

bcc Slowe <sup>From Be</sup> 12 VLB  
 Wadson MS  
 John Hunt  
 J. Haskyns.

c.c. Master Set



10 DOWNING STREET

*From the Private Secretary*

24 May 1979

Dear Tony,

The Prime Minister held a meeting at 1800 hours this evening with the Chancellor of the Exchequer and the Chief Secretary to discuss the Budget. They had before them the Chancellor's further minute of 23 May.

The Prime Minister said that she remained extremely worried about the price consequences of the Chancellor's proposals, and the effect they might have on pay negotiations in the coming winter. She wondered whether there were not other ways of meeting the Chancellor's objectives on the income tax front than through increasing VAT to 15 per cent. In particular, there seemed no reason why the income tax reliefs could not be made effective from Budget Day rather than being backdated to the beginning of the financial year. Taxpayers would not expect such backdating and the revenue savings would be very substantial. The revenue savings would be about sufficient to enable the VAT increase to be confined to 12½ per cent. It appeared from the figures attached to the Chancellor's minute as if the taxpayer would be getting considerably more in tax relief than he would be paying out in higher indirect taxes. She recognised that there were administrative difficulties, but it ought to be possible to overcome them. The Prime Minister went on to ask whether all the options for raising revenue had been fully considered. One possibility which she had in mind was the replacement of the VAT element in the petrol tax by a straight duty: this would bring in

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SECRET