982, the total benefit to private sector employers from the abolition of NIS is £3 billion a year.

3. The savings to central government and nationalised industries will be offset by reductions in central government cash limits and in nationalised industries' external financing limits. Abolition will not apply to local authorities until 6 April 1985.

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Notes for Editors

NIS was introduced in April 1977 as a surcharge of 2 per cent on earnings liable to empoyers' national insurance contributions (NICs). The rate was increased to 3½ per cent in October 1978. It was reduced to 2 per cent from August 1982, 1½ per cent from April 1983 and 1 per cent from August 1983. There was also an additional reduction in 1982-83 equivalent to approximately an ½ per cent reduction in the rate.

2. NIS is collected through the same machinery as Class 1 NICs. Abolition therefore requires the preparation and printing of new National Insurance tables. These will be distributed in sufficient time for employers to alter their payroll procedures before 1 October. The treatment of the public sector is the same as that with the earlier reductions in the rate.

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13 March 1984

THE BUDGET 1984: EXCISE DUTIES AND VALUE ADDED TAX

In his Budget Statement today the Chancellor announced changes in the excise duties and Value Added Tax (VAT) which provide resources for the reduction in income tax announced in the Budget and forward the Government's objective of switching more of the tax burden from income to spending. The changes in excise duties and VAT are described below and in more detail in Customs and Excise press notices. A separate Treasury press notice describes the income tax reductions announced in the Budget. The change in the payment arrangements for VAT on imports is described in a Customs and Excise press notice and in the Treasury press notice on the Budget tax changes affecting businesses.

Excise duties

2. The Chancellor's approach this year is to ensure that the yield from these duties is maintained in real terms and contributes to the financing of tax reductions elsewhere. There are two particular features. The first is caused by the need to take account of the judgement of the European Court on the relative taxation of wine and beer, where the solution adopted is one which involves the minimum increase possible in the duty on beer while maintaining necessary revenue. Secondly, having regard to the economic and social costs of smoking-related diseases, the duty on tobacco is to be increased substantially, beyond indexation.

3. The Chancellor's main duty proposals including consequential VAT are:

- Beer up 2p a pint

- Spirits up 10p a bottle

- Table wine down by 18p a bottle

- Fortified wine and sparkling wine up 10p a bottle

- Cider up 3p a pint

- Tobacco duty up - eg 10p on a packet of 20 cigarettes - but no increase for pipe tobacco

- Petrol up 4½p a gallon

- DERV up 3½p a gallon

- VED on cars and light vans up £5 a year

- VED on heavy goods vehicles increased, but reductions of up to 13 per cent on light goods vehicles

In addition, the 1p a gallon duty on premium and standard kerosene - paraffin used for home heating - will be abolished.

4. The changes are expected to yield £840 million in 1984-85 and £865 million in a full year, and to have an impact effect on the Retail Price Index (RPI) of about 0.6 per cent. The increases in the duties on hydrocarbon oils (petrol, derv) take effect from 6 p.m. today as does the abolition of duty on kerosene. The changes in the duties on alcoholic drinks, along with the changes in the VED rates, take effect from midnight tonight. The increase in tobacco duty takes effect from midnight 15 March 1984.

Value Added Tax

5. The Chancellor proposed no change in the rate of VAT. He proposes to broaden the base of the tax by extending its coverage to hot take-away food and drink from 1 May 1984 and to alterations to buildings from 1 June 1984.

6. These items are already subject to VAT in other European Community countries. The changes are expected to yield about £375 million in 1984-85 and some £650 million in a full year, and to have an impact effect on the RPI of about 0.1 per cent. Both this and the impact effect of the excise duty changes are included in the forecast for inflation published with the Budget.

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13 March 1984

GOVERNMENT REVENUES FROM THE NORTH SEA

The Financial Statement and Budget Report contains projections of Government revenues from North Sea oil and gas over the period to 1988-89. Revenues are projected to rise from just under £9 billion (in current prices) in 1983-84 to a peak of about £10 billion in 1984-85 before falling to £9½ billion in 1985-86 and the two subsequent financial years, and to £9 billion in 1988-89. This profile reflects that of North Sea oil production which is assumed to peak sometime in the next two years and then fall away. In real terms North Sea revenues are projected to be some 20 per cent lower in 1988-89 than in 1984-85.

2. In 1984-85 revenues are expected to be about £½ billion higher than was projected at the time of the Chancellor's Autumn Statement last November and considerably higher than in the 1983 FSBR projections. Both oil production and sterling North Sea oil prices are expected to be substantially higher in 1984 than was assumed at this time last year.

Revenue projections

3. The table below shows the latest projection of Government revenues from the North Sea (in current prices) for the period 1982-83 to 1988-89. It also compares them with those made at the time of the Autumn Statement in November 1983 and of the 1981, 1982 and 1983 Budgets. Table 2 shows the constituents of total revenues in 1983-84 and 1984-85, as published in both this and last year's FSBR. This note describes the current projection of North Sea revenues and compares it with the two made last year and with other forecasts.

4. The marked revisions now made to the Treasury projections illustrate the very wide margins of error to which such projections are subject. The uncertainties increase the further into the future one looks; and they affect equally each major determinant of revenues - production, prices and tax deductible expenditures.

TABLE 1

TOTAL NORTH SEA OIL AND GAS REVENUES*

£ billion, current prices

	FSBR 1981†	FSBR 1982	FSBR 1983	Autumn Statement 1983	FSBR 1984
1982-83	7	6	8	8	7.8
1983-84	8	6	8	9	9
1984-85	-	8	8	9½	10
1985-86	-	-	9½	-	9½
1986-87	-	-	-	-	9½
1987-88	-	-	-	-	9½
1988-89	-	-	-	-	9

* The figures include receipts from royalties, petroleum revenue tax (including advance payments) and corporation tax, before any set-off in respect of advance corporation tax (ACT). They also include receipts from supplementary petroleum duty in 1982-83. They do not include non-recurrent payments on the grant of licences.

† Updated to current prices; see Economic Progress Report, March 1982.

TABLE 2

COMPOSITION OF NORTH SEA REVENUES

£ billion, current prices

	ROYALTIES		PRT*		CORPORATION TAX†		TOTAL	
	FSBR 1983	FSBR 1984	FSBR 1983	FSBR 1984	FSBR 1983	FSBR 1984	FSBR 1983	FSBR 1984
1983-84	1.6	1.9	5.3	6.1	1.0	0.9	7.9	8.9
1984-85	-	2.0	-	6.0	-	2.2	-	10.2

* including advance payments

† before any set-off in respect of ACT

5. The uncertainty surrounding any projection of North Sea revenues is also illustrated by the wide range of North Sea revenue forecasts published by other forecasting bodies. In a sample of half-a-dozen recently published forecasts, the highest estimate of revenues in 1984-85 is £11 billion, the lowest £9 billion. The average - at £10 billion - is slightly less

TABLE 3

OIL PRODUCTION FORECASTS*

million tonnes

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Forecasts made in:													
1976	15-20	35-45	55-70	75-95	95-115								
1977		40-45	60-70	80-95	90-110	100-120							
1978			55-65	80-95	90-110	100-120	105-125						
1979				70-80	85-105	95-115	115-140	115-140					
1980					80-85	85-105	90-120	95-130	95-135				
1981						80-95	85-110	85-115	90-120				
1982							90-105	90-115	95-125	95-130			
1983								95-115	95-125	95-125	85-120		
1984									110-130	110-130	100-125	85-115	80-115
Outturn	12.2	38.3	54.0	77.9	80.5	89.4	103.2	114.9+	-	-	-	-	-

*Including natural gas liquids (NGLs) and onshore production
+Provisional

than the FSBR projection. In 1985-86, the range is even wider, £9 billion - £12 billion, with an average of just over £10 billion, somewhat higher than the Treasury's latest projection.

Factors determining revenues

6. The main determinants of revenues from the North Sea are sterling oil prices, production and capital expenditure.

(i) The price of oil

7. These projections assume that for the rest of 1984 and 1985 the nominal dollar prices of North Sea crudes will remain at about current levels (eg $30 a barrel for Brent crude). From the end of 1985, North Sea oil prices are assumed to rise in line with world oil prices, which are in turn assumed to rise in line with world inflation. It is assumed that there is no major change in the exchange rate from year to year. By the end of the period, North Sea prices in real terms are assumed to be £132 a tonne (in 1982-83 prices), somewhat lower than their estimated £140 a tonne in 1983-84.

8. These assumptions imply a higher sterling oil price in 1984 than was assumed at the time of last year's Budget. The projections made then assumed that for the rest of 1983 and 1984 the dollar prices of North Sea crudes would on average be around the level then proposed by the British National Oil Corporation (BNOC) to its customers (eg $30.50 for a barrel of Brent crude); and that the effective exchange rate for sterling would 'remain around its level in February 1983'.

9. In the event, the price for Brent crude fell $0.50 a barrel on 1 March 1983 to $30 a barrel, where it has remained since. With the dollar higher than expected, sterling oil prices are now higher than projected in the 1983 FSBR and are expected to remain so for the rest of 1984. By contrast in 1985 the sterling oil price is now projected to be lower on average than was assumed in the 1983 FSBR. This is because it is no longer assumed, as it was then, that nominal dollar oil prices rise during 1985 in line with world inflation.

(ii) Production

10. Table 3 sets out successive forecast ranges of total oil production as published by the Department of Energy in their 'Brown Book' (Development of oil and gas resources of the United Kingdom), and compares them with recorded production for the years to 1983. The table also includes the latest forecast ranges.*

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*Given by the Minister of State for Energy in answer to a parliamentary question on 2 March 1984 (Official Report, cols 361-362).

11. As the table shows, forecasts of future production have been subject to wide margins of error. When North Sea production was building up rapidly, there was a persistent tendency for production to turn out lower than projected. In 1982 and 1983, however, production has turned out very close to the top of the range expected at the beginning of the year. In 1983 production has been higher than expected both in existing fields and in fields that came on stream during the year.

12. The latest forecast ranges for North Sea oil and natural gas liquids (NGL) production are somewhat higher than those in the 1983 Brown Book. This reflects the better-than-expected performance in 1983. The Department of Energy believe that the most likely outcome is at around the centre of the range.

(iii) Capital spending and other costs

13. The projections of aggregate capital expenditure and operating costs are based on figures supplied by the oil companies. The Department of Energy adjust these figures to take account of independent information and of any persistent tendencies towards overestimation or underestimation.

14. The levels of current and capital spending (including exploration expenditure) are important determinants of the size of tax receipts because they are deductible for petroleum revenue tax (PRT) and corporation tax. Since the projections made at this time last year, there have been some increases in the amount of future exploration and capital expenditures assumed. Expenditures on future gasfields, following the renewed interest now being shown by the oil companies in the Southern Basin of the North Sea, account for most of the increase in projected capital spending.

Comparison with previous Government projections

15. Government revenues from the North Sea in 1983-84, are now expected to be £9 billion, or about a £1 billion more than was projected at this time last year and about the same as was expected at the time of last year's Autumn Statement. Higher-than-expected production in 1983 accounts for most of the discrepancy compared with last year's FSBR projections. The assumption about average sterling oil prices in 1983 made at this time last year was slightly too low.

16. Revenues in 1984-85 are now projected to be about £10 billion, compared with £8 billion in last year's FSBR and £9½ billion in the Autumn Statement. The assumptions of higher sterling oil prices and higher production in 1984 than in the previous projections

explain the revision. Revenues in 1985-86 are projected to be about the same as in last year's FSBR. The effect of assuming higher production is broadly offset by lower oil prices and higher capital spending, principally in new gasfields.

Comparison with outside forecasts

17. The projection of North Sea revenues of £10 billion in 1984-85 is a little higher than the average of a number of other recently published forecasts. In 1985-86 and 1986-87, the Treasury's projections are lower than the average.

18. Identifying the reasons for different forecasts of North Sea revenues is difficult. The assumptions underlying each forecast are not always made explicit. And differences in the way forecasts of North Sea taxes are modelled can be important. In general, other forecasters tend to assume higher sterling oil prices than the Treaury, increasingly so the further ahead one looks. This probably reflects differences in assumption about the extent to which OPEC will be able to raise nominal oil prices to offset the effect of inflation on their purchasing power. Differences in what is assumed about future production are not marked.

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13 March 1984

THE NEXT TEN YEARS: PUBLIC EXPENDITURE AND TAXATION INTO THE 1990's

Simultaneously with the Budget, the Chancellor of Exchequer has issued a Green Paper called "The Next Ten Years:Public Expenditure and Taxation into the 1990's". The Green Paper is a novel and important contribution to the current debate on public expenditure and taxation in the longer term. This Press Notice summarises the main points.

2. The Green Paper is concerned with the longer-term prospect for public spending and taxation, for the years up to 1993-94. It supplements both the Public Expenditure White Paper (Cmnd 9143) issued last month, which contained the government's expenditure plans for the next three years; and also the revised Medium Term Financial Strategy published today in Part 2 of the Financial Statement and Budget Report, which sets out the strategic framework for public spending, borrowing and taxation over the next five years.

Public expenditure - past trends

3. The Green Paper describes the powerful forces which were at work driving public expenditure upwards over the last twenty years. Rising expectations about the help which the government should give to the more disadvantaged sections of the community were one important factor. Demographic changes also played their part. Public spending was also increased as a general stimulus to demand in the hope this would encourage economic growth and employment. At the same time there was often over-optimism about the prospective growth in national output so that spending plans were set at a level unsustainable for anything but the very short term. The real annual average rate of growth of public expenditure over these twenty years was 3 per cent; GDP growth averaged 2 per cent a year. Thus over these twenty years real public spending grew 90 per cent while GDP grew 50 per cent. As a proportion of GDP, general government expenditure rose from 36 per cent in 1963 to 48 per cent in 1975-6. Since then the proportion has been slightly lower.

Taxation - past trends

4. The rise in public spending over the past twenty years has necessarily led to a corresponding rise in the taxes required to pay for it. Taxes and rates plus national insurance contributions were some 29 per cent of GDP in 1963-64. They rose to over 37 per cent by the end of the 1960's. The proportion fluctuated during the 1970's and remains high. As a result of these trends increasing numbers of people on low incomes have come to be simultaneously subject to tax and entitled to means tested benefits. If their incomes rise they suffer both an increase in tax and a withdrawal of benefits (the poverty trap).

Public expenditure - future prospects

5. The Green Paper argues that the growth of public spending has, over the past twenty years, been the motive force which has driven upwards the burden of taxation; and that it is necessary to reverse this process, to decide first what can be afforded, then to set expenditure plans for individual programmes consistently with that decision. The Green Paper is primarily concerned with this major issue. It does not accordingly attempt to make detailed projections of individual expenditure programmes over the next ten years but identifies some of the reasons to expect continuing pressures for more spending and demands for improvements. One is demography, especially the effect of the increasing numbers of the very elderly - those over 75 are expected to increase from 3.3 million in 1981 to 3.9 million in 1991. Another is rising expectations as incomes of the working population increase. Further, in public services which are labour-intensive there may well be less scope for reducing costs by the use of new technology, so that relative costs will tend to increase over time. In other areas technological advance will yield substantial cost savings but it can also open up new possibilities for improved levels of service, and therefore new demands.

Economic Assumptions

6. The Green Paper assumes the economy will grow at 2½ per cent a year up to 1988-89, as in the Medium Term Financial Strategy, and thereafter at either 2 per cent or 1½ per cent (as North Sea oil and gas output may by then be in gradual decline.)

Tax - future prospects

7. The Green Paper shows that without firm control over public spending there can be no prospect of bringing the burden of tax back to tolerable levels. On the illustrative framework set out, the tax burden will be reduced to the levels of the early 1970's only if public expenditure is held at broadly its present level in real terms right up to 1993-94. If, on the other hand, what by historical standards is a very modest rate of public spending growth is assumed - growth of 1 per cent a year in real terms after 1988-89 - the tax burden would be only just below its 1978-79 level even after ten years of growth in the economy at about 2 per cent a year; still less to its level in the early 1960s.

Conclusion

8. The Green Paper concludes that the government and Parliament must reach their judgement about what public expenditure in total can be afforded then contain individual programmes within that total. If the public discussion of these important issues leads to a wider understanding of this fact the discussion will have served a useful purpose. We must establish a clear view of what can be afforded; set our spending plans accordingly; then stick to those plans.

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48/84

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13 March 1984

CHIEF SECRETARY'S MEMORANDUM ON THE SUPPLY ESTIMATES 1984-85

The Chief Secretary's annual Memorandum published today summarises particular aspects of the Supply Estimates. It includes:-

1. The Guide to Supply Estimates: This outlines the annual procedure by which most expenditure by government departments and certain related bodies is authorised by Parliament and describes the organisation and format of the Supply Estimates. It includes a glossary.

2. Tables summarising information in the main Estimates booklet:

Table 1a: a summary of the 1984-85 supply Estimates, which shows:
- All votes
- Which are cash limited
- Actual spend in respect of each vote in 1982-83
- Total provision, and expected spend from each vote in 1983-84
- Provision in Supply Estimates now published for 1984-85
- How this provision is divided between public expenditure and other expenditure.
  So far as possible, the figures for 1982-83 and 1983-84 reflect the vote structure of 1984-85.

Table 1b is a summary table, at class level, which allows a comparison between the Supply Estimates and the Public expenditure White Paper Cmnd 9143.

Table 1c and 1d set out the economic classification of Estimates, distinguishing those which form part of public expenditure.

Table 2 shows the provision made in Supply Estimates in 1983-84 and 1984-85 for pay and pension costs of central government departments, the armed forces, the national health service and other bodies classified as central government for the purposes of public expenditure.

Table 3 shows by department the staff numbers at 1 April 1984 and 1 April 1985 and pay costs provided for in 1984-85 main Estimates.

Table 4 provides a summary of receipts from the Funds of the European Community Institutions relevant to classes of Supply Estimates in 1984-85.

Table 5 shows the extent to which departments provide services to other departments without repayment or direct programme attribution, analysed by the main expenditure programmes which the services support.

3. An Index to the Supply Estimates.

4. Expected receipts by the Central Office of Information (COI) for information services supplied to departments are now shown in Part III of the COI Supply Estimate and the table on information services supplied in previous editions of this Memorandum has been discontinued.

NOTE:-

The expenditure figures shown against Class XII: Social Security assume that benefits will be uprated by $5\frac{1}{2}$ per cent in November, the same working assumption used in the public expenditure White Paper Cmnd 9143. The actual uprating will be based on the increase in prices in the 12 months ending in May 1984. Details of individual benefit rates will be announced in June when the May RPI is known.

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FRIENDLY SOCIETIES TAX EXEMPT LIMITS

The Economic Secretary to the Treasury, Mr Ian Stewart MP, has today told the Friendly Societies' Liaison Committee that the present limit on taxable life insurance business by Friendly Societies, £50,000 gross sums assured, will be increased to £60,000 from 1 May 1984.

2. The Chief Registrar of Friendly Societies will shortly, with the consent of the Treasury, make the requisite order under section 64(3) of the Friendly Societies Act 1974 to increase the limit on gross sums assured, and lay it before Parliament. The limit on annuities will be increased correspondingly from £5,000 to £6,000.

3. The letter which the Economic Secretary has sent to the Chairman of the Friendly Societies' Liaison Committee about this change, and the other Budget changes affecting friendly societies is attached as an Annex to this Press Notice.

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Note for Editors

Two other changes directly affecting friendly societies were announced in the Budget:-

(i) the ending of Life Insurance Premium Relief;

(ii) the ending of the special limit of £2,000 gross sums assured for tax exempt life assurance business for societies who only do such business, with a new limit of £750 applying to all societies.

2. The letter from the Economic Secretary annexed gives a fuller explanation of the changes.

3. Until 1966 Friendly Societies were subject to a limit of £500 on gross sums assured, but all business was tax-exempt. In that year separate limits were introduced for taxable business and tax-exempt business. The former limit, which is now essentially prudent in nature, has been increased progressively and is now £50,000 for gross sums assured (and £5,000, for annuities).

4. The increase of £60,000 for gross sums assured will enable societies who do taxable business to provide insurance policies to be associated with house purchase loans up to the current building societies' special advances limit of £60,000. There is a comparable increase in the limit for annuities to £6,000.

Treasury Chambers. Parliament Street. SW1P 3AG

P Madders Esq
Chairman
Friendly Societies Liaison Committee
Victoria House
Southampton Row
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WC1B 4DB

13th March 1984

Dear Mr. Madders,

1984 BUDGET AND FRIENDLY SOCIETIES

Since the Chancellor of the Exchequer was only able to refer briefly in his Budget speech to those aspects of his proposals particularly affecting friendly societies, I am writing to you to explain more fully the changes proposed and the reasons for them.

The general aim of the Budget measures as they affect financial institutions is to reduce differences in tax treatment which distort the operation of market forces. With the existing tax rules, this had been happening in two ways. First, the institutions themselves were taxed differently. And secondly, the individual's choice between different forms of saving was distorted by differences in the tax treatment of his investment. The Chancellor's proposals will bring greater parity of treatment. In particular, they will reduce the bias in favour of saving through the institutions, and against direct investment by the individual. This will make for a more efficient allocation of financial resources.

As the Chancellor explained one of the major fiscal distortions in relation to personal investment has been Life Assurance Premium Relief (LAPR). He accordingly decided that it should end. It will not be available for policies or contracts made after mid-night tonight, 13 March. Existing policies will not be affected unless the benefits secured are subsequently enhanced. This measure will, of course, apply equally to policies issued by friendly societies and by insurance companies.

The Finance Bill will provide for the complete withdrawal of the relief in respect of policies issued or enhanced from now on. But the change in the law relating to LAPR cannot have legal effect until the Finance Bill receives Royal Assent. If nothing were done in the meantime, strictly speaking societies would be obliged to allow LAPR deductions by their members in respect of new policies until Royal Assent. Two measures are being taken to deal with this situation. The Finance Bill will provide that if a policy holder does make LAPR deductions for a policy made after 13 March, the insurer will be entitled to reclaim such deduction as an additional premium after Royal Assent. Second, the Chief Registrar has made regulations which remove the entitlement to deduct LAPR in the case of those societies who have adopted the 'prescribed scheme' or an 'approved scheme'. This is explained more fully in the Note for Guidance which the Registry has prepared and which is being sent today to all friendly societies which have in the past claimed LAPR
... from the Inland Revenue. I enclose a copy.

The Chancellor has also decided to end the arrangement which has applied since 1975 whereby friendly societies which write only tax-exempt life assurance business can do so to a higher limit than those societies which also write taxable business. As you well know, the limits are currently £2,000 gross sum assured (or £416 for annuities) for the wholly tax-exempt societies and £500 (£104) for the others. The higher limit has led to exploitation. Organisations have been registered as friendly societies which bear little resemblance in their objectives and mode of operation to the traditional concepts of such societies, merely to take advantage of the tax exemption. They have marketed such policies aggressively. The higher limit has led to inequities between those traditional friendly societies who can take advantage of it and those who cannot. It has also led to inequities between societies who enjoy it and mutual insurance companies which are taxable.

Indeed, the full application of the general approach in the Budget would have pointed to complete withdrawal of the tax exemption for friendly societies, at least in respect of the life assurance business. However, the Chancellor recognises that a complete ending of this tax exemption could damage much of the traditional social role of the friendly societies, with little gain in terms of greater equality between methods of investment. He has accordingly decided that it would be right to retain a modest general limit below which all societies can provide benefits which are of a life assurance character, for example death benefits, without being taxable in respect of them. He has accordingly decided to increase the level of this general limit for tax-exempt business, which will now apply to all societies whether they do taxable business or not, from £500 to £750 with effect from midnight tonight. The increase is designed to recognise the particular characteristics of traditional friendly societies whilst reducing the fiscal inequality between different providers of life assurance business.

I have also reviewed with the Chief Registrar the limit on taxable business. We have agreed that the limit on taxable business should be increased from 1 May, 1984 to £60,000 from £50,000 for all societies. (There will be a comparable increase in the limit for annuities to £6,000 from £5,000.) This change will enable friendly societies to provide insurance policies to be associated with house purchase loans, up to the current building societies' special advances limit of £60,000.

To conclude, I recognise that many friendly societies will now need to reassess the future direction of their activities, as they will be losing some of the tax benefits which they have enjoyed. But LAPR was seriously distorting the pattern of the flow of savings in the economy. The higher limit for tax-exempt policies issued by friendly societies was being exploited in a way which was causing concern to many in the movement, as well as loss of revenue. Against this the retention of, and indeed the increase in, the general limit on tax-exempt business recognises the particular social role of the societies in providing benefits in ways and of kinds which are not normally available elsewhere. The increase in the limit on taxable life assurance business will also enable the societies which are, or will be, engaged in that type of business to expand it. There is also now a timetable for removing that limit on taxable business for societies which expect to be authorised under the Life Directive. The decisions now announced remove the growing uncertainties there had been about the future taxation of friendly society life assurance business and about the policy on limits on taxable business, and so provide a basis on which societies can plan their future development.

Yours sincerely

Ian Stewart

IAN STEWART

H. M. TREASURY

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13 March 1984

TAX CHANGES ANNOUNCED BEFORE BUDGET DAY

As he indicated in a written reply to a Parliamentary Question on 25 July 1983, the Chancellor proposes to include in this year's Finance Bill a number of measures which were dropped from the 1983 Finance Bill, or could not be added to it, as a result of the announcement of the General Election last summer and the dissolution of Parliament. Some other tax changes have been announced since the election. This press release lists all the topics concerned under the following headings:-

a. Measures dropped from the 1983 Finance Bill following the announcement of the General Election.

b. Proposals on which the Government had announced that new clauses would be added to the 1983 Bill.

c. New measures announced since the General Election and before the Budget.

These changes are taken into account in the Budget arithmetic and the direct revenue effects are included in Table 4.2 of the Financial Statement and Budget Report.

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PRESS ENQUIRIES:-

ON INLAND REVENUE TOPICS 01-438 6692 or 6706
ON CUSTOMS & EXCISE TOPICS 01-626 1515 Extensions 3004, 3030 or 3034

NOTES FOR EDITORS

1. The first 1983 Finance Bill, which was published on 30 March 1983, contained 98 clauses and 19 schedules. The Government subsequently announced that they intended to add a number of new clauses to it during its passage through the House of Commons. The Bill was, however, drastically shortened following the announcement of a General Election which also meant that there was no opportunity for publishing the proposed new clauses. In the event the Finance Act 1983, which received Royal Assent before the dissolution of Parliament, contained only 48 clauses and 10 schedules.

2. Some of the dropped provisions were re-introduced in the second (summer) Finance Bill. This received Royal Assent on 26 July and became the Finance (No.2) Act 1983.

3. An Oil Taxation Bill was introduced in the autumn to deal with those oil taxation provisions which had been dropped from the first 1983 Finance Bill. It was published on 26 October 1983 and received Royal Assent on 1 December.

4. In a Written Reply to a Parliamentary Question, the Chancellor announced on 25 July 1983 that those measures which had been dropped from the original 1983 Finance Bill and which were neither re-introduced in the summer Bill nor included in the Oil Taxation Bill, together with the measures which the Government had intended to add to the 1983 Bill during its passage through the House of Commons, would be included in the 1984 Finance Bill.

5. The Government has subsequently announced several other measures to be included in this year's Finance Bill.

6. This Press Release brings together in a single list all the outstanding proposals announced before the Budget which the Government intends to include in the 1984 Finance Bill.

SECTION A: MEASURES DROPPED FROM THE 1983 FINANCE BILL

ITEM	PROPOSED STARTING DATE	CLAUSE NO. IN ORIGINAL BILL	DESCRIPTION
VAT: refund of tax to Government Departments	Implemented on an extra-statutory basis from 1 September 1983	10	Enables the Treasury to direct the Commissioners of Customs and Excise to refund to Government Departments the VAT incurred on specified supplies acquired for non-business purposes.
VAT: conditions imposed on discretionary registration	Royal Assent 1984	11	Enables standard conditions imposed on the registration of certain businesses ("intending traders" not yet making taxable supplies) to be incorporated in regulations rather than being imposed individually.
Self-employed persons living in job related accommodation.	6 April 1983	20	Extends "job-related" relief for mortgage interest and capital gains tax to self-employed people who are buying a home of their own but who are under a contractual obligation to live in accommodation provided for them as part of the terms of their trade, profession or vocation.
Reliefs for share options	Various	29	The review announced by the Chancellor on 25 July 1983 has been completed. The proposals announced in the Budget are described in a separate IR Press Release of today's date.
Increase in limits for apportionment of income for close companies	1984-85	32	Raises to £1,000 the monetary limit below which close company income apportioned to an individual is not assessed to income tax.
Relief for discounts on bills of exchange	1 April 1983	33	Extends the circumstances in which tax relief is available to companies for discounts suffered on bills of exchange accepted by a bank after 1 April 1983. Relief will also be given for the incidental costs of raising such finance.
Relief for incidental costs of obtaining loan finance	1 April 1983	36	Extends tax relief to the incidental costs a company incurs in obtaining finance by means of convertible loan stock issues where conversion does not actually take place.

ITEM	PROPOSED STARTING DATE	CLAUSE NO. IN ORIGINAL BILL	DESCRIPTION
Trustee Savings Banks: treatment as bodies corporate	21 November 1982	37	Enables TSBs to obtain the benefit of certain tax reliefs available to companies.
Group relief	8 November 1983	38, 39	Deals with abuse of group relief involving disposals of assets before a company joins a new group. Revised draft clause and schedule published on 8 November 1983. On further consideration, and having regard to representations, the Government now propose a simpler, more straight-forward, approach to the problems. New draft clause being published today; details in a separate IR Press Release.
Stock Relief: houses taken in part exchange	15 March 1983	40	Allows house builders, in certain circumstances, to claim stock relief on second-hand houses accepted in part exchange for new houses. (Relief will end with the abolition of stock relief - see separate IR Press Release issued today.)
Carry back of surplus ACT	1 April 1984	41	Extends from 2 to 6 years the period over which companies are allowed to carry back and set against earlier years' liabilities "surplus" ACT which cannot be used against current liability - see separate IR Press Release of today's date.
Double taxation relief to be given before ACT	1 April 1984	42	Provides for credit for foreign tax to be set against corporation tax in in priority to ACT set-off.
Recovery of taxes in lower courts	Royal Assent 1984	43	Increases the limit placed on the recovery of tax in magistrates' courts.
Controlled foreign companies	6 April 1984	44-52	Introduces provisions on "controlled foreign companies" designed to counter companies using tax havens to avoid UK taxes. See IR Press Release of 31 October 1983.
CGT: withdrawal of outdated reliefs	6 April 1984	58 (part)	Abolishes the small gifts exemption and the facility for the payment of CGT by instalments.

ITEM	PROPOSED STARTING DATE	CLAUSE NO. IN ORIGINAL BILL	DESCRIPTION
CGT: monetary limits for reliefs	6 April 1983	58 (part)	Increases the limits of the reliefs which are available on the transfer of a business on retirement, on the letting of residential accommodation and on small part disposals of land.
CGT: foreign currency accounts	6 April 1983	60	Provides for gains arising on overseas bank accounts held by those who are resident but not domiciled in this country to be subject to tax only insofar as they are remitted to this country.
CGT: definition of "settlor" and "settlement"	6 April 1984	62	Provides definitions for purposes of capital gains tax settled property provisions. See IR Press Release of 31 January 1984. (Note: on 21 December 1983 the Financial Secretary announced that the Government no longer intended to proceed with the proposals contained in Clause 61 of the original Finance Bill).
CTT: special discretionary trusts	9 March 1982	67	Ensures that in calculating the rate of capital transfer tax on property leaving certain kinds of discretionary trust, allowance is made for any period during which the property was "excluded property".
CTT: property moving between settlements	15 March 1983	68	Provides that the rule that property which moves directly from one discretionary trust to another is treated as remaining in the first trust is not to apply in certain cases where a reversionary interest has been settled before 10 December 1981.
CTT: adjustment of tax	1 April 1983	71	Allows adjustments to be made to the amount of capital transfer tax charged on discretionary trusts if further information affecting the rate of tax comes to light following fraud, wilful default or neglect by the settlor of the trust.
CTT: Recovery of tax in lower Court	Royal Assent 1984	72	Allows proceedings for unpaid capital transfer tax to be taken in the Sheriff Courts; allows straightforward capital transfer tax cases to be taken by Inland Revenue staff other than Solicitors or barristers. (For other capital transfer tax measures, see separate IR Press Release of today's date.)
DLT: own use development	Continues relief which would otherwise expire on 1 April 1984.	89	Defers the charge on a deemed disposal which is made at any time (instead of before 1 April 1984 as at present) and is for the owner's own use, and extinguishes any deferred liability which has not become chargeable within 12 years of the start of the development.

ITEM	PROPOSED STARTING DATE	CLAUSE NO. IN ORIGINAL BILL	DESCRIPTION
DLT: non-resident vendors	6 August 1983	90	Improves the machinery for collecting development land tax when land in the United Kingdom is sold by a vendor who is not resident here.
DLT: payment by instalments	6 August 1983	91	Extends the period over which tax can be paid by instalments from 8 to 10 years and removes the facility to pay by half-yearly instalments. (For other development land tax measures, see separate IR Press Release of today's date.
Reform of the Special Commissioners	An appointed day after Royal Assent	95	General reforms of the Special Commissioners building on the provisions of the original 1983 Finance Bill.

SECTION B: PROPOSED NEW CLAUSES NOT PUBLISHED BEFORE THE DISSOLUTION OF PARLIAMENT

ITEM	PROPOSED STARTING DATE	DRAFT CLAUSES PUBLISHED	DESCRIPTION
Capital and Income Bonds	22 August 1983	22 August 1983	Stops a tax avoidance device involving a package of qualifying and non-qualifying life assurance policies. See IR Press Release dated 22 August 1983.
Pension Funds: transactions in financial futures	25 July 1983	13 December 1983	Exempts from tax pension funds' income or capital gains arising from transactions in financial futures. See IR Press Release dated 13 December 1983.
Furnished holiday lettings	6 April 1983	31 January 1984	Provides for furnished holiday letting businesses which satisfy certain conditions to qualify for some reliefs otherwise available only where the activity amounts to a trade for tax purposes. See IR Press Release dated 31 January 1984.
Interest on Eurobonds	Royal Assent 1984	13 December 1983	Allows companies to pay interest on Eurobonds without deduction of tax subject to certain conditions - see separate IR Press Release of today's date.
Deep Discount Securities	Issues after 13 March 1984	22 December 1983	Provides new rules for the tax treatment of securities issued by companies at a deep discount - see separate IR Press Release of today's date.

ITEM	PROPOSED STARTING DATE	DRAFT CLAUSES PUBLISHED	DESCRIPTION
CGT and non-resident trusts: postponement of tax	See Press Release of 31 January 1984	30 January 1984	Allows deferment of payment of capital gains tax, in certain circumstances, by beneficiaries of non-resident trusts. See IR Press Release dated 31 January 1984.
Freeports	Royal Assent 1984	-	Provides for freeports to be set up. The location of 6 experimental freeports were announced on 2 February 1984.

SECTION C: OTHER ITEMS WHICH THE GOVERNMENT HAS SUBSEQUENTLY ANNOUNCED WILL BE IN THE 1984 BILL

ITEM	PROPOSED STARTING DATE	DRAFT CLAUSES PUBLISHED	DESCRIPTION
Offshore and overseas funds	See Press Release of 22 February 1984	22 February 1984	Provides for certain gains on holdings in offshore and overseas funds to be taxed as income - see IR Press Releases of 17 November 1983 and 22 February 1984.
Offshore life assurance	17 November 1983	22 February 1984	Disqualifies offshore life assurance policies. Imposes basic rate (in addition to higher rate) tax on gains from offshore life and (with effect from 22 February 1984) offshore capital redemption policies - see IR Press Releases of 17 November 1983 and 22 February 1984.
Building Societies Time Deposits	1 October 1984	30 September 1983	Allows building societies to pay interest gross on time deposits (minimum £50,000) with a life of less than 12 months. See IR Press Release dated 30 September 1983.
Capital allowances: disposal of assets by British Gas Corporation	-	-	Provides, in certain circumstances, for assets transferred under the Oil & Gas (Enterprise) Act 1983 to be treated for capital allowance purposes as if owned throughout by transferee company. Announcement by Secretary of State for Energy on 25 October 1983.
Interest relief: employee buy-outs	6 April 1983	-	Relaxes test of "employee control" for purpose of relief for interest paid by employees on loans to buy shares in an employee-controlled company as part of an employee buy-out - see IR Press Release of 25 November 1983.

ITEM	PROPOSED STARTING DATE	DRAFT CLAUSES PUBLISHED	DESCRIPTION
Purchase of units in unit trusts	6 April 1984	-	Removes unintended income tax charge which can arise when employees acquire unit trust holdings by means of deduction from salary made by their employer - see IR Press Release dated 11 November 1983.
Benefits in kind: scholarships	(1) 15 March 1983	-	(1) Eases the transitional arrangements relating to scholarships awarded after 15 March 1983 and taken up before 6 April 1984.
	(2) 6 April 1984		(2) Introduces tighter rules on "fortuitous awards". See IR Press Release of 24 January 1984.
Stamp Duty: UK AEA	Effectively, Budget Day	-	Enables tenants buying their homes from UK AEA to pay stamp duty on the sale price net of any discount - see IR Press Release of 24 November 1983.
Capital allowances for cars leased to recipients of War Pensioners Mobility Supplement	21 November 1983	-	Provides for first year allowances to be available to lessors of cars to disabled recipients of War Pensioners Mobility Supplement. See Treasury Press Release of 7 December 1983. (Allowances will diminish with the general reduction in the rates of capital allowances announced in the Budget - see separate IR Press Release issued today.)
VED: exemption for recipients of War Pensioners Mobility Supplement	21 November 1983	-	Provides for exemption from Vehicle Excise Duty for recipients of War Pensioners Mobility Supplement. See Treasury Press Release of 7 December 1983.
CGT: Reform of market value rule	6 April 1983	-	Market value rule not to apply to acquisitions and disposals of assets by certain categories of taxpayers - see IR Press Release of 22 December 1983. Further details of the proposal are given in a separate IR Press Release of today's date.
Northern Ireland: Grant to repay corporation tax		-	Provides for certain Government grants in Northern Ireland to repay companies' corporation tax liabilities to be exempt from tax. Announced in a Written Reply to a Parliamentary Question on 25 July 1983.

ITEM	PROPOSED STARTING DATE	DRAFT CLAUSES PUBLISHED	DESCRIPTION
PRT and seasonal supply gas fields	Royal Assent 1984	-	Provides that a capacity charge will be treated for PRT as a payment for gas for the period in which it is received - see IR Press Release of 15 December 1983.
PRT: reliefs and farm-ins	14 September 1984	-	Withdraws certain PRT reliefs for past expenditure against mature fields in which the claimant or an associated company became a participator after the date the expenditure was incurred. See IR Press Release of 13 September 1983.
VAT and Car Tax: recovery of costs of distress or poinding	Royal Assent 1984	-	Makes it clear that Commissioners have powers to make regulations under VAT Act 1983 and Car Tax Act 1983 to recover costs incurred in levying distress or poinding. Announced in a Written Reply to a Parliamentary Question on 16 January 1984.
Gaming machine licence duty	1 October 1984	October 1983	Provides for changes in the administration of gaming machine licence duty.

In addition the Government have announced the intention to legislate, but not necessarily in 1984 Finance Bill, on one further item: VAT and supplies by overseas subsidiaries in the financial sector. See Customs and Excise Press Release of 27 October 1983.

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PLEASE NOTE EMBARGO

NOT FOR PUBLICATION, BROADCAST
OR USE ON CLUB TAPES BEFORE
15.30 ON WEDNESDAY 28 MARCH 1984

28 March 1984

ECONOMIC PROGRESS REPORT - BUDGET ISSUE

The latest issue of Economic Progress Report is published at 3.30 pm today. This is a joint March/April issue, consisting mainly of articles dealing with the Budget and associated matters. The articles are as follows:-

A radical, tax-reforming Budget (pages 1-4) describes the Budget strategy, giving the main points from the Chancellor's statement on 13 March, setting out the economic background to the Budget and putting the measures in the context of continuing Government policies.

The Budget measures (pages 4-8) describes the Budget tax changes in more detail. Table 4 on page 6 - How public spending is paid for - summarises the main figures on public spending, income and borrowing. Table 6 on page 8 - Proposed tax changes - sets out the effects of the main changes in terms of revenue.

Economic prospects to mid-1985 (pages 9-12). This is a slightly abridged version of the Industry Act Forecast (part 3 of the 1984-85 FSBR).

Taxation and public spending : looking ahead (page 13) is a summary of the main points of the Budget day Green Paper 'The Next Ten Years : Public Expenditure and Taxation into the 1990s'.

Revenues from the North Sea (pages 14-15) gives the latest projections of revenue and forecasts of output. The box on page 15 contains a previously unpublished note on estimated contributions of North Sea oil and gas to gross national product up to 1988.

Economic indicator charts appear on page 16, and a table on page 7.

60/84

Economic Progress Report

Published by the Treasury

No. 166 March-April 1984

A radical tax-reforming Budget

The Chancellor of the Exchequer, Mr Nigel Lawson, made his first Budget statement in the House of Commons on 13 March. This article describes the Budget strategy, giving the main points from the statement, setting out the economic background, and putting the main measures in the context of continuing government policies. The details of the tax measures are not given in this article but in the article beginning on page 4.

The Budget strategy

The Chancellor noted that the Budget would set the Government's course for this Parliament, and was based on policies which had been followed consistently since 1979. The Budget has two main themes: the further reduction of inflation, and a series of tax reforms designed to make the economy work better. The Chancellor described these as reforms to stimulate enterprise, set British business on the road to profitable expansion and help to create new jobs.

It contains a major restatement of the medium-term financial strategy (MTFS) extended to cover the five years to 1988-89. The MTFS sets out the approach for bringing inflation down through steady reduction in the rate of increase in the money supply, supported by firm control of public spending and a continuing decline in public borrowing (see page 2).

Table 1

Direct effects of tax changes

£ million at current prices

	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	−1,820	−1,470	−2,610
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	+1,200	+1,200	0	0
TOTAL	**− 40**	**− 300**	**−1,730**	**−2,280**

*Figures exclude public sector payments of £120 million in 1984-85 and £485 million in a full year. Public expenditure will be reduced accordingly.

NOTES: The figures in the table are estimates of the direct effects of the measures on public sector transactions; they are not estimates of the net effects of all the changes in public sector transactions, both direct and indirect.

The direct effects of tax changes are generally estimated by applying the new and old tax rates and allowances to the taxable income and expenditure in the economic forecast (see p. 9), in certain cases including estimates of the immediate effects of the change on taxpayers' behaviour. For instance the estimates of the Customs and Excise taxes allow for the changes in taxation resulting from both substitution by consumers between goods and the change in real incomes.

+/− indicates an increase/decrease in revenue.

BUDGET ISSUE

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The tax reforms will help to create a simpler, more efficient system, which will be more broadly based, with fewer special reliefs, but lower rates of tax. The tax changes include various measures to reduce discriminatory tax treatment of different types of saving and investment, a major reform of business taxation, including a phased restructuring of the main capital allowances in parallel with a progressive reduction in the main corporation tax rate and an immediate reduction in the rate for small businesses, abolition of stock relief*, the abolition of national insurance surcharge†, the raising of basic income tax allowances by more than twice the rate of inflation, and the broadening of the coverage of VAT.

Economic background

Inflation has fallen steadily since the 1980 peak of over 20 per cent, with retail prices in 1983 up only about 4½ per cent on 1982, the smallest increase since the 1960s. It is expected to remain low, edging down to about 4 per cent by the middle of 1985. Interest rates have come down.

*For periods of account beginning on or after Budget day.
†From October 1984.

Falling inflation and interest rates, the Chancellor said, had led to an economic recovery whose underlying strength was beyond dispute, springing from sound finance and honest money, and benefiting industry, business and consumer confidence alike. With growth of 3 per cent, Britain's economy grew faster than any other in the European Community in 1983. Three per cent growth was expected to continue this year.

Productivity has continued to improve rapidly. During 1983 productivity in manufacturing grew by 6 per cent, and unit labour costs are likely to show the smallest annual increase since the sixties, with consequent benefits for profitability. However, three of Britain's major competitors, the USA, Japan and West Germany, were yet more successful in keeping labour costs down. Job prospects would be considerably better if lower pay rises were to make a bigger contribution to our performance on costs.

The employed labour force went up by about 80,000 between March and September last year. The loss of jobs in manufacturing has slowed down, while jobs in services rose by approaching 200,000 in the first nine months of 1983.

Home demand has played a major part in the economic recovery. Personal consumption went up by over 3½ per cent in 1983, while fixed investment rose rather faster than consumption. Investment in housing and in services was especially strong. Investment overall is expected to rise by 6 per cent in 1984.

With world trade moving ahead, by the end of last year manufacturing exports had started to increase substantially. For 1984 total exports are expected to rise by 5 per cent and imports by 7 per cent, with the current account of the balance of payments forecast at a £2 billion surplus, as for 1983. Overseas prospects are better than for some time, with US output expected to grow strongly this year, and recovery spreading to the rest of the world.

The size and growth of the US budget deficit, and its effects pose risks for world economic progress. However, the Chancellor said that despite these risks there was a growing sense throughout the industrialised world that the recovery this time was one which could be sustained. The essential requirement was the continued pursuit of prudent monetary and fiscal policies.

THE MONETARY AGGREGATES

'Narrow' money

Narrow money refers to money balances which are readily available to finance current spending, that is to say for 'transactions purposes'.

M0 (target aggregate): Notes and coin held by the public and banks plus banks' holdings of cash (till money) plus banks' operational balances at the Bank of England (bankers' balances).

M2: Notes and coin plus UK private sector non-interest-bearing sterling sight deposits in UK banks plus interest-bearing deposits held by the private sector in UK banks and building societies for transactions purposes.

'Broad' money

Broad money refers to money held for transactions purposes and money held as a form of saving. It provides an indicator of the private sector's holdings of relatively liquid assets — assets which could be converted with relative ease and without capital loss into spending on goods and services.

Sterling M3 (£M3) (target aggregate): Notes and coin held by the public, plus all private sterling deposits (sight and time) held by UK residents in UK banks.

PSL2: Notes and coin held by the public, plus all sterling deposits with original maturity of up to two years held by the private sector in UK banks, plus private sector holdings of money market instruments (bank bills, Treasury bills, local authority deposits) and certificates of tax deposit, plus private sector holdings of building society deposits (excluding certificates, SAYE and other longer-term deposits), less building society holdings of money market instruments, bank deposits, and so on.

See also the *Bank of England Quarterly Bulletin,* December 1982, page 530, March 1983, page 78 and March 1984, page 79. Monthly figures for these aggregates are given in tables 6.4 and 11.1 of the Central Statistical Office's *Financial Statistics.*

The medium-term financial strategy

The Chancellor said in his statement that the MTFS would continue to be the cornerstone of monetary and fiscal policy. It provides a disciplined financial framework for the conduct of policy, and makes the Government's policy guidelines clear to industry and the financial markets. The aim is to keep monetary conditions consistent with a continuing downward trend in inflation. The MTFS figures are set out in tables 2 and 3.

Monetary policy

A continuing downward trend for monetary growth is projected over the next five years. The public sector borrowing requirement (PSBR) path takes account of important influences such as the pattern of revenues from North Sea oil and the level of sales of public assets in the privatisation programme, and provides for a further reduction of public borrowing as a proportion of gross domestic product (GDP). Adjustments to the indicative figures may be needed as circumstances change but, as in the past, these will not be allowed to affect the main thrust of the policy.

Table 2

Monetary growth ranges

% change during year

	1984-85	1985-86	1986-87	1987-88	1988-89
Narrow money — M0*	4-8	3-7	2-6	1-5	0-4
Broad money — £M3†	6-10	5-9	4-8	3-7	2-6

*Weekly averages
†Now excluding public sector deposits

Table 2 shows the monetary growth ranges. Those for 1984-85 are targets, applying to the annual rate of growth over the period from mid-February 1984 to mid-April 1985. Targets for the later years will be fixed nearer the time. Sterling M3, which includes all UK residents' sterling deposits with the banks, and is a measure of liquidity, continues to be the target aggregate used for 'broad' money. M0 (the 'wide' monetary base), which consists of notes and coin together with the banks' holdings of cash and working balances at the Bank of England, and is regarded as the most suitable measure of money used directly for transactions, will be the target aggregate for 'narrow' money. It replaces M1, which has become increasingly difficult to interpret owing to the growing proportion of interest-bearing acounts which it now contains.

Over the past two years, conditions have allowed a single range for broad and narrow money. In general, however, the narrow aggregates tend to move more slowly than the broad ones, and separate ranges are now considered more appropriate, especially as the period of the MTFS has been extended. Broad and narrow money will be of equal importance in the assessment of monetary conditions. The Government will also continue to pay attention to other measures of money, as well as more general evidence of financial conditions, including the exchange rate. (Definitions of the main monetary aggregates appear in the box above.)

In funding the borrowing requirement, National Savings will continue to be important. This year's target of £3 billion is likely to be reached. The target for next year will be held at £3 billion.

Public sector borrowing

Following the 1981 Budget the PSBR came down to about 3½ per cent of GDP in 1981-82 — well below the 5¼ per cent

Table 3

Public sector borrowing

£ billion, cash

	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
General government expenditure	132.4	139	146	152	157½	161½	166
General government receipts	122.1	128½	138½	146½	156½	164½	172
Fiscal adjustments from previous years*	—	—	—	—	2	6½	10
Annual fiscal adjustment*	—	—	—	2	4½	3½	3½
General government borrowing requirement	10.3	10½	8	7½	8	7	7
Public corporations' market and overseas borrowing	−1.1	−½	−½	−½	−1	—	—
PSBR†	**9.2**	**10**	**7**	**7**	**7**	**7**	**7**
as % of GDP	3.3	3¼	2¼	2	2	1¾	1¾
Money GDP at market prices§	281	304	328	350	371	392	412

*Means lower taxes or higher expenditure than assumed in lines 1 and 2.
†From 1984-85 onwards, the definition of the PSBR and its components excludes changes in public sector deposits and certain other short-term assets of a similar nature.
§Average measure.
Figures are rounded to nearest £½ billion.

average in the preceding two years. Since then it has fallen only slightly and is estimated at £10 billion, 3¼ per cent, for 1983-84. This is about £1¾ billion above what was intended at the time of the 1983 Budget, and would have been higher still had it not been for the measures taken to hold back the expenditure total in July 1983 (see *Economic Progress Report*, August 1983).

The Chancellor said it was necessary to secure a further marked fall in borrowing, so that interest rates could continue to decline as monetary growth slowed down. UK interest rates were influenced by US interest rates but this made it more, rather than less, necessary to curb domestic pressures and lessen the effect of high dollar interest rates. Last year's MTFS suggested a PSBR for 1984-85 of 2½ per cent of GDP, or about £8 billion. The Chancellor believed it would now be prudent to provide for a PSBR of 2¼ per cent of GDP, or £7¼ billion.

The Chancellor gave a warning in his Autumn Statement of 17 November 1983 (see *Economic Progress Report*, December 1983) that he might have to increase taxes slightly in this Budget, to secure a 1984-85 PSBR of £8 billion. The latest forecasts of more buoyant tax revenue in the coming year meant that he would now need no overall net increase in taxation. The measures announced in this Budget, which are broadly neutral in their effects on revenue in 1984-85, on the indexed base, will reduce tax next year by over £1.8 billion.

The MTFS suggests that there should be room to cut taxes in 1985-86 and later years of the MTFS period (see table 3), provided firm control of public spending is maintained. The actual scope for reductions will of course depend on the pace of improvement in economic performance over the period.

Public spending — long-term

The Government published on Budget day a Green Paper on the prospects for public spending and taxation over the next ten years. This is a Government contribution to the current debate about the level of public expenditure in the long term and its effects on the burden of taxation. It does not attempt decisions, but sets out a framework for discussion based on reasonable assumptions about economic growth and the course of public borrowing. The figures in the paper underline the need to keep firm control of spending in order to bring the burden of tax back to tolerable levels.

The Chancellor said in his statement that for too long public spending had been growing faster than the economy as a whole. As a result the tax burden had steadily increased and income tax had extended lower and lower down the wage scale. The Green Paper concludes that to avoid past problems, it is necessary for spending to fit the financial resources available, not the other way round. The burden of taxation will be reduced by the 1990s to the levels of the early 1970s only if public spending is kept broadly stable in real terms.

See page 13 for an account of the Green Paper.

Tax changes

The wide ranging tax changes announced by the Chancellor represent a major set of reforms leading to improved economic performance and a fairer, simpler tax system — affecting taxation of savings and investment, of business, and of personal income and spending. For details of the individual measures see the article beginning on page 4.

The tax changes the Chancellor is making are broadly neutral in revenue terms in 1984-85, when calculated from an indexed base, in which 1983-84 excise duty rates and the main personal income tax thresholds and allowances are increased in line with retail price inflation over the previous year (5.3 per cent). But because the economic effect of the changes builds up slowly, and the change in VAT on imports only affects revenue in the first year, in 1985-86 the changes will *reduce* taxation by well over £1¾ billion. Table 1 sets out the effects on revenue in 1984-85 and in a full year on both the indexed and non-indexed bases. There may be scope for further tax cuts in later Budgets, providing public expenditure can be held broadly flat in real terms (see table 3).

Savings and investment

The Budget proposals in this context are aimed at improving the direction and quality of both savings and investment and increasing competition in the financial sector. The Chancellor said they would contribute further to the creation of a property-owning and share-owning democracy, in which more decisions are made by individuals than by institutions.

These measures include the withdrawal of life assurance premium relief for contracts made after Budget day, removing a bias towards investment via institutions rather than directly by individuals; the abolition of the investment income surcharge, removing another discrimination against individual savings and investment; the halving of stamp duty on house purchase and share transactions; and the introduction of a composite tax rate for bank interest, providing more equal treatment of banks and building societies.

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Income tax

On personal tax the Chancellor said that the right course for this coming year was 'to use every penny I have in hand, within the framework of a revenue-neutral Budget, to lift the level of the basic tax thresholds . . . . It makes very little sense to be collecting income tax from people who are at the same time receiving means-tested benefits. Moreover low tax thresholds worsen the poverty and unemployment traps, so that there is little, if any, financial incentive to find a better job, or even any job at all.

This is the third successive Budget making real increases in the basic personal income tax allowances. In 1984-85 these will now be 16 per cent higher in real terms than they were in 1978-79. The real increases in 1982 to 1984 more than make up for the ground lost when there was no indexation in 1981.

Business taxation

The proposed changes in corporation tax constitute a major programme of reform, phased over a period of years, in which first year and initial capital allowances for plant and machinery and industrial building are to be abolished and corporation tax rates substantially reduced (to 35 per cent eventually for the main rate and 30 per cent with immediate effect for the small companies rate). Stock relief and the national insurance surcharge (NIS) are also to be abolished and there are improvements in the tax treatment of share option schemes.

The Budget measures directly affecting business will reduce its tax burden, taking 1984-85 and 1985-86 together, by about £900 million. In 1984-85, when the overall effect of the Budget is expected to be broadly neutral in revenue terms, business will pay up to £500 million more tax, compared with an indexed base. However, this will be outweighed in the succeeding year by a gain of about £1,400 million. The measures referred to here include the changes in corporation tax and the abolition of NIS, together with the North Sea tax changes, earlier payments of VAT on imports from next October and the halving of stamp duty.

The broad aim of the corporation tax measures is to reduce the tax bite on profits and reduce discrimination in the system between capital and labour, between different kinds of investment, and between borrowing and equity financing.

Reduction of the tax subsidy on certain types of capital investment is expected to stimulate more productive investment, which will bring the economy a higher rate of return, and combined with the removal of NIS, should encourage employment. Once the series of changes concerning corporation tax is fully implemented, British rates of capital allowances for most plant and machinery will be comparable with those in most other countries, while the rate of tax will be lower. Higher profits after tax will leave room for current expenditure on innovation in all its forms.

Stock relief was introduced as a rough and ready measure to counter the impact of high inflation. Its value and the need for it have declined with the fall in inflation. The effect of withdrawing it is more than offset by the other measure affecting business.

In the early years of transition, as the changes to business tax come into effect, there will be some losers among individual businesses though the majority will benefit. But when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay.

The Budget measures

This article describes the Budget measures in more detail. The main proposed tax changes and their forecast revenue effects are set out in table 6 on page 8. Forecasts of public sector receipts, expenditure and borrowing for 1984-85, and estimates for the current year are in table 4 on page 6. All changes are subject to Parliamentary approval.

A series of radical tax reform measures are introduced in the Budget. Substantial changes are made in the areas of both business taxation (see box on page 5) and the taxation of savings and investment (see box on page 7). In addition there are large increases in the main income tax allowances. The aim of these changes is to improve overall economic performance while at the same time making life simpler for the taxpayer.

The reforms, particularly those on business taxation, are designed to take effect over a number of years. They will significantly reduce the overall burden of tax. The medium-term financial strategy indicates that there should also be scope for further reductions in tax in subsequent Budgets if firm control of public expenditure is reinforced.

Income tax

Income tax relief is concentrated on the raising of thresholds. The main personal allowances — married and single — will be increased by about 12½ per cent, more than double the statutory indexation requirement of 5.3 per cent (the increase in the RPI between December 1982 and December 1983). The single person's allowance will be increased by £220 from £1,785 to £2,005 and the married allowance by £360 from £2,795 to £3,155.

This is the third successive year in which there has been a real increase in basic personal allowances. A further step has thus been taken toward the long-term objective of raising tax thresholds to more sensible levels. As a result work incentives will be improved and the poverty and unemployment traps will be reduced. Altogether more than 850,000 fewer people will pay tax in 1984-85 than if thresholds had remained at present levels. Weekly tax reductions for a basic rate taxpayer will be £2.08 for a married couple (new threshold of £60.67) and £1.27 for a single person (new threshold of £38.56).

Other allowances and thresholds are increased in line with the statutory 5.3 per cent requirement. The single age allowance will rise from £2,360 to £2,490 and the married age allowance from £3,755 to £3,955. The first higher rate of 40 per cent will apply when income reaches £15,401 a year and the top rate of 60 per cent to taxable income of over £38,100.

The changes will be seen in pay packets on the first pay day after 10 May, backdated to 6 April.

Table 1 shows the proposed increases for 1984-85 compared with 1983-84 in personal allowances, the age allowances, and the additional personal allowance. The increases in higher rate thresholds and bands for 1984-85 compared with 1983-84 are shown in table 2.

Table 1

THE MAIN ALLOWANCES

	84-85	83-84	Increase over 83-84		Increase over indexation
	£	£	£	%	£
Married man	3,155	2,795	360	12.9	210
Single (& wife's earned income)	2,005	1,785	220	12.3	120
Additional personal and widow's bereavement	1,150	1,010	140	13.9	90
Age, married man	3,955	3,755	200	5.3	—
Age, single	2,490	2,360	130	5.5	—
Age, income limit	8,100	7,600	500	6.6	—

Table 2

HIGHER RATE THRESHOLDS AND BANDS

Band	84-85	83-84	Increase in threshold	
%	£	£	£	%
40	15,401-18,200	14,601-17,200	800	5.5
45	18,201-23,100	17,201-21,800	1,000	5.8
50	23,101-30,600	21,801-28,900	1,300	6.0
55	30,601-38,100	28,901-36,000	1,700	5.9
60	over 38,100	over 36,000	2,100	5.8

Business taxation

A major reform of the structure of company taxation is being undertaken. As a result over the next two years there will be a significant reduction in the burden of taxation borne by industry. Corporation tax will be substantially reduced overall while at the same time many reliefs and allowances are being phased out.

Corporation tax

Corporation tax rates will be reduced on a phased annual basis starting with a 2 per cent cut in the main rate from 52 per cent to 50 per cent for profits earned in 1983-84. The rate will be cut further to 45 per cent for 1984-85 profits, to 40 per cent for 1985-86 profits, and for profits earned in 1986-87, 35 per cent. All these changes will be included in this year's Finance Bill.

Small companies' rate

The great majority of companies do not pay the main corporation tax rate but the small companies rate. This rate is reduced from 38 per cent to 30 per cent for profits earned in 1983-84 and after.

Current rates of corporation tax are seen as too high, penalising profit and success and blunting enterprise. The substantial cuts in this tax are aimed at improving efficiency and the fixing of rates for the years ahead will aid future business planning.

Special reliefs

Special reliefs will be phased out. Many of the reliefs reflect economic circumstances which no longer apply and now distort investment decisions and financial choices. With inflation down to 5 per cent and set to go lower the time seems right to review reliefs.

Stock relief

Stock relief will be abolished with effect from 13 March. The relief was introduced to help businesses cope with high inflation which they no longer face.

Capital allowances

Tax incentives for investment are considered to have encouraged projects with low or even negative pre-tax profitability so that the quality of investment has suffered and uneconomic investment has been supported at the expense of jobs.

The incentives† for plant and machinery and industrial building will be reduced in three annual stages. After 13 March 1984 the first-year allowances for plant and machinery will be reduced from 100 per cent to 75 per cent and to 50 per cent after 31 March 1985. After 31 March 1986 there will be no first-year allowance and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent reducing balance basis.

For industrial buildings, initial allowances will fall from 75 per cent to 50 per cent from 13 March 1984 and be reduced to 25 per cent from 31 March 1985. After 31 March 1986 the initial allowance will be abolished and expenditure written off on an annual 4 per cent straight-line basis.

These changes in the rates of allowances will not apply to payments under binding contracts entered into on or before 13 March 1984 provided that the expenditure is incurred within the next three years.

The above measures should in the short term bring some investment forward over the next two years to take advantage of the benefit of higher capital allowances. The underlying effect, however, should be to encourage genuinely profitable ventures and discourage uneconomic investment.

Other business measures

●**National insurance surcharge** — will be abolished as from 1 October 1984. This will save private sector employers almost £350 million in 1984-85 and getting on for £1 billion in 1985-86.

●**VAT** registration threshold for small business is increased from £18,000 to £18,700.

●**Business expansion scheme** (introduced in 1983 Budget) is designed to encourage equity investment in new or expanding high risk companies. Companies which own farm land do not fall into this category. In future, such companies will not be eligible.

Share options

●**Share options** generally will, subject to certain conditions, be taken out of income tax, leaving any gain to be charged to capital gains tax when the shares are disposed of. This will apply to options granted from 6 April. The monthly limit on contributions to savings-related share option schemes is increased from £50 to £100. Tax free limits under the concession on long service awards will be doubled, and extended to cover the gift of shares.

●**Corporate borrowing** — the new arrangements for deep discount stock and the reliefs for companies issuing eurobonds and convertible loan stock, which were announced but not enacted last year, are going ahead. Most corporate loan stock held for more than one year will be exempt from capital gains tax. This will make the tax treatment of private sector borrowing in the corporation finance market virtually the same as for government borrowing in the gilt edged market.

●**North Sea oil tax** — the main business tax changes reduce the marginal rate of tax on existing North Sea fields from 89.5 per cent to 85.8 per cent. The tax position of additional investments in existing fields will be reviewed with any resulting changes backdated to Budget day. Two measures are being taken to prevent unjustified loss of tax in the North Sea. The petroleum revenue tax (PRT) and corporation tax cost of farmouts will be curtailed. And the provision allowing advance corporation tax to be repaid where corporation tax is reduced by PRT will be abolished.

†Capital allowances take the place of depreciation in commercial accounts. The main capital allowances are given for corporation tax purposes as reductions in computing the taxable income of the trade.

The investment income surcharge is to be abolished (see 'saving and investment' box on page 7).

Other personal tax changes:

Company car and car fuel benefits — scales which determine the cash equivalent of these benefits will be increased by 10 per cent for 1985-86.

Foreign earnings relief — those working abroad for 30 or more days a year will have the tax free portion of their salaries and profits reduced from 25 per cent to 12½ per cent in 1984-85 and thereafter the relief will be withdrawn.

The 50 per cent relief, reducing to 25 per cent after nine years, for foreign employees working for foreign employers in this country will be removed for all newcomers. For existing claimants the 25 per cent relief will be withdrawn from 6 April and the 50 per cent relief phased out over the five years to 5 April 1989.

Capital gains tax — The exempt amount for individuals is increased in line with statutory indexation from £5,300 to £5,600. The limit for retirement relief is doubled to £100,000 backdated to April 1983.

Social security — Following legislation last year to return to the historic method of uprating benefits by reference to the retail prices index of the previous May there is no announcement of new rates in the Budget. The Secretary of State for Health and Social Security will announce new rates of social security benefits in June.

VAT — There is no increase in the 15 per cent VAT rate but the base of the tax will be broadened to raise extra revenue to help ease the direct tax burden. Two areas that have previously been zero-rated will now have VAT charged on them:

Table 3

EFFECT OF CHANGES IN DUTY RATES

(All except VED include 15% VAT)

Spirits duty	+10p on a bottle of whisky
Beer duty	+2p on a pint of beer of average strength
Wine duty	−18p on a bottle of table wine
Fortified wine duty	+10p on a bottle of sherry
Cider duty	+3p on a pint of cider
Petrol duty	+4½p on a gallon of petrol
Derv duty	+3½p on a gallon of derv
Tobacco duty	+10p on a packet of 20 cigarettes
Vehicle excise duty	+£5 on a car licence

●**Alterations to existing buildings and civil engineering works** — To allow reasonable time for existing commitments to be completed this change will be deferred until 1 June. It will also apply to buildings such as garden sheds and garages. It will not apply to new buildings generally.

●**Hot take-away food and drink** — This brings take-away food in line with restaurant food and a range of other items such as ice cream and soft drinks, with which it competes.

The payment of VAT on imports is brought into line with the system generally used by our main competitors in the European Community. VAT will now be payable either at the ports or on the same deferred basis as customs payments within about a month of importation. This will come into force from 1 October. At present VAT is only payable on sale, giving importers on average three months' free credit at the taxpayer's expense whereas purchasers from domestic suppliers have to finance VAT themselves. This has put UK industry at a competitive disadvantage to our European partners but it will now be able to trade on an equal footing. The UK system does have advantages and the EEC Commission has proposed that it will be adopted by the Community. If this is agreed the UK will be prepared to revert to the original method of collection of VAT on imports.

Alcohol and tobacco

Following a European Court of Justice ruling, the Government have altered the balance of taxation between beer and wine. The adjustment made is the minimum needed to comply with the judgment and maintain revenue. This will mean a 2p increase on a pint of beer and an 18p reduction on a bottle of wine (including the consequent increase in VAT). Cider, which competes with beer but attracts a lower duty, will go up by 3p a pint. Spirits, sherry and port and sparkling wine will rise by about 10p a bottle. Overall these changes will produce about the same extra revenue as raising duties in line with prices.

In order to raise revenue, and in the light of representations made to the Chancellor on health grounds, tobacco duty increases will put 10p on a packet of 20 cigarettes with similar increases for cigars and hand rolling tobacco. The duty on pipe tobacco is not increased.

Petrol and derv

Taxes on petrol and derv increase pump prices by 4½p and 3½ respectively. Duty on kerosene, used by many pensioners in paraffin stoves and in domestic central heating, is abolished.

Vehicle excise duty

Vehicle excise duty on cars and light vehicles is raised by £5 to £90. Duty will be decreased by 9-13 per cent for the lightest lorries. There will be no duty increases for 12-13 tonne lorries and a 7 to 9 per cent increase for heavier lorries.

Table 4

HOW PUBLIC SPENDING IS PAID FOR

£ billion

Income	1983-84 Budget forecast	1983-84 Latest estimate	1984-85 Forecast
Central government taxation			
Income tax	31.4	31.3	33.8
Value added tax	15.5	15.3	18.0
Corporation tax	6.2	6.0	8.4
Oil duties	5.7	5.6	6.1
Petroleum revenue tax	5.2	6.1	6.0
Spirits, beer, wine, cider and perry	3.9	3.9	4.0
Tobacco	3.7	3.8	4.1
Vehicle excise duty	1.9	2.0	2.1
National insurance surcharge	1.7	1.7	0.9
Taxes on capital	1.5	1.6	1.7
European Community duties	1.4	1.3	1.4
Other (including accruals adjustments)	3.3	3.9	2.9
Total	**81.5**	**82.5**	**89.4**
National insurance, etc. contributions	21.2	21.4	23.0
Local authorities rates	13.0	12.1	12.9
North Sea oil royalties, etc.	1.6	1.9	2.0
General government trading surplus and rent	3.3	3.1	3.0
General government interest and dividend receipts	2.3	2.2	2.4
Adjustments			
Accruals	—	− 0.2	0.6
Public corporations transactions*	3.4	3.7	3.5
Other†	− 0.5	− 0.8	− 1.8
Total receipts	**125.9**	**126.1**	**135.1**
Public sector borrowing requirement	8.2	10.0	7.2
Total receipts and borrowing	**134.1**	**136.0**	**142.3**

Expenditure	1983-84 Budget forecast	1983-84 Latest estimate	1984-85 Forecast
Social security	34.6	35.3	37.2
Defence	16.0	15.7	17.0
Health and personal social services	14.6	14.7	15.4
Education and science	12.6	13.4	13.1
Scotland	6.7	6.8	6.9
Industry, energy, trade and employment	6.2	6.1	5.6
Law, order and protective services	4.6	4.7	4.9
Transport	4.4	4.6	4.4
Northern Ireland	3.8	3.8	4.0
Other environmental services	3.5	3.8	3.5
Housing	2.8	2.8	2.5
Wales	2.5	2.6	2.6
Overseas services	2.0	2.3	2.3
Agriculture, fisheries, food and forestry	1.8	2.1	2.0
Other public services	1.7	1.7	1.8
Common services	1.0	1.0	1.1
Arts and libraries	0.6	0.6	0.6
Local authority current expenditure not allocated to programmes (England)	0.9	—	0.7
Adjustments			
Special sales of assets	− 0.8	− 1.2	− 1.9
Reserve	1.1	0.1	2.8
General allowance for shortfall	− 1.2	− 0.3	—
Planning total in Cmnd 9143 (§)	**119.3**	**120.3**	**126.4**
Revisions since Cmnd 9143	—	—	− 0.1
Revised planning total	**119.3**	**120.3**	**126.2**
Gross debt interest	14.8	15.7	16.0
Planning total plus gross debt interest	**134.1**	**136.0**	**142.3**

*Comprises total interest payments by nationalised industries (and other public corporations treated similarly for public expenditure planning) and the trading income of the remaining corporations.

†Comprises other miscellaneous receipts and adjustments from the definition of public expenditure used in the national income accounts to that used in Cmnd. 9143.

§Figures in the first column are from table 5.5 in the *Financial Statement and Budget Report 1983-84* translated from Cmnd 8789 to Cmnd 9143 definitions.

Saving and investment

Changes in the taxation of personal savings and investment are designed to simplify the existing tax regime and to encourage property and share ownership by individuals.

Stamp duty is halved from 2 per cent to 1 per cent in respect of both land and building and share transactions. The threshold at which duty is paid on house sales is raised from £25,000 to £30,000. There is now one flat rate of 1 per cent.

The cut in the cost of buying shares aims to encourage share ownership, reduce the cost of raising new equity finance and help to maintain the international competitiveness of the UK stock market.

The reduction in the cost of home buying will make it easier for people to move house to new jobs. Raising the threshold will mean that 90 per cent of first-time buyers will not now be liable for stamp duty.

Investment income

Investment income surcharge is abolished. This removes an element of discrimination against direct savings and investment which bore particularly heavily on pensioners. In most cases it was a tax on savings which had been made out of hard-earned and fully taxed income.

Life assurance

Life assurance premium relief is abolished for contracts after 13 March. The relief continues, at 15 per cent, on earlier contracts. This relief has favoured institutional rather than direct investment and encouraged a multiplicity of tax management schemes. Greater freedom of choice will now be given to investors by removing a financial distortion in favour of life policies. The change will only apply to new or newly enhanced policies.
policies.

Bank interest

A composite tax rate for bank interest is introduced. This requires the banks to pay tax at a special rate to the Inland Revenue and allows the depositors to receive credit for income tax paid at the full basic rate. The change will simplify the position of most taxpayers since the tax liability is accounted for at source. It brings the tax treatment of banks and building societies closer together and allows them to compete on more equal terms in the market for personal deposits. It will enable the Inland Revenue to make staff savings of up to 1,000 civil servants.

Under the composite rate scheme tax is not reclaimable by non-taxpayers, but they will be able to continue to receive interest gross should they so wish to by putting money into National Savings.

Higher-rate tax payers will still be liable for the higher rates, although their basic rate liability will be met under the composite rate. The scheme does not apply to non-residents, nor to corporate or other non-individual depositors.

Capital transfer tax

Capital transfer tax — the highest rate of 75 per cent is reduced to 60 per cent and the rate for lifetime gifts lowered to half the rate for deaths, across the whole scale. This will be of particular help to those running family businesses not quoted on the Stock Exchange. Details of the new rates are shown in table 5.

Table 5 **CAPITAL TRANSFER TAX — NEW SCHEDULES**

Band of chargeable value: *£'000*	Rate on death %	Lifetime rate %
0- 64	Nil	Nil
64- 85	30	15
85-116	35	17½
116-148	40	20
148-185	45	22½
185-232	50	25
232-285	55	27½
over 285	60	30

Development land tax

Development land tax — the threshold is increased by £25,000 from £50,000 to £75,000. This will reduce the numbers affected by the tax by more than one third.

Economic indicators[1]

(seasonally adjusted)

PUBLISHED MONTHLY (months or monthly averages)	Unit	1981	1982	1983	1983 Q3	1983 Q4	1983 Dec	1984 Jan	1984 Feb	
1 Output of production industries	1980=100	96.3	98.0	100.6	101.3	102.1	102.9	103.6	—	1
2 Unemployment (excl. school-leavers)[2]	000s	2,413.1	2,793.2	2,970.2	—	—	2,946.1	2,976.0	3,004.6	2
3 " " " "	% of all employees	10.0	11.7	12.4	—	—	12.3	12.5	12.6	3
4 Retail sales (volume)[3]	1980=100	100.4	102.5	107.8	108.2	110.3	111.0	107.7	108.9	4
5 Exports f.o.b.[4]	£m	50,977	55,545	60,685	14,903	16,332	5,886	5,224	—	5
6 Imports f.o.b.[4]	£m	47,969	53,427	61,639	14,936	15,346	5,391	5,563	—	6
7 Balance of payments current balance	£m	+6,547	+5,378	+2,016	+603	+803	+568	−129	—	7
8 £'s effective exchange rate (average for month)	1975=100	90.7	85.4	82.5	—	—	82.5	81.9	82.2	8
9 Official reserves[5] (end of period)	$m	23,347	16,997	17,817	17,902	17,817	17,817	17,773	17,983	9
10 Retail prices[5]	Jan 1974=100	295.0	320.4	335.1	—	—	342.8	342.6	344.0	10
11 Tax and price index[5]	Jan 1978=100	152.5	167.4	178.0	—	—	178.0	177.9	178.8	11
12 Average earnings (whole economy)[3]	Jan 1980=100	125.8	137.6	149.2	150.4	152.5	153.4	154.7	—	12
13 Monetary growth to mid-February (per cent changes)		**Feb banking month**		**3-month annual rate**		**6-month annual rate**		**last 12 months**		13
M1 (per cent changes		+0.7		+ 8.4		+ 8.2		+11.1		
£M3		negligible		+ 7.9		+ 7.1		+ 9.7		
PSL2		+1.2		+13.9		+10.1		+12.3		

PUBLISHED QUARTERLY	Unit	1982	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 Q4	
1 Output (gdp) at constant factor cost	1980=100	99.3	99.2	99.7	99.9	100.7	100.7	101.9	102.4	1
2 Manufacturing industry's fixed capital expenditure	£m 1980 prices	4,458	1,107	1,092	1,122	1,034	1,068	1,070	1,114	2
3 Consumers' expenditure	£m 1980 prices	139,552	34,596	35,663	35,658	35,473	36,055	36,395	36,681	3
4 Balance of payments, current balance	£m	+578	+1,027	+1,237	+2,180	+1,094	−37	+653	+339	4
5 Balance of payments on invisible account	£m	+2,549	+816	+649	+1,066	+891	+423	+401	+334	5

1. Many of the most recent figures are provisional and may be subject to revision. 2. Figures on the new claimant basis (see *Economic Progress Report,* December 1982). 3. Excluding Northern Ireland. 4. Visible trade (balance of payments basis). 5. Not seasonally adjusted.

Table 6

PROPOSED TAX CHANGES

This table lists some main tax changes proposed and their forecast effects on revenue

	Forecast for 1984-85	Forecast for a full year
	£ million	
INLAND REVENUE		
Income tax		
Increase in single allowance of £220 and married allowance of £360	−1,615	−1,990
Increase in additional personal allowance and widow's bereavement allowance of £140	−20	−20
Increase in age allowance of £130 (single) and £200 (married) and income limit of £500	−80	−100
Increase in basic rate limit of £800 to £15,400	−45	−75
Increase in further higher rate thresholds	−35	−65
Abolition of investment income surcharge	−25	−360
Abolition of life assurance premium relief for new policies	+90	+180
Fringe benefits — car and car fuel scales	Nil	+35
Withdrawal of relief from foreign earnings	+15	+60
Withdrawal of relief from foreign emoluments	+7	+15
Income tax and corporation tax		
Abolition of stock relief	Nil	+900
Reduction in rate of first-year allowance for machinery and plant	Nil	+375
Reduction in rate of initial allowance for industrial buildings and assured tenancies	Nil	+15
Offshore and overseas funds*	Negligible	+60
Income tax, corporation tax and capital gains tax		
Reliefs for furnished holiday lettings*	−2	−5
Deep discount securities*	Negligible	−15
Corporation tax		
Reduction in main rate for financial year 1983	−190	− 330
Reduction in main rate for financial year 1984	Nil	−1,050
Reduction in main rate for financial years 1985 and 1986	Nil	
Reduction in 'small companies' rate	−90	−160
Extension of carry-back period for advance corporation tax	−1	−30
Extension of consortium relief	Negligible	−10
Oil taxation		
Abolition of ACT repayments	+100	+150
New rules for farm-outs and minor changes	Nil	+35
Capital gains tax		
Indexation of annual exempt amount	Nil	−15
Increase in limit for retirement relief*	−4	−10
Development land tax		
Increase in annual exempt amount	−1	−9
Capital transfer tax		
Increase in thresholds and changes in bands	−19	−49
Stamp duty		
Reduction in rates and increase in threshold	−450	−460
TOTAL INLAND REVENUE†	**−2,375**	**−2,925**
CUSTOMS AND EXCISE		
Value added tax		
Withdrawal of certain zero-rates	+375	+650
Withdrawal of postponed accounting for imports	+1,200	Nil
Excise duties		
Increases in rates of duty on light oil, etc.	+225	+225
Increase in rate of duty on heavy oil for use in road vehicles	+45	+45
Removal of duty on kerosene	−5	−5
Increases in rates of tobacco products duties	+330	+340
Increase in rate of spirits duty	+10	+10
Increases in rates of beer duties	+175	+180
Changes in rates of wine and made-wine duties	−60	−60
Increase in rate of duty on cider and perry	+15	+15
Changes in gaming licence and gaming machine licence duties	−5	+5
TOTAL CUSTOMS AND EXCISE†	**+2,305**	**+1,405**
Vehicle excise duty		
Changes in rates of duty	+110	+110
National insurance surcharge		
Abolition	−335	−865
Other		
Bus fuel grants	−5	−5
TOTAL CHANGES IN TAXATION †	**−300**	**−2,280**

Note: This table is an abbreviated version of table 4.2 in the *Financial Statement and Budget Report,* published on Budget day, where full details can be found, including numerous explanatory footnotes.
*Announced before Budget day.
†Columns do not add up to totals because many detailed tax changes are not included in this abbreviated table.

Economic prospects to mid-1985 (the Industry Act forecast)

This article is a slightly abridged version of part 3 of the 1984-85 ***Financial Statement and Budget Report.***

SUMMARY OF THE FORECAST

Recent developments

Activity in total has been rising since the first half of 1981. The 3 per cent growth rate estimated for 1983 was sufficient to bring about some recovery in employment but not, so far, a fall in unemployment. There was a further fall in inflation and rise in profitability in 1983, despite slightly faster growth in import prices.

Assumptions

This forecast of the UK economy to mid-1985 is based on the monetary and fiscal policies specified in the medium-term financial strategy (MTFS) (see page 2). The effective exchange rate is assumed not to change. These assumptions are consistent with a rise in money GDP of 8 per cent in 1984.

Inflation

Inflation rates have again fallen more quickly than generally expected. Competitive pressures at home and abroad have continued to exert a strong downward influence on prices and costs. A slow downward trend in UK inflation is expected, with retail prices index (RPI) growth forecast at 4½ per cent at the end of 1984 and 4 per cent by mid-1985.

Output

The growth in real GDP is forecast to continue at 3 per cent in 1984, with growth of exports and company spending, especially fixed investment, outpacing a further rise in consumer spending. The growth in domestic demand reflects mainly rises in real income for both the personal and company sectors. Employment should continue to rise.

World economy

Output is now rising again in the main industrialised countries, led by the USA. 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.

Balance of payments

With the UK economy and other major economies expected to expand together, and with no major changes forecast for commodity prices, the balance of payments should remain in surplus. A growing contribution is expected from trade in services and from income accruing from the build-up of overseas assets.

Table 1

Short-term economic prospects

	Forecasts	Average errors from past forecasts*
A. Output and expenditure at constant 1980 prices		
Per cent changes between 1983 and 1984:		
Gross domestic product (at factor cost)	3	1
Consumers' expenditure	3	1
General government consumption	0	1½
Fixed investment	6½	2½
Exports of goods and services	5	2½
Imports of goods and services	7	2½
Change in stockbuilding (as per cent of level of GDP)	½	¾
B. Balance of payments on current account		
£ billion:		
1983	2	—
1984	2	2½
1985 first half (at an annual rate)	1	4
C. Public sector borrowing requirement (PSBR)		
£ billion (in brackets per cent of GDP at market prices):		
Financial year 1983-84	10(3¼)	1(¼)
Financial year 1984-85	7¼(2¼)	4½(1½)
D. Retail prices index (RPI)		
Per cent change:		
Fourth quarter 1983 to fourth quarter 1984	4½	2
Second quarter 1984 to second quarter 1985	4	4

*The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications and government forecasts (see *Economic Progress Report,* June 1981). The calculations for the constant price variables are derived from forecasts made during the period between June 1965 and October 1981. For the current balance and the retail prices index, forecasts made between June 1970 and October 1981 are used. For the PSBR, Budget forecasts since 1967 are used. The errors are after adjustment for the effects of major changes in fiscal policy where excluded from the forecasts.

Risks and uncertainties

No forecast is complete without an indication of error margins. Table 1 sets out the average errors from past forecasts, alongside the forecasts themselves. These average errors provide the best indication of possible errors in the current forecasts: while the size of errors will change over time as the economy fluctuates more or less, and as forecasting techniques change, in most cases the averages have not shifted very much since they were first published in 1976. For the RPI, average errors are derived from a period of high inflation, averaging 14 per cent and subject to large fluctuations, and overstate likely errors at current rates of inflation.

The forecasts of those items which represent the relatively small balance between large flows in either direction are particularly subject to error. For example, the flows on either side of the PSBR approach £200 billion; and those on the current account of the balance of payments approach £100 billion. An article on 'Forecasting the public sector borrowing requirement' was published in the September 1983 issue of *Economic Progress Report.*

World economy

The rapid recovery of the US economy has slowed a little but there is increasing evidence of an upturn in Japan and Europe. Inflation remains low, above all in the USA, Germany and Japan.

The US recovery is expected to moderate while the European recovery should strengthen. Growth in the developed world as a whole may average 3-4 per cent in 1984 and the first half of 1985.

Inflation in the major six economies has fallen further and now averages about 4½ per cent (compared with 10 per cent in 1981). With no major changes in fiscal or monetary policies assumed, and with high levels of spare capacity in many countries, little change is forecast in inflation: further falls in Europe may be offset by a slight rise in the USA.

Reductions in imports by non-oil developing countries seem largely to have ended by early last year. Improvements in export revenues, helped by higher prices of many commodities, should allow some recovery in imports. In OPEC countries, however, the falls in both price and volume of oil exports reduced income further, and led to a large drop in imports in 1983. With export revenues likely to remain low, import growth is likely to be slow over the next year or so.

Commodity prices

Commodity prices (other than oil) rose 10 per cent more than the general rate of inflation between the end of 1982 and the third quarter of 1983. More recently there have been signs of levelling out. Industrial materials may continue to increase in price relative to other goods, but if there is a normal harvest this year — following 1983's poor harvest — food price increases should be lower than the average inflation rate. The oil price may not change substantially in nominal terms, and could fall further in real terms.

The forecast for the world economy is summarised in table 2.

Table 2 **World economy**

Per cent changes on a year earlier

	Average 1975-82	1982	1983	1984	1985 First half
GNP*	3	– ½	2	4	3½
Prices* (consumers' expenditure deflator)	7½	6½	5	4½	4½
World trade in manufactures (weighted by UK markets)	4	–3	1	5	4½

*Major six overseas countries (USA, Japan, Germany, France, Italy, Canada).

Exchange rate and balance of payments

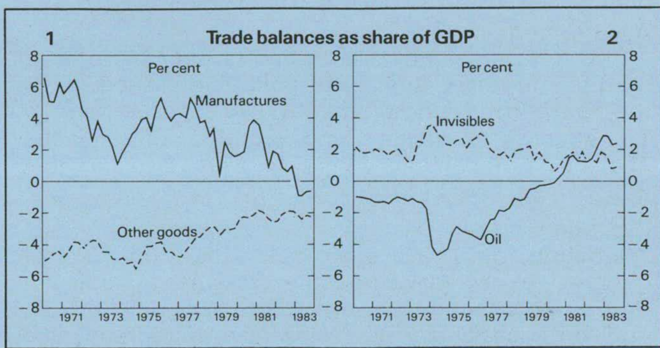
For the purpose of this forecast it is assumed that the effective exchange rate will be near to its average last year. The prospect for inflation, which takes account of this assumption about the exchange rate, suggests that over the forecast period there will not be any substantial difference between inflation rates in the UK and in the average of our major competitors. On this basis, cost and price measures of competitiveness may change little over the forecast period, following the recovery that occurred in 1982 and 1983.

The UK's terms of trade — the relation of export to import prices — have changed little since the end of 1980. The 17 per cent fall in the effective exchange rate over this period has been offset by UK importers cutting their margins from unusually high levels and, in 1981 and 1982, by low world commodity prices. The terms of trade are not expected to change much over the next year or so. By the last quarter of 1984 both import and export prices may be 4-5 per cent higher than a year earlier. This compares with increases of about 8 per cent in 1983.

Total **export** volumes were little changed in 1983, after growing 1½ per cent in 1982. Over the last two years, exports of fuels have grown rapidly, while exports of goods and services other than fuels have not changed greatly. Exports of manufactures changed little between 1981 and 1983, when world trade fell by an estimated 1½ per cent and relative costs regained some of their earlier deterioration.

Since the early 1970s there has been no pronounced trend in **import** penetration measured in value terms (excluding trade in oil). The rise in the volume share has been offset by gains from the terms of trade. For the non-oil economy as a whole, the rise in volume terms has been much less than for manufacturing, partly because of a shift in demand and output away from manufacturing, and partly because of unchanged or lower import propensities in some other sectors (including food and services).

Domestic demand for manufactures grew strongly in 1983 mainly reflecting a rise in sales of consumer durables, a turnround in stocks and a recovery in fixed investment. The volume of imports of manufactures grew by 12 per cent, UK producers continuing to lose share in the domestic market. In some areas such as cars, where home demand was buoyant, export deliveries fell for a period in 1983. Imports of fuels fell further.



Charts 1 and 2 show the balance of trade in manufactures, other goods, invisibles and oil, as a proportion of GDP since 1971.

Trade prospects

Prospects for export growth depend mainly on continued growth in world trade in manufactures, which may be of the order of 5 per cent in 1984.

Total exports of goods and services are expected to be about 5 per cent higher in 1984 than in 1983.

Domestic demand for manufactures is expected to grow strongly in 1984, though possibly by less than in 1983. There may be some fall in the growth of imports of manufactures. Total imports of goods and services may grow slightly faster than in 1983, given the unusually low levels of imports of fuels and services in 1983.

With the strengthening of the world recovery, the balance of trade in manufactures can be expected to decline less in 1984 than in 1983. Part of this decline should be offset by upward trends in net trade in other goods and services. In addition there should be higher earnings from interest, profits and dividends, helped by the growth in UK assets abroad and by the strengthening of the world recovery. Overall, the current account is expected to remain in moderate surplus in 1984 and the first half of 1985.

The current account surpluses recorded in the period 1980-83 have contributed, along with asset and currency revaluations, to a sharp rise in the value of the UK's net holdings of foreign assets: from about £15 billion (7 per cent of GDP) at end 1979 to perhaps £48 billion (16 per cent of GDP) at end 1983 (although the latter figures in particular are subject to a wide margin of error).

Inflation

Inflation rates fell during 1983 to their lowest levels since the late 1960s. The 12-monthly increase in the RPI dropped below 4 per cent in the spring — partly reflecting factors such as good

Table 3 Retail prices index

	Weight	1982 Q4	1983 Q4	1984 Q4 Forecast
		% changes on a year earlier		
Food	20	4½	6	3
Nationalised industries*	10	15	1½	3½
Housing	14	6	6½	7
Other	56	6	5	4½
TOTAL	**100**	**6**	**5**	**4½**

*Including London Transport, excluding water.

harvests and falls in the mortgage rate — and the average level of prices for the year as a whole was up only 4.6 per cent on 1982.

Table 3 shows changes in the main components of the RPI.

By the end of 1983 there were clear signs of the rise in commodity prices easing, and with the effective exchange rate not changing much, UK import prices increased only 1 per cent between the second and fourth quarters. Labour costs were still rising slowly by the end of 1983 reflecting continued growth in productivity especially in manufacturing.

Real earnings

High rates of productivity growth contributed to the combination in 1983 of a low rate of increase in unit labour costs and an increase in real earnings. Wage settlements in the year to August 1983 generally averaged 5 to 6 per cent, giving rise to an increase in earnings in the whole economy of about 7 to 8 per cent, the difference reflecting changes in hours worked, productivity deals, bonus payments and other factors including measurement errors. With price rises well below the increase in average earnings, and with tax reductions in the 1983 Budget, there was a rise of about 3 per cent in the average level of real take-home pay.

Since 1982 real after-tax earnings of the average employee have been rising, while the real unit cost of labour to the employer has been falling, as a result of productivity growth and cuts in NIS. These trends should continue over the forecast period. But they follow a period in which real wages rose at the expense of profits (particularly in 1979 and 1980) and so contributed to the sharp rises in unemployment.

Outlook for costs and prices

Most of the effect on UK prices of the 1982-83 fall in sterling and the rise in commodity prices has already been felt. As a result, external cost pressures in 1984 are likely to be less than in 1983.

Increases in labour productivity and the abolition of NIS during the year will offset part of the rise in earnings and may hold the rise in unit labour costs to 4 per cent or less. Some further increase in profit margins is likely as demand remains buoyant both at home and overseas, but competitive pressures will continue to restrain prices.

Price inflation as measured by the GDP deflator may be under 5 per cent in 1984-85 as a whole. After allowing for the budget measures, the annual rate of increase in the RPI may stay a little above 5 per cent for the first half of 1984, before falling to 4½ per cent by the fourth quarter. A slowdown during 1984 is expected in the rate of increase in food and most private sector prices while the nationalised industries' component should continue to rise more slowly than prices in general (see table 3). The slow downward trend in inflation is forecast to continue in 1985.

Demand and activity

Latest estimates continue to point to a growth of about 3 per cent in activity between 1982 and 1983, although the different GDP measures are currently telling rather different stories.

Personal spending

By the end of 1983 total real personal disposable income had regained its 1980 level, as real increases for those in work combined with a levelling out and then a rise in employment. Up to the first half of 1982, consumers reduced their rate of saving and maintained their level of current spending broadly flat. From mid-1982, with the first signs of real income recovering, and as falls in inflation and interest rates contributed to higher consumer confidence, consumer spending (particularly on durables) rose quite rapidly. Over the period as a whole the rise in expenditure was accompanied by a fall in the personal saving ratio from 14½ per cent in 1980 to about 9½ per cent in 1983.

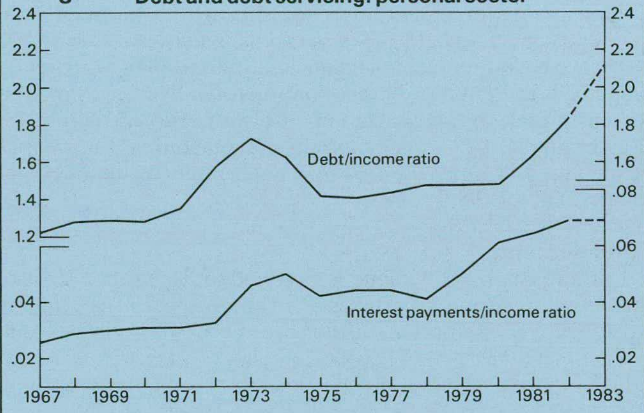
A sharp increase in borrowing by the personal sector from banks, building societies and hire-purchase companies financed the reduction in the saving ratio. Lower inflation and the increased real value of capital assets have led to consumers saving less while maintaining the real value of their wealth.

Lending by banks to the personal sector, much of it on mortgage terms, has been growing by about 33 per cent per year and has become the major growth area in banks' portfolios. It could be some time before individuals and financial institutions adjust fully to changes in the credit environment, and the personal sector's debt-income ratios may continue to rise, though perhaps more slowly.

Debt, interest and income

The top line of chart 3 shows a strong rise since 1980 in the stock of personal sector borrowing. But with interest rates falling since 1981 the level of interest payments, shown as a proportion of income in the lower line of the chart, has probably levelled out.

3 Debt and debt servicing: personal sector



On the basis of further increases in real take-home pay and in employment and taking into account the effect of the budget measures, real personal disposable income may rise by up to 3 per cent in 1984.

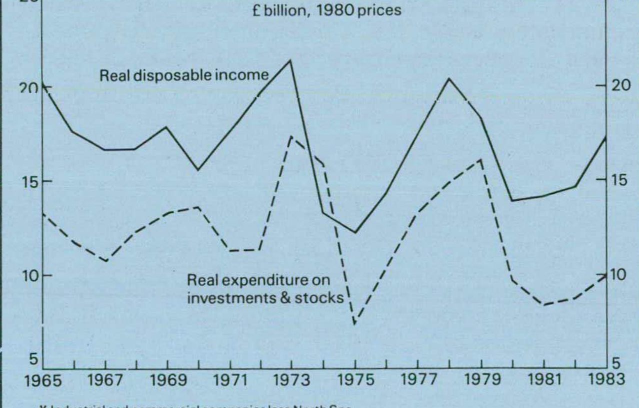
While further increases are expected in other forms of consumption, the very fast growth of expenditure on durable goods is likely to moderate.

The usual tendency of the saving ratio to rise when real incomes recover may be offset by the continuing effects of lower inflation. Personal sector investment in new housing is expected to continue to rise in 1984.

Companies

Company profits improved markedly last year, reflecting increases in both profit margins and turnover. Disposable incomes have risen strongly, as chart 4 shows.

4 Company* income and expenditure



*Industrial and commercial companies less North Sea

Company expenditure on stocks and investment remained relatively subdued in 1983 but is now expected to increase more strongly following the rise in company incomes.

Recent surveys suggest that the period of destocking in industry may now have ended, but that firms are not planning the sizeable increases in stocks often seen at this stage of the cycle. The forecast assumes little change in the stock-output ratio in manufacturing. In the distributive sector, some rebuilding of stocks seems likely given the sharp fall in stock-sales ratios following the recent strong recovery in retail demand.

The growth in business fixed investment during 1983 was concentrated in the distribution and service sectors of the economy, reflecting the growth in output.

Investment recovery

Recent surveys point to a marked recovery in manufacturing investment in 1984, already beginning to turn round by the end of 1983, and a continuation of the growth of investment in distribution and services.

The volume of fixed investment by non-North Sea industrial and commercial companies is forecast to increase by about 10 per cent in 1984 and to increase further in 1985. This forecast takes account of the budget measures, especially the proposed corporate tax changes, the net effect of which is expected to be an increase in investment for a time.

This growth in expenditure, together with a further rise in dividends and a slower growth of profits, is expected to lead to a fall in the company sector's financial surplus from the apparently high levels in 1983. For the economy in total, fixed investment is forecast to rise over 6 per cent in 1984, with a substantially faster rise by private industry, especially manufacturing. Outside industry, growth of investment may not be fully maintained into the first half of 1985.

Total demand

In total, domestic demand is expected to rise further through the forecast period (see table 4). The prospect of continuing world recovery points to a further rise in UK exports in 1984 and in the first half of 1985. The slowdown in export growth into 1985 reflects partly a flattening in exports of oil, partly a slight slowdown forecast for the growth of world trade.

Table 4 Domestic demand, exports and supply

% changes on a year earlier

	1983	1984	1985 First half
Domestic demand	4½	3½	2½
Exports of goods and services	½	5	4
Imports of goods and services	5	7	5
Domestic production:			
Total GDP*	3	3	2½

*Average measure.

The share of manufacturing industry in total output has been falling since the early 1970s, and particularly strongly since 1979. For 1984 as a whole, with substantial growth in the demand for manufactures, output in the manufacturing sector could be rising at much the same rate as in the rest of the economy (see table 5).

Table 5 Output

1980 = 100

	1983 I	1983 II	1984 I	1984 II	1985 I
Gross domestic product*	103	104	105½	107½	108½
Manufacturing output	94	96	98	99	100

*Average measure.

Employment

The fall in total employment in the three years to the end of 1982 was concentrated in the manufacturing sector where there were well above average increases in productivity. Outside manufacturing, the less reliable data do not suggest exceptional gains in productivity.

As recovery became more firmly established during 1983 there was a gradual strengthening of the labour market. In many service industries employment started to rise early in 1983, while in manufacturing the fall in employment slowed down. By September the total employed labour force is estimated to have been around 80,000 higher than in March 1983.

Unemployment levelled out during the second half of the year while vacancies and overtime increased. The trend in unemployment was affected by the continued rise in the numbers covered by special employment and training measures. In January and February, however, there was a further rise in unemployment. The growth of the labour force appears to have resumed in 1983 and further increases are forecast, although the numbers are very uncertain.

Productivity

There is evidence that the rapid productivity gains in manufacturing have been partly the result of improvements in manning practices and investment in more efficient plant. These factors are likely to continue to exert an influence over the next few years. However, some of the gains were probably a one-off response to the severe cost pressures on manufacturers during 1980 and 1981, leading to the closure of some of the least efficient units. Given the progress already made on unit labour costs this pressure has now eased and the forecast assumes that, apart from normal cyclical effects, productivity growth will be slower than in the past three years.

However, both inside and outside manufacturing, underlying productivity gains are expected to be well above the very low rates recorded in the 1973-79 period. These judgments on productivity growth, taken together with the forecast of output, are consistent with continued growth in total employment. Longer-term past movements in productivity are shown in table 6.

Table 6 Output per head

Average annual % changes

	1964-73 (peak to peak)	1973-79 (peak to peak)	1979-81	1981	1982	1983 (estimates)
Manufacturing	4	1	0	3	6	6½
Non-manufacturing (excluding general government and oil)	3½	0	−1½	½	2½	2

Forecast and outturn

Table 7 compares the main elements of the forecast published in the 1983 FSBR with the actual outturn or the latest estimate.

Table 7 Forecast and outturn

	Forecast	Outturn
RPI: *% increase* between the fourth quarters of 1982 and 1983	6	5
		Latest estimate/ forecast
Total output: *% change* between 1982 and 1983	2	3
Current account of the balance of payments, *£ billion*	1½	2
PSBR, financial year 1983-84, *£ billion*	8	10

Taxation and public spending: looking ahead

The Government believe that public debate on the future of public spending and taxation is of the first importance. A Green Paper, *The Next Ten Years: Public Expenditure and Taxation into the 1990s* * was published on Budget day as a contribution to that debate. It argues that powerful forces were at work driving public expenditure upwards over the last 20 years, and that this rise has necessarily led to a corresponding rise in taxation. The Government believe that it is necessary to reverse this process, to decide first what can and should be afforded, then to set expenditure plans for individual programmes consistently with that decision.

The Green Paper supplements both the 1984 Public Expenditure White Paper (Cmnd 9143) and the 1984-85 MTFS (See page 2), but looks further ahead — over the next ten years.

The past

Over the last 20 years public spending has grown, after allowing for inflation, by an average of 3 per cent a year, while real GDP grew by 2 per cent a year — a 90 per cent rise in real spending, but one of only 50 per cent in real GDP. Rising expectations about the help the Government should give to the less well-off were one force behind this. Another was the hope that a stimulus to demand would encourage economic growth and jobs. 'At the same time there has all too often been over-optimism about the prospective growth in total national output.'

The inflation and recession brought by the oil shocks of the 1970s themselves led to higher expenditure, while, at the same time, 'rising expectations of public services continued unabated, notwithstanding the greatly increased difficulty of financing higher spending.'

The rise in public spending over the past 20 years has necessarily led to a corresponding rise in the taxes needed to pay for it. Taxes and rates plus national insurance contributions were some 29 per cent of GDP in 1963-64. They rose to over 37 per cent by the end of the 1960s. The proportion fluctuated during the 1970s but the total tax burden on the economy, excluding North Sea output and revenues, has risen further since 1978-79 from 34½ per cent to an estimated 38 per cent in 1984-85.

One important result of these trends has been that more people on low incomes are now paying tax. The tax threshold for a married man fell from 45 per cent of average earnings in 1963-64 to about 33 per cent in 1983-84.

The low starting-point for tax means not only that large numbers of low-paid people have been brought into tax for the first time, but also that the average rate of tax paid by those above the threshold, who may be on average earnings or less, has increased. A married man, without children, on average earnings, paid about 13 per cent of his income in income tax in 1963-64. He pays 20 per cent today.

A further result is that increasing numbers of people on low incomes have become subject to tax and entitled to means-tested benefits at the same time. If their incomes rise they suffer both an increase in tax and a withdrawal of benefits (the poverty trap), so that their marginal rate of tax can be higher than if they had an income of £50,000 a year. For some people, income in unemployment has become a high proportion of, and can even exceed, net income in work (the unemployment trap).

The future

The plans in the Public Expenditure White Paper published in February (Cmnd 9143) show the level of total public spending over the next three years. Given the likely prospects for inflation, the Government expect the total level to remain broadly constant in real terms up to 1986-87. And the MTFS assumes a further two years of a total constant in real terms up to 1988-89, although decisions for those two years have yet to be taken.

The Green Paper discusses the likely pressures for higher spending in such areas as social security, defence, health and education beyond 1988-89. One notable pressure is that of population changes (demography), especially the likely numbers of the very elderly — the number of people over 75 is expected to increase from 3.3 million in 1981 to 3.9 million in 1991.

A key passage makes the Government's view clear on how decisions should be taken: 'There will be some who will argue that it makes little sense to consider, still less to decide upon, public spending totals without a clear idea of the implications for individual programmes.

'The Government believe that such thinking has been largely responsible for the upward drift of public expenditure over many years. It is necessary to turn the argument round the other way, to decide first what can and should be afforded, then to set expenditure plans for individual programmes consistently with that decision.

'This Green Paper is primarily concerned with this major issue. It does not, accordingly, attempt to make detailed projections of individual expenditure programmes so far ahead in the future. But it is possible now to discern some of the pressures for still higher public spending.

'It is in the nature of the public services that demands are literally limitless, because they are not restrained by the price mechanism which forces those making demands to balance them against costs.

'Wherever it is possible and sensible to do so, the Government are seeking to transfer the provision of services into the market sector.

'In other areas it may be possible to use charges as a more direct way of testing demand, even within the public sector.'

There may, too, be a case for 'hypothecating' (or 'earmarking') revenues to individual expenditure programmes, particularly in the social field, in order to bring home the costs. 'But over a wide range of services the only means of controlling the cost is for the Government to limit the supply.'

Where the Green Paper does make projections is on the possible consequences for the tax burden (excluding the effects of North Sea output on both GDP and revenue) of different future levels of public expenditure.

Illustrations

Among illustrations of effects on the tax burden are these:

If the public expenditure planning total is held flat in real terms and GDP grows by an average 2¼ per cent a year, as assumed in the MTFS, the burden of tax in 1988-89 will be lighter than in 1983-84, but still slightly heavier than in 1978-79.

Any further reduction in the tax burden after that will depend on what happens to public spending.

If the planned total is not allowed to grow at all, the tax burden should be down to 31½ per cent of GDP by 1993-94, given GDP growth of 2 per cent a year after 1988-89.

If an extreme assumption is made that the whole benefit of this reduction in tax burden were passed on in higher personal income tax allowances, then someone on average earnings would pay 13 per cent of his pay in tax instead of the present 20 per cent.

If, on the other hand, public spending were to grow by an average 1 per cent a year for the five years and GDP grew by 1½ per cent a year, the tax burden would come down only to 34 per cent of GDP, much the same as in 1978-79.

Conclusion

It is difficult to escape the conclusion, the Green Paper says, 'that there is an inbuilt tendency for spending to rise; and an inbuilt resistance to expenditure reductions.

'The inevitable consequence has been that the taxes required to pay for this spending — taxes on people and on the firms they work for — have risen broadly in step, except for limited periods when Governments increased their borrowing. Such borrowing, however, has to be repaid by a tax on future generations.

'These increases in taxation have, in the Government's view, had a serious impact on Britain's economic performance over many years. Since lower growth has not led to lower demands for public services, the outcome, year after year, has been still higher taxation to finance ever higher public expenditure.

'As public spending takes a larger and larger share of GDP, so the public sector steadily encroaches on the rest of the economy. This is a process which could not be allowed to go on indefinitely.'

'The Government and Parliament must reach their judgement about what public expenditure in total can be afforded, then contain individual programmes within that total. If the public discussion of these important issues leads to a wider understanding of this fact — that finance must determine expenditure, not expenditure finance — the discussion will have served a useful purpose.'

The Government look forward to a continuing debate on the fiscal prospects in the longer term. They hope that the main theme of this Green Paper will remain at the centre of the debate: 'that to break away from the debilitating pattern of the past in which public spending and taxation took an ever-larger share of our national product, we must establish a clear view of what can be afforded; set our spending plans accordingly; then stick to those plans.'

*Cmnd 9189, HMSO, £4.55.

Revenues from the North Sea

The *Financial Statement and Budget Report* (FSBR) contains projections of government revenues from North Sea oil and gas over the period to 1988-89. Revenues are projected to rise from just under £9 billion (in current prices) in 1983-84 to a peak of about £10 billion in 1984-85 before falling to £9½ billion in 1985-86 and the two subsequent financial years, and to £9 billion in 1988-89. This profile reflects that of North Sea oil production which is assumed to peak some time in the next two years and then fall away. In real terms North Sea revenues are projected to be some 20 per cent lower in 1988-89 than in 1984-85.

In 1984-85 revenues are expected to be about £½ billion higher than was projected at the time of the Chancellor's Autumn Statement last November and considerably higher than in the 1983 FSBR projections. Both oil production and sterling North Sea oil prices are expected to be substantially higher in 1984 than was assumed at this time last year.

Revenue projections

Table 1 shows the latest projection of government revenues from the North Sea (in current prices) for the period 1982-83 to 1988-89. It also compares them with those made at the time of the Autumn Statement in November 1983 and of the 1981, 1982 and 1983 Budgets. Table 2 shows the constituents of total revenues in 1983-84 and 1984-85, as published in both this and last year's FSBR. This article describes the current projection of North Sea revenues and compares it with the two made last year and with other forecasts.

The marked revisions now made to the Treasury projections illustrate the very wide margins of error to which such projections are subject. The uncertainties increase the further into the future one looks, and they affect equally each major determinant of revenues — production, prices and tax deductible expenditures.

The uncertainty surrounding any projection of North Sea revenues is also illustrated by the wide range of North Sea revenue forecasts published by other forecasting bodies. In a sample of half-a-dozen recently published forecasts, the highest estimate of revenues in 1984-85 is £11 billion, the lowest £9 billion. The average — at £10 billion — is slightly less than the FSBR projection. In 1985-86, the range is even wider, £9 billion — £12 billion, with an average of just over £10 billion, somewhat higher than the Treasury's latest projection.

The main determinants of revenues from the North Sea, sterling oil prices, production and capital expenditure are described next.

Table 1

Total North Sea oil and gas revenues*

£ billion, current prices

	FSBR 1981†	FSBR 1982	FSBR 1983	Autumn Statement 1983	FSBR 1984
1982-83	7	6	8	8	7.8
1983-84	8	6	8	9	9
1984-85	—	8	8	9½	10
1985-86	—	—	9½	—	9½
1986-87	—	—	—	—	9½
1987-88	—	—	—	—	9½
1988-89	—	—	—	—	9

*The figures include receipts from royalties, petroleum revenue tax (including advance payments) and corporation tax, before any set-off in respect of advance corporation tax. They also include receipts from supplementary petroleum duty in 1982-83. They do not include non-recurrent payments on the grant of licences.
†Updated to current prices; see *Economic Progress Report*, March 1982.

The price of oil

These projections assume that for the rest of 1984 and 1985 the nominal dollar prices of North Sea crudes will remain at about current levels (for example $30 a barrel for Brent crude). From the end of 1985, North Sea oil prices are assumed to rise in line with world oil prices, which are in turn assumed to rise in line with world inflation. It is assumed that there is no major change in the exchange rate from year to year. By the end of the period, North Sea prices in real terms are assumed to be £132 a tonne (in 1982-83 prices), somewhat lower than their estimated £140 a tonne in 1983-84.

Table 2

Composition of North Sea revenues

£ billion, current prices

	Royalties		PRT*		Corporation tax†		Total	
	FSBR 1983	FSBR 1984	FSBR 1983	FSBR 1984	FSBR 1983	FSBR 1984	FSBR 1983	FSBR 1984
1983-84	1.6	1.9	5.3	6.1	1.0	0.9	7.9	8.9
1984-85	—	2.0	—	6.0	—	2.2	—	10.2

*Including advance payments
†Before any set-off in respect of ACT

Table 3

Oil* production forecasts

million tonnes

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Forecasts made in:													
1976	15-20	35-45	55-70	75-95	95-115								
1977		40-45	60-70	80-95	90-110	100-120							
1978			55-65	80-95	90-110	100-120	105-125						
1979				70-80	85-105	95-115	115-140	115-140					
1980					80-85	85-105	90-120	95-130	95-135				
1981						80-95	85-110	85-115	90-120				
1982							90-105	90-115	95-125	95-130			
1983								95-115	95-125	95-125	85-120		
1984									110-130	110-130	100-125	85-115	80-115
Outturn	12.2	38.3	54.0	77.9	80.5	89.4	103.2	114.9†	—	—	—	—	—

*Including natural gas liquids and onshore production
†Provisional

These assumptions imply a higher sterling oil price in 1984 than was assumed at the time of last year's Budget. The projections made then assumed that for the rest of 1983 and 1984 the dollar prices of North Sea crudes would on average be around the level then proposed by the British National Oil Corporation to its customers (for example $30.50 for a barrel of Brent crude), and that the effective exchange rate for sterling would 'remain around its level in February 1983'.

In the event, the price for Brent crude fell $0.50 a barrel on 1 March 1983 to $30 a barrel, where it has remained since. With the dollar higher than expected, sterling oil prices are now higher than projected in the 1983 FSBR and are expected to remain so for the rest of 1984. By contrast in 1985 the sterling oil price is now projected to be lower on average than was assumed in the 1983 FSBR. This is because it is no longer assumed, as it was then, that nominal dollar oil prices rise during 1985 in line with world inflation.

Production

Table 3 sets out successive forecast ranges of total oil production as published by the Department of Energy in their 'Brown Book' *(Development of oil and gas resources of the United Kingdom)*, and compares them with recorded production for the years to 1983. The table also includes the latest forecast ranges.*

As table 3 shows, forecasts of future production have been subject to wide margins of error. When North Sea production was building up rapidly, there was a persistent tendency for production to turn out lower than projected. In 1982 and 1983, however, production has turned out very close to the top of the range expected at the beginning of the year. In 1983 production has been higher than expected both in existing fields and in fields that came on stream during the year.

The latest forecast ranges for North Sea oil and natural gas liquids production are somewhat higher than those in the 1983 Brown Book. This reflects the better-than-expected performance in 1983. The Department of Energy believe that the most likely outcome is at around the centre of the range.

Capital spending and other costs

The projections of aggregate capital expenditure and operating costs are based on figures supplied by the oil companies. The Department of Energy adjust these figures to take account of independent information and of any persistent tendencies towards overestimation or underestimation.

The levels of current and capital spending (including exploration expenditure) are important determinants of the size of tax receipts because they are deductible for petroleum revenue tax and corporation tax. Since the projections made at this time last year, there have been some increases in the amount of future exploration and capital expenditures assumed. Expenditures on future gasfields, following the renewed interest now being shown by the oil companies in the Southern Basin of the North Sea, account for most of the increase in projected capital spending.

Comparison with previous government projections

Government revenues from the North Sea in 1983-84 are now expected to be £9 billion, or about £1 billion more than was projected at this time last year and about the same as was expected at the time of last year's Autumn Statement. Higher-than-expected production in 1983 accounts for most of the discrepancy compared with last year's FSBR projections. The assumption about average sterling oil prices in 1983 made at this time last year was slightly too low.

Revenues in 1984-85 are now projected to be about £10 billion, compared with £8 billion in last year's FSBR and £9½ billion in the Autumn Statement. The assumptions of higher sterling oil prices and higher production in 1984 than in the previous projections explain the revision. Revenues in 1985-86 are projected to be about the same as in last year's FSBR. The effect of assuming higher production is broadly offset by lower oil prices and higher capital spending, principally in new gasfields.

Comparison with outside forecasts

The projection of North Sea revenues of £10 billion in 1984-85 is a little higher than the average of a number of other recently published forecasts. In 1985-86 and 1986-87 the Treasury's projections are lower than the average.

Identifying the reasons for different forecasts of North Sea revenues is difficult. The assumptions underlying each forecast are not always made explicit. And differences in the way forecasts of North Sea taxes are modelled can be important. In general, other forecasters tend to assume higher sterling oil prices than the Treasury, increasingly so the further ahead one looks. This probably reflects differences in assumption about the extent to which OPEC will be able to raise nominal oil prices to offset the effect of inflation on their purchasing power. Differences in what is assumed about future production are not marked.

*Given by the Minister of State for Energy. *Hansard*, 2 March 1984, written answers, col. 361.

North Sea oil and gas: contribution to GNP

Estimates of the contribution of North Sea oil and gas to gross national product (GNP) at current factor cost are set out in the table below. The contribution is defined as the total sales value of oil and gas production and services rendered, less the goods and services bought by the North Sea sector, and interest, profits and dividends (IPD) due abroad. It is the sector's contribution to GNP, rather than to gross domestic product (GDP) (which is the more common calculation in the case of other sectors in the economy), which is thought to be more relevant in the case of oil and gas, because of the significance of overseas remittances in the North Sea sector.

The contribution of North Sea oil and gas is now estimated to have been about 5¼ per cent in 1983, compared with 4¾ per cent in 1982.

Estimates to 1988

£ billion, current prices

	1980	1981	1982	1983	1984	1988
Value of oil and gas sales	9.6	13.3	15.5	18.3	19.7	19.5
less goods and services purchased†	1.0	1.4	1.9	2.2	2.5	2.9
less IPD due abroad	2.2	2.4	2.6	3.0	3.2	2.7
GNP arising within sector	6.4	9.5	11.0	13.1	14.1	13.9
As % of total GNP* in that year	3¼	4½	4¾	5¼	5	4

†Defined as operating plus exploration costs less employment incomes.
*The projection of the denominator — total GDP at factor cost — is based on GDP in money terms growing at the rates assumed in the MTFS.

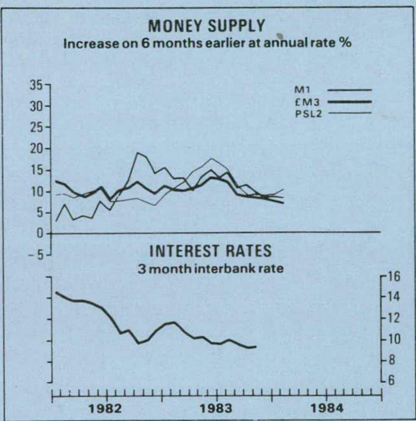
The sector's contribution to GNP is projected to show a slight fall in 1984, partly because of the forecast rise in total GNP this year and partly because real sterling oil prices are assumed to fall compared with their level in 1983. With oil production projected to peak over the next 2-3 years, the contribution of the sector to GNP is assumed to fall to about 4 per cent by the end of the MTFS period.

The estimates of the contribution to GNP in 1983 and 1984 are about ½ percentage point higher in each year than those made at this time in 1983. This is for the same reasons, described in the article, as government revenues have been and are expected to be higher than was assumed in last year's FSBR.

This definition of the contribution does not measure the net extent to which GNP is higher as a direct result of oil and gas production. The size of the net addition to GNP will depend on the difference between the rates of return earned by the capital and labour employed in the North Sea (and owned by UK nationals) and what they might have earned in alternative uses elsewhere.

ECONOMIC INDICATORS

1 MONEY



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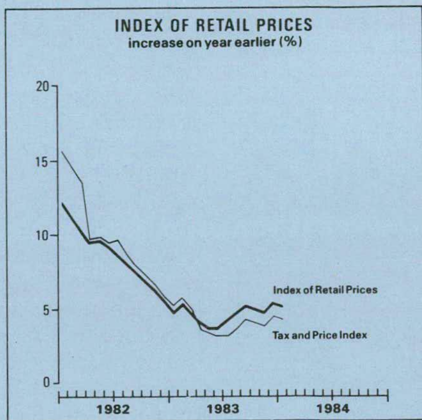

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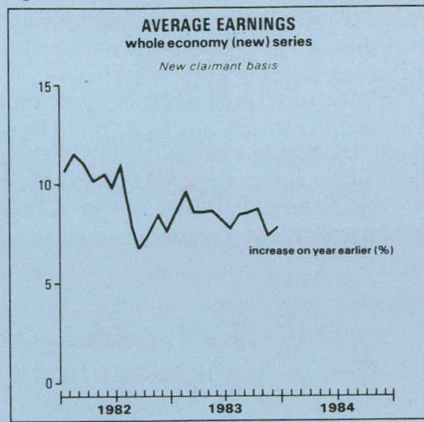

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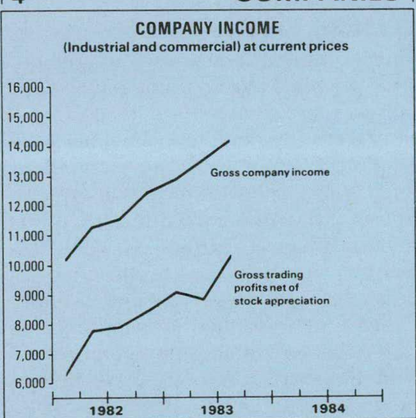

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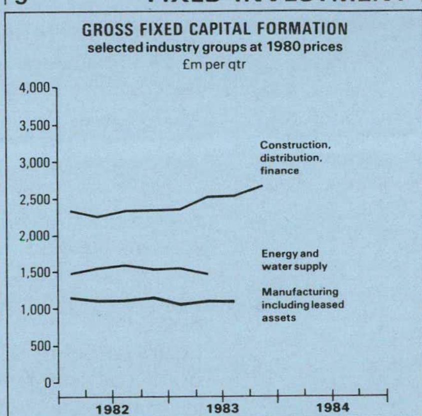

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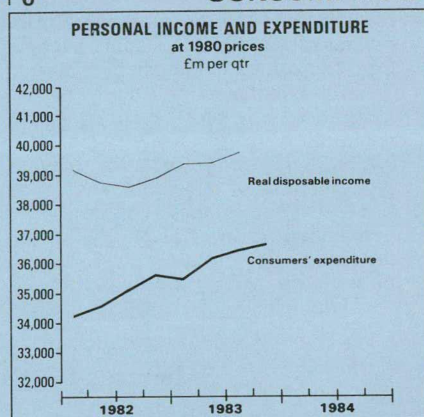

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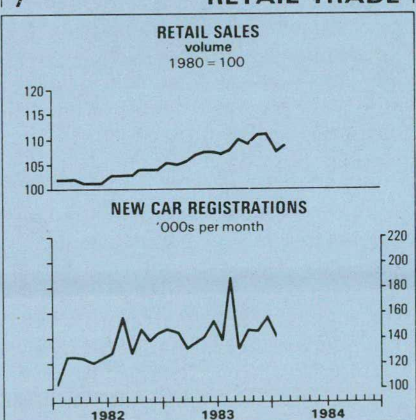

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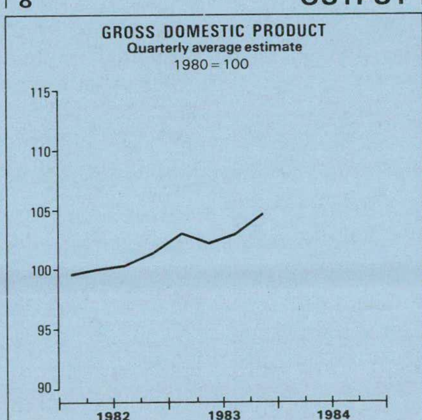

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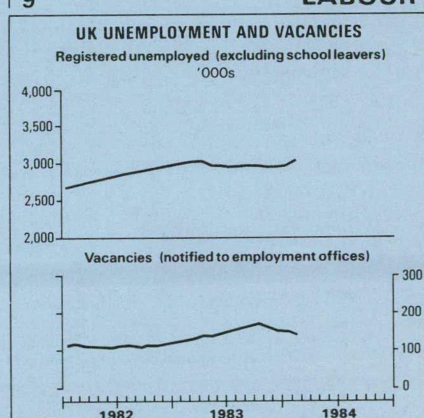

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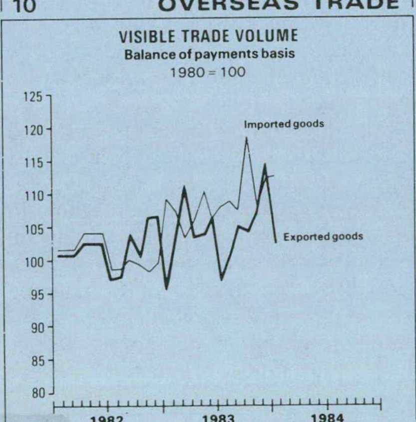
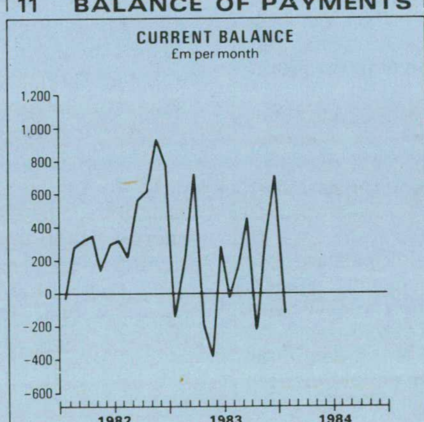


11 BALANCE OF PAYMENTS



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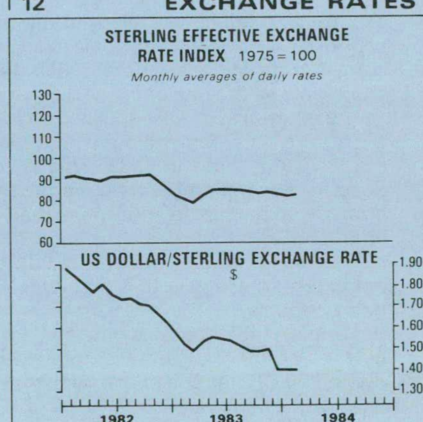

Figures published up to 23 March are included in these charts

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