

# Supplementary Financial Statement and Budget Report 1974–75

RETURN to an Order of The House of Commons dated 12 November 1974: for

COPY of SUPPLEMENTARY FINANCIAL STATEMENT AND BUDGET REPORT 1974–75  
as laid before the House by the CHANCELLOR OF THE EXCHEQUER

Treasury Chambers,  
12 November, 1974 } JOHN GILBERT

---

*Ordered by The House of Commons to be printed*  
*12 November, 1974*

---

LONDON  
HER MAJESTY'S STATIONERY OFFICE  
45p net

## PART I

### THE ECONOMIC BACKGROUND TO THE BUDGET

#### CONTENTS

Table

		Page
<b>PART I. THE ECONOMIC BACKGROUND TO THE BUDGET</b>		
	Recent developments ... ..	4-5
	Short-term forecasts of economic activity ... ..	6
1	Forecasts of expenditure, imports and gross domestic product ... ..	7
<b>PART II. PUBLIC SECTOR TRANSACTIONS</b>		
	Introduction ... ..	8
2	Public sector transactions by economic category and sub-sector ... ..	9
3	Public sector transactions by economic category ... ..	10-11
4	Public sector financial surplus and borrowing ... ..	12
<b>ANNEX</b>		
5	Proposed changes in taxation ... ..	13-14
6	Estimated effects of changes in taxation ... ..	15
7	Taxation ... ..	16

#### RECENT DEVELOPMENTS

Last March it seemed likely that the rate of loss of gross domestic product in the early part of the year had been of the order of 10 per cent. It was believed that not much final demand had been lost or postponed and that there had been a considerable reduction of stocks. It was expected that replacement of lost stocks would be a powerful force sustaining activity in the second half of the year.

2. By summer it was clear that the losses in the early part of the year had been over-estimated and that the pressure of demand was easing a little. The measures of 22 July were designed primarily to cut into the rate of increase of prices. They were intended also to help industry and employment by taking up some slack, especially in the development areas, without putting any strain on the economy as a whole. In September the Government announced some additional public expenditure on construction, mainly in the financial year 1975-76.

#### Developments in economic activity

3. By the second quarter of this year the level of gross domestic product appears to have recovered roughly to the level of the second half of 1973. The available indicators suggest some further increase since the middle of the year. The index of industrial production for the third quarter was about one per cent above its average in the second quarter.

4. Among the components of expenditure there seems to have been a distinct recovery in personal consumption. Real personal disposable income fell in the first half of the year, when prices rose faster than earnings. More recently earnings have risen faster than prices. The new rates of pension and other social security benefits were paid from late July, also adding to purchasing power. Against this background the volume of consumers' expenditure is estimated to have recovered in the third quarter to a level close to that of a year earlier.

5. The balance between the volume of exports and the volume of imports which had improved early in the year seems not to have changed much since. In the third quarter the volume of exports continued at a level 5-6 per cent above the second half of last year, while the volume of imports fell between the two periods.

6. Investment in private housing, which fell very sharply in the first half of this year, may have fallen less since. The rates of starts and completions both seem to be steadier, though at low levels. There is, as yet, no direct evidence that the upward trend in manufacturing investment was reversed after the second quarter, though the probability of a fall sometime before the end of the year was to be inferred from the results of the latest official investment intentions enquiry, carried out in August and September. Nor is there much indication of how investment in stocks may have been changing: it seems unlikely however that it will have been as large as in the second quarter.

7. In brief, the level of total output in the third quarter may have been close to, perhaps a little above, that of a year earlier.

8. The level of unemployment was a little under 640,000 (United Kingdom seasonally adjusted, excluding school-leavers and adult students), equivalent to some 2½ per cent, in mid-October. The underlying trend appears to be upwards, though recent month-to-month changes have been rather uneven with relatively large increases between June and August and little further change to mid-October. The number unemployed in October was about 100,000 more than it had been a year earlier, when pressure of demand for labour seemed acute. Demand for labour in construction has fallen back sharply. Labour shortages, particularly of skilled workers, have, however, persisted in a number of industries and areas. The demand for skilled engineering workers, as measured by the ratio between unfilled vacancies and unemployed, continues to be very high.

#### Prices and incomes

9. Since July the rate of increase of retail prices, in terms of the change on a year earlier, has been about 17 per cent. The check to the earlier acceleration partly reflected the reduction in the rate of VAT and additional relief to some domestic rate payers announced late in July. The relative importance of increases in import prices and increases in home costs in the rise in the price level is changing. Earlier in the year the rise in import prices was still the main factor, but since June import prices have not changed much. The rise in average earnings has however accelerated.

In the second quarter average industrial earnings were some 14 per cent higher than a year earlier, not very different from the rate of increase last year. But the rate of increase was rising during the quarter and continued to rise in the third quarter. By August the increase on a year earlier was some 20 per cent. This included threshold payments, reflecting earlier increases in retail prices, and some special pay settlements following the end of statutory control of pay.

10. Gross trading profits of companies rose further in the first half of the year. Compared with a year earlier they were up by about 20 per cent. The acceleration of prices had led to a further large increase in the scale of stock appreciation included in the estimates of profits. Gross trading profits of companies net of stock appreciation in the first half year were only about 60 per cent of what they had been on average in 1973.

#### The balance of payments

11. During the first nine months of 1974 the current account deficit totalled just under £2,900 million. The deficit increased rapidly in the first half of the year, but showed considerable improvement in the third quarter. The balance of trade in petroleum products stabilised and the fall in the visible deficit on all goods other than petroleum and its products continued. The surplus on net invisibles remained about £100 million a month.

12. The volume of United Kingdom exports of manufactures may have maintained a fairly constant share of world trade at least in the first half of this year. Between the second half of 1973 and the first half of 1974 world exports rose perhaps 4 per cent and United Kingdom exports some 4–5 per cent.

13. In recent months an important development has been the check to the rise in import prices, as demand weakened in some commodity markets. Though in September import prices in total were just over 40 per cent higher than they had been a year earlier, their level has fallen since June. Export prices on the other hand have continued to rise rapidly. In September they were about a third higher than a year earlier, an increase somewhat larger than that in wholesale prices of manufactured goods sold on the home market.

14. Despite the deficit on current account the official reserves rose \$1,071 million in the ten months to the end of October (£443 million at closing market rates). The net inflow of identified investment and other capital flows over the first six months of 1974 was £1,750 million. This included foreign currency borrowing of almost £850 million by United Kingdom public sector bodies (£740 million of which was under

the exchange cover scheme), an increase of £400 million in overseas countries' exchange reserves of sterling, and a large net inflow of about £570 million on oil and miscellaneous investment. There were also unidentified inflows (a positive balancing item) of some £450 million, mostly in the first quarter. In the third quarter foreign currency borrowing by the public sector under the exchange cover scheme totalled a further £154 million. In addition \$500 million (£214 million) was drawn for technical reasons during October under the \$2½ billion Eurodollar loan announced in March.

15. Sterling remained steady throughout the first half of the year at an effective depreciation of around 17 per cent. More recently, the effective depreciation has been 18–19 per cent.

#### Monetary and financial developments

16. During the early months of 1974 the growth in money stock on the broad definition decelerated sharply. It is now increasing at a rate well below the growth of gross domestic product in current prices. The main expansionary influence on M3 since the spring has been the growth in sterling lending to the private sector. Within the total, lending to manufacturing industry has remained buoyant, while the rate of lending to persons, property companies and for financial transactions has fallen off. Large sales to the general public of public sector debt took place during the summer months. This and the financing of the balance of payments deficit helped to restrict the growth of M3.

17. Short-term interest rates have fallen since the spring, despite higher rates abroad during the summer. The Bank of England's Minimum Lending Rate fell to 12 per cent in April, and dropped further in stages to 11½ per cent in mid-September. Clearing banks' base rates have also fallen, and the building societies' net inflow has improved significantly with the lower competing rates. In contrast, long-term interest rates have tended to rise.

18. In general, banks have remained well within the guidelines set under the supplementary deposits scheme for the growth in their interest-bearing eligible liabilities: the average rate of growth in the first nine months to mid-September was under half the limit set. Companies have continued to rely heavily on the banks for borrowing. They have needed cash to finance the roll-over of stocks at rising prices and to cover tax obligations, and the Price Code has required them to absorb a proportion of rising labour costs. In recent months both companies and bankers appear to have grown cautious about further extensions of short-term borrowing.

#### SHORT-TERM FORECASTS OF ECONOMIC ACTIVITY

19. The following conventional table shows forecasts for the main expenditure aggregates, imports and gross domestic product in the current half year and the first half of 1975. The growth rates shown in the lower part of the table between periods of which one is the first half of 1974 are influenced by the loss of output as a result of fuel shortages in the early part of that period.

20. An important assumption used in compiling the forecasts is that the volume of world trade in manufactures continues to rise slowly. The forecasts also indicate the view that industrial activity will be quite well sustained in the new circumstances created by the proposals in the Budget Statement.

21. The forecasts for public expenditure on goods and services draw on present programmes and, where necessary, anticipated programmes. They may be subject to revision in the light of the annual public expenditure White Paper. Current expenditure on goods and services is shown as rising again somewhat after a check. The trend of public investment is now upwards, particularly investment by some nationalised industries.

22. Private investment in total is shown as changing little from the level of the first half of 1974. At that time manufacturing investment was rising but other elements had fallen. The forecast allows for some fall in manufacturing and other industrial investment and some further fall in the rate of investment in

private housing. A continued rise in investment connected with North Sea oil and gas projects is, however, envisaged.

23. The forecasting of investment in stocks is always particularly uncertain. The table shows a radically different picture for 1974 from that suggested last March. In the forecasts it is, in effect, assumed that there will be some downward tendency in stock/output ratios, but no strong intention to reduce them.

24. Consumers' expenditure is forecast to continue to rise in the current quarter, and, more slowly, into next year. It seems reasonable to suppose that the recovery of real personal disposable income is continuing in the current quarter. It is less easy to judge how it may develop in the months ahead.

25. As indicated in paragraph 20, some continuing growth in the volume of world trade in manufactured goods is assumed. This is reflected in the further growth of the volume of exports of goods and services. The forecasts for imports of goods and services show a renewed increase next year, after the fall during the present year, consistent with the pattern of total final expenditure shown.

26. The path of total output indicates some continued fall in the pressure of demand, though not a sharp fall. Between the second half of 1974 and the first half of 1975 the growth of gross domestic product is put at an annual rate of about 2 per cent.

## PART II

### PUBLIC SECTOR TRANSACTIONS

#### INTRODUCTION

#### SHORT-TERM FORECASTS OF ECONOMIC ACTIVITY—continued

TABLE 1. FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT<sup>(1)</sup>

£ million at 1970 prices, seasonally adjusted

	Consumers' expenditure	Public expenditure on goods and services			Private fixed investment	Exports of goods and services	Investment in stocks	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Gross domestic product at factor cost	GDP index 1970 = 100
		Public authorities' consumption	Public investment	Total								
1972 ... ..	34,150	9,750	3,900	13,650	5,650	12,400	—50	65,800	12,550	8,500	44,750	104.0
1973 ... ..	35,750	10,100	3,500	14,000	6,100	13,500	700	70,050	13,950	9,000	47,100	109.4
1974 ... ..	35,850	10,300	4,000	14,300	5,700	14,250	—150	69,950	14,050	8,900	47,000	109.2
1972 first half ...	16,800	4,850	2,000	6,850	2,750	6,200	—150	32,450	6,150	4,200	22,100	102.7
second half ...	17,350	4,900	1,900	6,800	2,900	6,200	100	33,350	6,400	4,300	22,650	105.2
1973 first half ...	17,850	5,000	1,950	6,950	3,000	6,700	350	34,850	6,850	4,500	23,500	109.2
second half ...	17,900	5,100	1,950	7,050	3,100	6,800	350	35,200	7,100	4,500	23,600	109.7
1974 first half ...	17,750	5,100	2,050	7,150	2,850	7,100	—200	34,650	7,050	4,400	23,200	107.8
second half ...	18,100	5,200	1,950	7,150	2,850	7,150	50	35,300	7,000	4,500	23,800	110.6
1975 first half ...	18,400	5,250	2,000	7,250	2,800	7,400	150	36,000	7,300	4,600	24,100	112.0
<i>Percentage changes</i>												
First half 1973 to first half 1974 ...	—0.5	2.0	5.0	3.0	—4.5	6.0		—0.5	3.5	—2.5	—1.5 <sup>(2)</sup>	
Second half 1973 to second half 1974 ...	1.0	1.5	—1.0	1.0	—7.0	5.0		0.5	—1.5	—	1.0	
First half 1974 to first half 1975 ...	3.5	3.5	—3.0	1.5	—2.0	4.5		4.0	3.5	5.5	4.0 <sup>(2)</sup>	
<i>Percentage change at annual rate</i>												
Second half 1973 to first half 1975 ...	2.0	2.0	0.5	1.5	—6.0	5.5		1.5	1.5	1.5	1.5	

<sup>(1)</sup> All figures in Table 1 are based on "compromise" estimates of gross domestic product.  
<sup>(2)</sup> Affected by fuel shortages which reduced output early in 1974.

The tables in this Part present the transactions of the public sector analysed in accordance with the principles and methods used in the compilation of the national income accounts statistics.\* They are designed to assist in a better understanding of the impact on the economy of the operations of the public sector and to show how the transactions of the various authorities comprising the public sector combine to produce a consolidated account for the sector as a whole. The figures in all the tables are consistent with the relevant components of the economic forecasts, which are shown in Part I at constant 1970 prices.

The public sector accounts cover the current and capital transactions of the central government (including the Consolidated and National Loans Funds, the National Insurance Funds and all other central government funds and accounts) and of local authorities, together with the transactions of the nationalised industries and other public corporations on appropriation and capital accounts. All transactions within the public sector, such as grants and loans from the central government to local authorities and public corporations, disappear on consolidation.

The figures for receipts and expenditure in 1974–75 are measured at estimated outturn prices. In Tables 3

\* A full description of the principles on which the national income accounts are based and of the methods used in their compilation is given in "National Accounts Statistics: Sources and Methods", H.M.S.O., 1968.

and 4 the 1974 Budget estimates for 1974–75 are shown alongside the estimated position before and after the November 1974 Budget changes. All the estimates are expressed to the nearest £ million but this should not be taken to imply that they possess that degree of accuracy. Forecasting current price expenditure and tax receipts is particularly difficult when the rate of inflation is changing.

Table 2 shows in broad economic categories the transactions of the central government, local authorities and public corporations and how they combine to produce a consolidated account for the public sector; the major transfers between these three sub-sectors are displayed.

Table 3 analyses the transactions of the public sector in accordance with the national accounts or economic classification. For certain categories of receipts and expenditure, transactions of the central government are distinguished from those of local authorities and public corporations.

Table 4 presents a summary of the transactions of the public sector as a whole, and of each sub-sector, in a form designed to bring out their financing implications. It shows how far savings and net receipts of capital transfers exceed, or are exceeded by, expenditure on fixed assets and increases in the value of stocks and work in progress; and how the resultant financial surplus or deficit is matched by changes in financial assets or by borrowing.

TABLE 3. PUBLIC SECTOR TRANSACTIONS

TABLE 2. PUBLIC SECTOR TRANSACTIONS BY ECONOMIC CATEGORY AND SUB-SECTOR  
£ million

Receipts positive/payments negative	1974-75 March Budget estimate <sup>(1)</sup>				1974-75 After November Budget changes			
	Central government	Local authorities	Public corporations <sup>(2)</sup>	Total	Central government	Local authorities	Public corporations <sup>(2)</sup>	Total
<b>A. RECEIPTS</b>								
Taxes on income ... ..	13,033	2	-5	13,030	13,312	—	2	13,314
National insurance contributions, etc. ...	5,221	—	—	5,221	5,353	—	—	5,353
Taxes on expenditure ... ..	9,012	3,250 <sup>(3)</sup>	—	12,262	8,570	3,099 <sup>(3)</sup>	—	11,669
Gross trading surplus <sup>(4)</sup> ... ..	22	130	2,620	2,772	19	82	2,586	2,687
Rent <sup>(5)</sup> , interest and dividends, etc. ...	381	1,700	549	2,630	375	1,759	488	2,622
Taxes on capital and other capital transfers ... ..	793	—	28	821	776	—	27	803
Other financial transactions <sup>(6)</sup> ... ..	-428	-22	-14	-464	303	19	-235	87
Borrowing requirement ... ..	1,536	599	598	2,733	3,930	1,237	1,164	6,331
<b>TOTAL RECEIPTS</b> ... ..	<b>29,570</b>	<b>5,659</b>	<b>3,776</b>	<b>39,005</b>	<b>32,638</b>	<b>6,196</b>	<b>4,032</b>	<b>42,866</b>
<b>B. EXPENDITURE</b>								
Current expenditure on goods and services ... ..	-9,441	-6,422	—	-15,863	-9,952	-7,160	—	-17,112
Debt interest ... ..	-2,116	-1,014	-299	-3,429	-2,235	-1,150	-454	-3,839
Current grants to personal sector ... ..	-7,648	-530	—	-8,198	-7,734	-516	—	-8,250
Other current expenditure ... ..	-2,348	-218	—	-2,566	-3,332	-307	—	-3,639
Gross domestic fixed capital formation ... ..	-958	-2,574	-3,000	-6,532	-1,027	-3,023	-2,986	-7,036
Increase in value of stocks ... ..	-91	—	-265	-356	-71	-176	-390	-461
Capital transfers ... ..	-799	-163	—	-962	-761	—	—	-927
Lending, etc. ... ..	-566	-382	-151	-1,099	-1,001	-360	-231	-1,592
<b>TOTAL EXPENDITURE</b> ... ..	<b>-23,967</b>	<b>-11,323</b>	<b>-3,715</b>	<b>-39,005</b>	<b>-26,113</b>	<b>-12,692</b>	<b>-4,061</b>	<b>-42,866</b>
<b>C. TRANSACTIONS WITHIN PUBLIC SECTOR</b>								
Interest and dividends ... ..	1,751	-624	-1,127	—	1,752	-677	-1,075	—
Current grants ... ..	-5,087	5,087	—	—	-5,330	5,330	258	—
Capital grants ... ..	-474	284	190	—	-544	286	—	—
Net ending ... ..	-1,793	917	876	—	-2,203	1,357	846	—
<b>TOTAL</b> ... ..	<b>-5,603</b>	<b>5,664</b>	<b>-61</b>	<b>—</b>	<b>-6,525</b>	<b>6,496</b>	<b>29</b>	<b>—</b>

(1) Differences from the figures given in Table 6 of the Financial Statement and Budget Report 1974-75 (H.C. 45) reflect changes of classification.

(2) Excludes transactions on operating account, i.e., receipts from sales and subsidies, and payments for current goods and services.

(3) Local rates.

(4) Before allowing for depreciation and stock appreciation.

(5) Includes unidentified items.

	1974-75		
	March Budget estimate <sup>(1)</sup>	Before November Budget changes	After November Budget changes
<b>CURRENT RECEIPTS</b>			
Taxes on income ... ..	13,030	14,099	13,314
National insurance contributions, etc. ... ..	5,221	5,353	5,353
Taxes on expenditure, central government ... ..	9,012	8,495	8,570
Local rates ... ..	3,250	3,099	3,099
Gross trading surplus <sup>(2)</sup> —			
Central government and local authorities ... ..	152	101	101
Public corporations ... ..	2,620	2,586	2,586
Rent <sup>(3)</sup> ... ..	1,888	1,951	1,951
Interest, dividends, etc. ... ..	742	671	671
<b>TOTAL</b> ... ..	<b>35,915</b>	<b>36,355</b>	<b>35,645</b>
<b>CAPITAL RECEIPTS</b>			
Current surplus <sup>(2)</sup> ... ..	5,859	3,515	2,805
Taxes on capital ... ..	793	791	776
Capital transfers ... ..	28	27	27
Receipts from certain pension "funds" (net) ... ..	148	145	145
Adjustments for accruals of taxes on expenditure ... ..	-332	-43	-108
Miscellaneous capital transactions (net) ... ..	-280	50	50
Borrowing requirement (net balance) <sup>(4)</sup> —			
Central government ... ..	1,536	3,140	3,930
Local authorities <sup>(5)</sup> ... ..	599	1,237	1,237
Public corporations <sup>(7)</sup> ... ..	598	1,164	1,164
<b>Total borrowing requirement</b> ... ..	<b>2,733</b>	<b>5,541</b>	<b>6,331</b>
<b>TOTAL</b> ... ..	<b>8,949</b>	<b>10,026</b>	<b>10,026</b>

(1) Differences from the figures given in Table 5 of the Financial Statement and Budget Report 1974-75 (H.C. 45) reflect changes of classification.

(2) Before allowing for depreciation and stock appreciation.

(3) Includes estimated payments of £80 million under sterling guarantee arrangements.

(4) Includes refinancable export credits.

(5) Defined as in Financial Statistics.

(6) Borrowing other than from central government and public corporations.

(7) Borrowing other than from central government and local authorities.

£ million

	1974-75		
	March Budget estimate <sup>(1)</sup>	Before November Budget changes	After November Budget changes
<b>CURRENT EXPENDITURE</b>			
Current expenditure on goods and services—			
Central government ... ..	9,441	9,952	9,952
Local authorities ... ..	6,422	7,160	7,160
Subsidies—			
Central government ... ..	1,953	2,995	2,995
Local authorities ... ..	218	307	307
Debt interest ... ..	3,429	3,839	3,839
Current grants to personal sector—			
Central government ... ..	7,648	7,734	7,734
Local authorities ... ..	550	516	516
Current grants abroad ... ..	395	337	337
Total current expenditure ... ..	30,056	32,840	32,840
Current surplus <sup>(2)</sup> ... ..	5,859	3,515	2,805
<b>TOTAL</b> ... ..	<b>35,915</b>	<b>36,355</b>	<b>35,645</b>
<b>CAPITAL EXPENDITURE</b>			
Gross domestic fixed capital formation—			
Central government ... ..	958	1,027	1,027
Local authorities ... ..	2,574	3,023	3,023
Nationalised industries ... ..	2,212	2,228	2,228
Other public corporations ... ..	788	758	758
Increase in value of stocks—			
Central government ... ..	91	71	71
Nationalised industries ... ..	265	390	390
Capital grants to private sector ... ..	899	866	866
Capital transfers abroad <sup>(3)</sup> ... ..	63	71	71
Net lending to private sector ... ..	611	763	763
Net lending to overseas governments ... ..	78	97	97
Drawings from United Kingdom subscriptions to international lending bodies ... ..	36	53	53
Other net lending and transactions abroad <sup>(4)</sup> ... ..	348	641	641
Cash expenditure on company securities (net) ... ..	26	38	38
<b>TOTAL</b> ... ..	<b>8,949</b>	<b>10,026</b>	<b>10,026</b>

TABLE 4. PUBLIC SECTOR FINANCIAL SURPLUS AND BORROWING

£ million

	1974-75		
	March Budget estimate <sup>(1)</sup>	Before November Budget changes	After November Budget changes
<b>TOTAL PUBLIC SECTOR</b>			
Saving <sup>(2)</sup> ... ..	5,859	3,515	2,805
Capital transfers (net) ... ..	-141	-119	-134
Less: Gross domestic fixed capital formation ... ..	-6,532	-7,036	-7,036
Increase in value of stocks ... ..	-356	-461	-461
Financial deficit ... ..	-1,170	-4,101	-4,826
Financial transactions:			
Increase (-) in assets, etc. <sup>(3)</sup> ... ..	-1,563	-1,440	-1,505
Borrowing requirement ... ..	2,733	5,541	6,331
<b>CENTRAL GOVERNMENT</b>			
Saving <sup>(2)</sup> ... ..	2,780	1,308	598
Capital transfers (net) ... ..	-480	-514	-529
Less: Gross domestic fixed capital formation ... ..	-958	-1,027	-1,027
Increase in value of stocks ... ..	-91	-71	-71
Financial surplus/deficit ... ..	1,251	-304	-1,029
Financial transactions:			
Net lending to local authorities and public corporations ... ..	-1,793	-2,203	-2,203
Increase (-) in other assets, etc. <sup>(3)</sup> ... ..	-994	-633	-698
Borrowing requirement ... ..	1,536	3,140	3,930
<b>LOCAL AUTHORITIES</b>			
Saving <sup>(2)</sup> ... ..	1,341	660	660
Capital transfers (net) ... ..	121	110	110
Less: Gross domestic fixed capital formation ... ..	-2,574	-3,023	-3,023
Financial deficit ... ..	-1,112	-2,253	-2,253
Financial transactions:			
Increase (-) in assets, etc. <sup>(3)</sup> ... ..	-404	-341	-341
Borrowing within public sector ... ..	917	1,357	1,357
Borrowing from other sources ... ..	599	1,237	1,237
<b>PUBLIC CORPORATIONS</b>			
Saving <sup>(2)</sup> ... ..	1,738	1,547	1,547
Capital transfers (net) ... ..	218	285	285
Less: Gross domestic fixed capital formation ... ..	-3,000	-2,986	-2,986
Increase in value of stocks ... ..	-265	-390	-390
Financial deficit ... ..	-1,309	-1,544	-1,544
Financial transactions:			
Increase (-) in assets, etc. <sup>(3)</sup> <sup>(4)</sup> ... ..	-165	-553	-553
Borrowing from central government ... ..	876	933	933
Borrowing from other sources ... ..	598	1,164	1,164

(1) Differences from the figures given in Table 7 of the Financial Statement and Budget Report 1974-75 (H.C. 45) reflect changes of classification.

(2) This is the current surplus in the current account of the central government and local authorities, and the undistributed income (including additions to interest and tax reserves) in the appropriation account of public corporations. Saving is measured before allowing for depreciation and stock appreciation.

(3) Includes unidentified items.

(4) Includes lending to local authorities.

## CUSTOMS AND EXCISE

## ANNEX

TABLE 5. PROPOSED CHANGES IN TAXATION

## INLAND REVENUE

**Income tax**

It is proposed to introduce for 1975–76 a new allowance for the elderly, the Age Allowance. This will take the form of a special single person's allowance of £950 and a married allowance of £1,425 for persons aged 65 and over whose total income does not exceed £3,000. For those with incomes above that level the difference between the special allowances and the ordinary single and married allowances will be reduced by £2 for each additional £3 of income. The special allowances will replace age exemption for persons over 65, which will be abolished.

It is proposed to increase the blind person's allowance for 1975–76 from £130 to £180.

It is proposed to reduce the threshold for the investment income surcharge for 1974–75 from £2,000 to £1,000, but the band of investment income from £1,000 to £2,000 will be liable to surcharge at the reduced rate of 10 per cent. For persons over 65, however, the threshold will be £1,500, with a reduced rate band of £500.

It is proposed to restore relief for trade union provident benefit income for the period from 6 April, 1972 to 15 September, 1974.

**Corporation tax**

It is proposed to introduce a measure of relief from corporation tax for increases in stock valuations in accounting periods ending in the financial year 1973–74.

It is proposed to increase the initial allowance on expenditure on industrial buildings incurred after 12 November, 1974 from 40 per cent to 50 per cent.

It is proposed to introduce a 100 per cent allowance for expenditure incurred after 12 November, 1974 on insulating existing industrial buildings.

It is proposed to strengthen the provisions of the law which counter avoidance of tax by sales of property at under value or over value between associated persons.

**Estate duty and capital transfer tax**

It is proposed:

- (a) To introduce a capital transfer tax on lifetime gifts having effect from 26 March, 1974.
- (b) To vary the estate duty on deaths after 12 November, 1974, by:
  - (i) withdrawing the existing 45 per cent relief for agricultural land and business assets, but restricting the taxable value of land owned and farmed by working farmers (subject to an upper limit) to 20 times its rental value;
  - (ii) withdrawing the special treatment of timber;
  - (iii) exempting property left to a surviving spouse—whether absolutely or on trust;
  - (iv) introducing a new scale of rates.
- (c) To replace the estate duty (as amended) by the capital transfer tax for deaths after the Finance Bill becomes law.

The new estate duty scale and the capital transfer tax scale will be:

<i>Slice of estate or chargeable transfers</i>	<i>Rate</i>
£'000	(per cent)
0–15	0
15–20	10
20–25	15
25–30	20
30–40	25
40–50	30
50–60	35
60–80	40
80–100	45
100–120	50
120–150	55
150–500	60
500–1,000	65
1,000–2,000	70
Over 2,000	75

**Value added tax**

It is proposed to consolidate the rate of 8 per cent applied from 29 July, 1974 by Order under Section 9 (3) of the Finance Act 1972. The consolidation will apply with effect from 18 November, 1974.

It is proposed that with effect from 18 November, 1974 value added tax shall be chargeable at the rate of 25 per cent on supplies of:

- (a) light hydrocarbon oil on which duty has been, or is to be, charged without relief from, or rebate of, such duty, except light hydrocarbon oil put up for sale as fuel for mechanical lighters in containers of a capacity not exceeding 20 fluid ounces; and
- (b) petrol substitutes and power methylated spirits.

It is proposed that where on or after 13 November, 1974 value added tax is charged on the supply or importation of materials to be used in the construction (otherwise than in the course of a business) of a complete dwelling, the tax shall be repayable to the builder by Customs and Excise after the completion of the dwelling.

It is proposed to amend the Consular Relations Act 1968, the International Organisations Act 1968, and the Diplomatic and Other Privileges Act 1971, to provide that value added tax paid in respect of imported hydrocarbon oil purchased by diplomats, consuls and international organisations, shall be refunded.

TABLE 6. ESTIMATED EFFECTS OF CHANGES IN TAXATION

	£ million	
	Estimate for 1974-75	Estimate for the full year
<b>INLAND REVENUE</b>		
<i>Income Tax—</i>		
Special allowance for elderly ... ..	Nil	-285
Increase in blind person's allowance ... ..	Nil	- $\frac{1}{2}$
Lowering of threshold for investment income surcharge ... ..	Negligible	+40
Restoration of trade union provident benefit income relief ... ..	-10	(a)
<i>Corporation Tax—</i>		
Relief for increase in stocks ... ..	-775	(b)
Increase in initial allowance for industrial buildings ... ..	Negligible	-20 (c)
<i>Estate Duty and Capital Transfer Tax—</i>		
New scale of rates for estate duty ... ..	-12	} (d)
Full exemption for property left to surviving spouse ... ..	-6	
Withdrawal of existing 45 per cent relief for agricultural and business assets and introduction of new measure of relief for land owned and farmed by working farmers ... ..	+3	
Introduction of capital transfer tax ... ..	Negligible	
<b>TOTAL INLAND REVENUE</b> ... ..	<b>-800</b>	...
<b>CUSTOMS AND EXCISE</b>		
<i>Value added tax—</i>		
Higher rate of 25 per cent on petrol ... ..	+10	+200
Reliefs in connection with housebuilding and diplomatic privileges ... ..	Negligible	-1
<b>TOTAL CUSTOMS AND EXCISE</b> ... ..	<b>+10</b>	<b>+199</b>
<b>Total</b> ... ..	<b>-790</b>	...

(a) Relief has already been restored from 16 September, 1974 onwards.

(b) The total eventual cost is £1,070 million of which £105 million will fall in 1975-76.

(c) The cost is £5 million in 1975-76.

(d) In 1975-76 the cost is £25 million, the net result of a loss of estate duty of £185 million and a yield of capital transfer tax of £160 million.

TABLE 7. TAXATION

	£ million		
	1974-75 Estimate		
	March Budget estimate	Before November Budget changes	After November Budget changes
<i>Inland Revenue—</i>			
Income Tax ... ..	9,682	10,510	10,500
Surtax ... ..	200	190	190
Corporation Tax ... ..	3,265	3,510	2,735
Capital Gains Tax ... ..	320	320	320
Death Duties ... ..	380	380	365
Stamp duties ... ..	240	189	189
Other ... ..	—	1	1
<b>Total Inland Revenue</b> ... ..	<b>14,087</b>	<b>15,100</b>	<b>14,300</b>
<i>Customs and Excise—</i>			
Value added tax ... ..	2,700*	2,550	2,560
Oil ... ..	1,610	1,560	1,560
Tobacco ... ..	1,275	1,325	1,325
Spirits, Beer and Wine ... ..	1,125	1,100	1,100
Betting and Gaming ... ..	235	240	240
Car Tax ... ..	125	135	135
Other Revenue Duties ... ..	10	10	10
Protective Duties, etc. ... ..	525	530	530
Agricultural Levies ... ..	45	15	15
<b>Total Customs and Excise</b> ... ..	<b>7,650</b>	<b>7,465</b>	<b>7,475</b>
Motor Vehicle Duties ... ..	540	541	541
<b>TOTAL TAXATION</b> ... ..	<b>22,277</b>	<b>23,106</b>	<b>22,316</b>

\* Reduced to £2,560 million when the standard rate of VAT was reduced to 8 per cent on 29 July.