

BUDGET SECRET until after Budget Speech,
15 March 1983

BUDGET SNAPSHOT 15 MARCH 1983

Budget proposes significant cuts in taxes on individuals and business consistent with the Medium Term Financial Strategy for effective control of the money supply, lower public borrowing and further progress on inflation. The Chancellor stressed that: "The requirement we saw, and the country accepted in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations."

A. Main Proposals (FSBR, Part 1; detailed proposals listed in Part 4)

- (i) Relief for persons - personal income tax allowances and thresholds increased by 14 per cent - 8½ percentage points more than required for by statutory indexation.
- (ii) Child benefit increased to £6.50 a week - more than restoring its 1979 purchasing value - highest ever level in real terms.
- (iii) 5 per cent abatement of unemployment benefit to be restored.
- (iv) Measures to assist housebuilding and home ownership, including increase in mortgage interest relief limit to £30,000.
- (v) Additional employment measures include extensions of the Enterprise Allowance and Job Release Scheme.
- (vi) National Insurance Surcharge reduced to 1 per cent from 1 August.
- (vii) "Small companies" rate of Corporation Tax cut from 40 per cent to 38 per cent.
- (viii) Further assistance to small firms and to help enterprise and wider share ownership includes new Business Expansion Scheme, extending and improving the present Business Start-up Scheme, and help for technological innovation.
- (ix) Changes to North Sea oil taxation include the phasing-out of Advance Petroleum Revenue Tax and special relief for future fields.
- (x) Excise duties increased broadly in line with inflation.
- (xi) Measures aimed at fringe benefits and tax avoidance.

In addition proposed changes in the method of uprating social security benefits were announced.

B. Autumn Measures

The following measures were announced in November 1982 to take effect from April 1983:

- (i) National Insurance Surcharge cut by 1 per cent to 1½ per cent from 1 April 1983.

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(ii) National Insurance Contribution rates (employers and employees) increased by $\frac{1}{4}$ per cent. Increase was less than the 0.4 per cent needed to balance the National Insurance Fund.

Revenue costs in 1983-84 of NIS cut and hold-back on NIC - some £1 billion.

C. Effects of Budget

Compared with conventional indexation, and taking account of expenditure measures, Budget measures will add £1.6 billion to public sector borrowing requirement (PSBR) in 1983-84.

Direct revenue effects of tax changes:

(£ million)

	<u>Effect in 1983-84</u>		<u>Effect in a full year</u>	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
Income tax allowances and thresholds	-1,170	-2,000	-1,490	-2,545
Other income and direct taxes	-295	-310	-365	-410
National Insurance Surcharge*	-215	-215	-390	-390
Excise duties	10	595	10	605
Other indirect taxes	-	-5	-	-5
	-1,670	-1,935	-2,235	-2,745

* Estimates exclude public sector payments.

+/- indicates an increase/decrease in revenue.

Additional public expenditure on technology and innovation, housing improvements, social security and employment measures, will cost £238 million in 1983-84 over and above what is already provided. This is all charged to the Contingency Reserve and thus will not add to the total of planned public expenditure.

The latter is now expected to be £112.5 billion in 1982-83, £0.5 billion less than the estimate in the Public Expenditure White Paper, Cmnd 8789. The planning total in 1983-84 is reduced from £119.6 billion in Cmnd 8789 to £119.3 billion, compared with the £120.7 billion planned at time of the 1982 Budget.

The full year revenue cost of the Budget is of the order of £2 $\frac{1}{4}$ billion. The bulk of this - around £2 billion - goes to individuals. But business benefits to the extent of about £ $\frac{1}{4}$ billion. Businesses have been helped by the measures announced in the autumn - worth around £ $\frac{1}{2}$ billion after taking account of the increase in the employers' National Insurance Contribution - as well as by the falls in the exchange rate and oil price. If revenues from taxes paid by business (NIS, NIC, corporation tax and rates) - apart from the North Sea industries - were the same share of total taxes in 1983-84 as they were in 1978-79, then these businesses would have to pay some £3 billion more than is forecast for the coming year.

The changes in excise duties will add 0.4 per cent directly to the RPI (but have a negligible effect compared with an indexed base). This has already been taken into the forecast.

D. Medium Term Financial Strategy (FSBR Part 2)

MTFS - updated and extended to 1985-86. Ranges for monetary growth will be the same as those planned this time last year, showing a continuing steady downward path. These ranges - which, as last year, are constructed on the assumption of "no major change in the exchange rate" apply both to broad measures of money (£M3 and PSL2) and the narrow measure (M1):

[per cent]	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
1983 FSBR	7-11	6-10	5-9
1982 FSBR	7-11	6-10	na

A PSBR of 2½ per cent of GDP - around £8 billion - is planned for 1983-84, consistent with the figure published in the Autumn Statement. The PSBR ratio will continue to show a downward path over the medium-term. The fiscal projections assume real GDP growth of 2½ per cent per annum, and money GDP growth of 8 per cent.

<u>PSBR*</u> [£bn]	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
1983 FSBR	7½ (2½)	8 (2½)	8 (2½)	7 (2)
1982 FSBR	9½ (3½)	8½ (2½)	6½ (2)	na

* Figures in brackets show PSBR as a % of GDP.

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

Budget is presented against a world background which, though still full of risks, is looking more hopeful. Lower interest rates and inflation, particularly in the US, and a number of recent indicators, are pointing towards some increase in world activity in 1983. The fall in oil prices in recent weeks improves the prospect for both recovery and lower inflation.

In the UK, a pause in the downward trend in RPI inflation is likely this year. Total output (GDP) should rise by about 2½ per cent in the year to first half of 1984, and manufacturing output by much the same percentage. The growth in output now foreseen, if sustained, is probably consistent with no major change in unemployment. The surplus on the balance of payments current account is forecast to remain sizeable (but smaller than in 1982). Exports are forecast to rise as world trade recovers, but imports are also likely to increase as the rundown in stocks comes to an end.

Summary of Short-Term Forecast

	GDP (% change on year earlier)	Current Account Balance of Payments (£bn)	PSBR ⁽²⁾ (£bn and % of GDP)	RPI (% change 4th quarter to) 4th quarter)
1982	½	4	7½ (2½)	6
1983	2	1½	8 (2½)	6 (3)
1984 (first half)	2½	2 ⁽¹⁾	-	6 (3)

(1) At annual rate

(2) Financial years 1982-83, 1983-84

(3) Second quarter 1983 to second quarter 1984

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F. Personal Income Taxation

Main rates - including basic rate of 30 per cent - remain unchanged. Allowances and thresholds increased by about 14 per cent as follows:

(£)	<u>1983-84</u> <u>(proposed)</u>	<u>1982-83</u>
Married	2,795	2,445
Single (and wife's earned income)	1,785	1,565
Additional personal (and widow's bereavement)	1,010	880
Aged - married	3,755	3,295
Aged - single	2,360	2,070
Basic rate limit (starting point for higher rates)	14,601	12,801
Aged income limit	7,600	6,700
Investment income surcharge threshold	7,100	6,250

G. Social Security and Other Benefits

Uprating of social security benefits will be based on the outturn figure of inflation to May 1983. Next November's uprating will therefore be announced in June. May's inflation figure expected to be in the region of 4 per cent. Linked public service pensions to be increased by same amount.

Child Benefit increased by 65p to £6.50 from November 1983; one parent benefit up 40p to £4.05. (Gross cost £122 million in 1983-84 as compared with no increase at all, £340 million in 1984-85.)

5 per cent abatement of unemployment benefit to be restored from November 1983 (cost £22 million in 1983-84, £60 million in a full year).

A number of measures to provide substantial help to the sick, disabled, war pensioners and the less well off. Main changes:

- a. Amount the severely disabled can earn before benefit is up from £20.00 to £22.50.
- b. "Invalidity trap" to be ended - people under 60 on incapacity benefit for a year will qualify for long term rate of Supplementary Benefit. Over 60s will qualify immediately.
- c. Capital disregard for entitlement to Supplementary Benefit increased from £2,500 to £3,000. Additional disregard of £1,500 for life assurance policies.

H. Widows and Charities

Entitlement to widow's bereavement allowance extended to cover year after husband's death. (Cost £30 million in a full year.)

£250,000 ceiling for CTT exemption on bequests to charities abolished: outright bequests to charities will not be taxed.

Annual ceiling for tax relief at higher income tax rates for payments under deeds of covenant to charities raised by £2,000 to £5,000.

Companies to be able to deduct for tax purposes costs of staff seconded to charities.

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I. Indirect Taxes

Changes reflect need to broadly maintain real value of excise duties.

Indirect Tax	Yields ⁽⁺⁾ and Costs ⁽⁻⁾ (£ million)	
	<u>1983-84</u>	<u>Full year</u>
VAT	-5	-5
Tobacco	95	100
Drink	140	145
Petrol	190	190
Derv	40	40
VED - cars/light vans	93	93
- lorries	37	37
 Total all duties	<hr/> 590	<hr/> 600

VAT. Basic rate remains 15 per cent; registration limit increased from £17,000 to £18,000.

Tobacco. Duty (inclusive of VAT) up 3p a packet of 20 cigarettes (from 18 March 1983). No change in rate of duty on pipe tobacco.

Drink. Duty (inclusive of VAT) up 1p on a typical pint of beer, 5p on a bottle of table wine, 7p on a bottle of sherry, 25p on a bottle of spirits, 1p on a pint of cider (from 16 March 1983).

Petrol. Duty (inclusive of VAT) up 4p a gallon; derv up 3p a gallon.

Heavy fuel oil. No change.

Vehicle Excise Duty (on or after 16 March). Car duty up by £5 to £85. Approximate 10 per cent reduction in rate for 315,000 lighter, less damaging lorries; increase of between 5 per cent and 26 per cent for selected lorries; heaviest, most damaging lorries suffer largest increase. New 33 to 38 tonne lorries to cover their road costs from the outset.

J. Housing, Home Ownership and Construction

Ceiling for mortgage interest relief up from £25,000 to £30,000 (cost £50 million in 1983-84). Relief extended to self-employed in tied accommodation buying houses elsewhere.

Limit on expenditure eligible for home repair grants increased by 20 per cent. Additional resources to "enveloping" schemes - external repairs to whole streets or terraces in inner city areas. (Cost of these 2 measures - £60 million in 1983-84.)

Stock relief available on houses accepted by builders in part exchange.

Industrial buildings allowance - permitted proportion of office space up from 10 per cent to 25 per cent (full year cost £25 million).

Development Land Tax deferment scheme on developments for owners' own use extended from April 1984 to April 1986.

K. Employment Measures

Enterprise Allowances to help unemployed people set up their own business extended to whole country.

90,000 men between 60 and 65 no longer required to register solely in order to protect pension rights.

42,000 unemployed men on Supplementary Benefit will no longer need to wait a year (or to reach 65) to qualify for long term rate of SB.

New scheme for part-time job release.

L. National Insurance Surcharge

The NIS is to be cut by another $\frac{1}{2}$ per cent to 1 per cent from 1 August. Benefit to be confined to private sector. (Cost £215 million in 1983-84, £390 in full year).

M. Small Firms, Enterprise and Wider Share Ownership.

Measures to foster growth of small and medium sized enterprises and improve their competitive environment. The new VAT registration limit and the changes in capital taxation will also help small firms.

Business Expansion Scheme extends and improves the Business Start-up Scheme. The life of the scheme is extended to April 1987, it will now be applied to new and established unquoted trading companies and the maximum yearly investment limit will be raised from £20,000 to £40,000.

Corporation Tax - small companies rate cut from 40 per cent to 38 per cent; profits limits raised - lower limit up £10,000 to £100,000 - upper limit up £275,000 to £500,000. (Cost £40 million 1983-84; £70 million in full year.)

Interest relief extended to share purchases in employee buy-outs.

Deep-discounted stock - borrowers to get relief for accrued discount; investors to pay tax only on redemption and sale.

Profit Sharing and share options:-

- a. profit share limit - £1,250 annual limit plus alternative of 10 per cent of salary to maximum of £5,000;
- b. save-as-you-earn monthly limits raised by £25 to £75;
- c. for other share options, 3 year instalment period over which income tax can be spread extended to 5 years.

Loan guarantee scheme - ceiling for total lending raised from £300 million to £600 million.

Small Industrial Workshop Scheme - averaging of size requirement for conversions of old buildings.

Freeports - legislation to be introduced; a few experimental locations to be authorised.

N. Technology and Innovation

Small Engineering Firms Investment Scheme re-opened.

First year allowances for rented teletext receivers extended to June 1984, and for British films until March 1987.

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Also includes help with information technology, innovation linked investment and extension of science parks. (Total cost of technology and innovation measures package - £240 million over three years).

O. North Sea Oil Regime

Total North Sea revenues expected to be about £8 billion in 1983-84 similar to 1982-83 estimated outturn. A package of reliefs totalling £800 million over four years for existing fields, together with a substantially more favourable regime for future fields. Total cost of Budget tax reductions estimated at £115 million in 1983-84.

Advance petroleum revenue tax (APRT), 20 per cent rate from 1 July 1983 cut to 15 per cent; to be phased out completely by the end of 1986.

PRT relief for expenditure incurred in searches or appraisal of discovered reserves, other than in existing oil fields or developments.

New fields (consent given after 1 April 1982) will get double existing oil allowance of $\frac{1}{2}$ million tonnes each six months (total limit 10 million tonnes) and will not pay royalties. (Does not apply to onshore and Southern Basin oil fields).

Abolition of restriction on PRT relief for expenditure on shared assets (eg pipelines).

P. Capital Taxation (Capital Gains Tax, Capital Transfer Tax) and stamp duty.

CGT. Annual exempt slice raised £300 in line with inflation to £5,300.
Retirement relief doubled from £50,000 to £100,000.

CTT. Thresholds and rate bands raised in line with inflation; threshold up £5,000 to £60,000.
Certain business and agricultural reliefs extended.

No change in Stamp Duty rates and thresholds. Consultative document to be issued.

Q. Fringe Benefits, Tax Avoidance, International Taxation

1984-85 scale charges for company cars up by about 15 per cent from those applying in 1983-84.

Certain special tax advantages for directors and higher paid employees removed (eg on cost of children's education, expensive houses).

Measures to be brought in to prevent manipulation of group and consortium relief.

Legislation on "Tax Havens" to be introduced as per consultative document "Taxation of International Business". Between them, proposals on tax havens and on ACT and double taxation relief will not involve any increase in the total tax burden on international business. No measures on company residence or upstream loans.