

PRIME MINISTER

The Chancellor wishes to raise two issues:-

- (i) YTS. He is worried that the framework you agreed with David Young will not prove negotiable. Doubling the number of places and withdrawal of SB can be achieved within a budget of £310 million only if the training allowance is substantially reduced, and the waiting allowance approaches the child benefit level. The Treasury worry is that at a late stage it will be called upon to produce more money to save the scheme. They believe that if SB is to be withdrawn it is better to reconcile one's self to higher costs at the outset, and cutback the proposed expansion of Community Programme.
- (ii) The Chancellor and Mr. Fowler, in discussing the restructuring of employer NIC, have come to see merit in a parallel change on the employee side, with the exception that employees' upper earnings limit would not be removed. The taper of rates would look as follows:-

<u>Pay per week</u>	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
35-55	5%	5%	10%
55-90	7%	7%	14%
90-265	9%	10-45%	19.45% (as now)
265 -->	nil	10.45%	10.45%

This would produce a dramatic cut in the cost of employing people at very low rates of pay, from 19.45% to 10% in the lowest band, and to 14% in the

*Another possible way - transition of which at each stage*

middle band. This extension to the employees side could be financed by putting 1% less on tax thresholds. The Chancellor believes this would still be consistent with the contributory principle.

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AT

4 March, 1985.

BUDGET - SECRET

P.S. If you have time to glance through the King document, you could compare notes with the Chancellor. You will also need to decide whether to reconvene the 'Semina' group to discuss it.

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