H M Treasury

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10/3/82

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A N Ridley
Special Adviser

Direct Dialling 01-233 ..............

Dear Ian,

You may like to have – as indeed may the PM – a chance to see the material we prepared here on the political side for Budget presentation.

The Scotland Brief went to all Scots MPs, & was available directly the Chancellor sat down.

So were the "Key Points", which went to over 50 MPs who were due to broadcast yesterday (A to Hollhead).

The note on VAT & Charities went to our Whips & Messrs Clark, Duncan, Parkinson, for their personal use. Jock B-G felt it would be foolish to indulge in any major explicit briefing unless the Charity people become very active.

Finally the big general brief went to all MPs broadcasting, Parkinson, Pym, Clark, Delamere and will be the basis of the usual CRD brief which should be in the Whips Office by now.

We had to produce all this in the most desperate hurry for the election season, so would not go to the stake for every word, for completeness or precision of nuance. But at least the material should be pretty accurate!

Yours

Adam.

Treasury

FILE

12th March 1982

Ian is away on tour with the Prime Minister today and asked me to thank you very much for your letter of 10th March and for sending him the material which you prepared for the Budget presentation.

He is most grateful to you for letting him have this.

Tessa Jardine Paterson
Political Office

Adam Ridley Esq

BUDGET KEY POINTS

1. AIM: Consolidating Britain's economic recovery, and helping business costs, growth, creation and thus more lasting jobs. Reinforcing that, prosecutes successful fight against inflation, reduces Government borrowing to favour low interest rates, with share of Govt borrowing in GDP halving over next three years.

2. Inflation, with firm money policies, should be running at 9% by end 1982, 7½% in first half 1983, still lower later.

3. Prospects for economic growth more encouraging: 1½% in 1982, over 2% by first half 1983 and afterwards.

4. NIS cut by 1% (cost £550 million) in effect for all 1982-83. Measure industry wanted most, held back from public sector, though.

5. Energy costs cut by new tariff on large electricity users (£100 million lower bills) and freeze till end 1982 on prices of gas for large industry users (cuts industry's bills by £60 million). Continued freeze in foundry coke prices, fuel oil duty unchanged. Will make energy prices for UK industry yet more competitive with Europe.

6. Enterprise package, with 11 measures. More generous business start-up and loan guarantee schemes, extended small workshop scheme, tax relief on contributions to enterprise agencies, higher profit limits for small companies corporation tax, VAT relaxations.

7. Construction package: higher home improvement grants in 1982, to achieve early increase in demand; more home insulation, 75% capital allowances for new buildings for assured tenancies.

8. Stamp duty threshold increased from £20,000 to £25,000, to help first time buyers and others.

9. Help for distressed urban areas - increase in derelict land grants, £70 million or urban programme money earmarked

for special joint ventures to attract proportionately large sums of private sector money to inner city development.

10. Innovation package to support electronics applications, space technology, robotics, teletext.

11. Imaginative new unemployment scheme to provide up to 100,000 jobs. Long term unemployed to receive benefit level plus a premium ~~wages~~ to work on projects of value to the community. Big response needed.

12. Charities and needy to gain from: exemption of mobility allowance from tax; various tax changes to help charities, such as removal of DLT liability, higher CTT exemption, VAT reliefs. Social security benefits uprated fully for inflation and 2% shortfall on "unpledged" benefits.

13. Indirect taxes up less than 1%. Direct taxes increased by more than 2% above inflation. Major, radical and unexpected reform of CGT proposed - at last.

SCOTLAND AND THE BUDGET

The following aspects of the Budget have a direct impact on Scotland.

1. Petrol: The Government recognise the importance of petrol prices to Scottish rural communities. But it is worth recalling that the 9p per gallon increase in petrol leaves most pump prices lower in money terms than at the end of last year, and in real terms no higher than 1979, well below the levels of 1981 in general, and also well below 1975 levels (after the first oil crisis). Budget leaves UK petrol prices among the lowest in EC. Independent studies show rural motorists, while doing more miles, get higher mileages per gallon than urban ones. So total consumption in town and country much the same.

2. DERV: Budget widens differential between petrol and DERV (latter up 7p per gallon). Increase in DERV slightly less than full revalorisation. Almost all used by businesses and will help those in Scotland.

3. Vehicle Excise Duty: Budget reduces VED rate on commercial vans, helping businesses. For licences from 10 March, new car rate of £80 extended to commercial vans of under 1 ton and from 1 October to commercial vans of under $1\frac{1}{2}$ tons: (1st October changes affect 1.2 million vans).

4. AVGAS: Duty on AVGAS (previously same rate as petrol) is reduced to half new petrol rate, benefitting piston engined aircraft eg air taxis and other local air services important in Scotland.

5. Whisky: Importance to Scotland of whisky industry recognised in budget. Increase on spirits is held at 30p - not 50p of full revalorsiation. Real price of whisky still same as 1979-81, $\frac{2}{3}$ of 1970, and just over half 1962.

6. Employment Measures: Focus of budget's proposed new employment scheme on long term unemployed (5% of Scotland's working population cf. 3.7% in UK generally) particularly useful for Scotland. Government willing to finance 100,000 places nationwide; those involved to work on community projects at (broadly) benefit level plus expenses.

7. Enterprise Package: 11 separate items to help new and expanding small businesses - vital for revival of Scottish inner cities. Most important measures: doubling of business start-up scheme limit for relief, improved loan guarantee scheme, tax relief for contributions to local enterprise agencies (aim to help local businesses).

8. Innovation Package: £100 million extra support (over 1982-3 to 1984-5), focussing on information technology and electronics applications - both important, flourishing sectors for Scotland.

9. Energy Costs: Industry to be helped by: freeze in industrial gas prices; new tariffs for largest electricity users; no further increase in list prices of foundry coke till next winter: extension of boiler conversion scheme; no change in fuel oil duty.

10. Inner Cities: Provision for Urban Programme in 1982-3 is over 20% higher than estimated outturn 1981-2. £70 million of this programme earmarked for joint public/private sector development schemes, so drawing in private capital for these areas. Also budget increases rate of improvement grants (from 75% to 90% in 1982-3 only), so accelerating work on improvement, introduces £10 million home insulation scheme and 75% 1st year capital allowances for new building to rent and increases derelict land grants.

11. Oil Tax Changes: new structure provides more stability for industry, slightly reducing Government tax and marginal tax rate, spreads payments more evenly during year and helps keep North Sea attractive for investors.

## CHARITIES AND VAT

The Chancellor has treated very seriously the strength of the case argued by the charities for being given relief from VAT on their purchases. The Government firmly believes in providing support for the voluntary sector in general, and charities in particular; and the greatest care has been taken to see whether or not a practical way forward on this issue could be found. After exhaustive study the obstacles have been shown to be insuperable.

### Administrative Problems

If all charities were granted relief the administrative problems would be formidable. It is reckoned that approximately 140,000 charities would be eligible in England and Wales, and an unknown number in Scotland. It would be difficult to resist the claims of 60,000 churches for inclusion. In all, up to ¼ million bodies might be eligible (compared with the total of 1.3m traders currently registered for VAT). Even if returns were made on annual basis instead of the normal quarterly returns, it is estimated that Customs and Excise would need to recruit 350-400 extra staff, at a cost of £4.5m a year.

It has been suggested that a threshold should be set, at perhaps annual income of £15,000 below which a Charity would be ineligible. This would certainly reduce greatly the number of potential candidates. But even then it seems likely that Customs and Excise would need to recruit up tp an extra 100 staff to cope with registration, policing, and border-line problems.

Yet any significant need for additional staff recruitment is particularly damaging at a time when the Government is committed to substantial reductions in total civil service manpower.

### Revenue Costs

If all charities were included the cost could amount to anything from £35m to £70m a year (and if additional bodies sought charitable status to obtain VAT relief the cost could be substantially higher). The introduction of a threshold for qualification would not significantly diminish the revenue loss, which would have to be made up elsewhere.

## Definitional Problems

If a qualifying threshold were introduced many very deserving small charities - friends of cottage hospitals, for example - would find themselves ineligible. Yet above the threshold comprehensive relief would produce some highly controversial beneficiaries, such as the Moonies; some whose claim would not strike most people as immediately apparent, such as the Sealed Knot or the Delphinium Society; some, such as the public schools, which would be hotly contested by those opposed to private education; and some, such as the National Theatre and certain Opera companies, which would be in direct competition with non-beneficiaries.

On the other hand a more restrictive definition - limiting the concession to charities performing specified services - would be impossible to defend at the border-line.

## Fiscal consideration

Every new concession on VAT provokes - and strengthens - claims frp, ptjer quarters for comparable treatment. Some of the bodies which would qualify for charitable relief would appear to the protagonists of other interests (and, what is more important, to the public at large) to be infinitely less deserving than their own claimants. Supporters of the live theatre, for example, who have argued for years that VAT is having a most damaging impact, would find it incomprehensible that it should be maintained for theatres and refunded to the Moonies. Yet every concession has to be recouped elsewhere; and with each erosion of the fiscal base of VAT what is left becomes more difficult to defend.

Budget Changes

For all these reasons it has not been possible to give charities VAT relief on their purchases but the Chancellor has extended existing VAT relief as follows:

1) Zero-rating for donated medical and scientific equipment, ambulances etc extended to repair and maintenance for spare parts for such equipment;

2) Reliefs for aid to the disabled extended to cover 'personal ambulances';

3) Relief for aid to disabled extended to cover purchase of aid by any charity for making available to handicaped persons.

In addition, charities will be greatly helped by the Chancellor's other measures for them:

1) The proposal to extend CTT exemptions for qualifying gifts to charities, made within one year of death, from £200,000 to £250,000;

2) The proposal to abolish Stamp Duty completely on transfers of assets to charities;

3) The proposal to remove any liability to Development Land Tax where a charity disposes of property which has been subject to rollover relief.

These changes clearly complement earlier action by this Government which included direct tax concessions in the 1980 Finance Act reducing the qualifying period for covenants from 7 years to 4 years, and further concessions in the 1981 Finance Act. They underline the Government's commitment to helping the voluntary sector wherever possible.