

From: The Rt. Hon. Sir Geoffrey Howe, QC MP



HOUSE OF COMMONS
LONDON SW1A 0AA

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Caroline

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CONFIDENTIAL

8th March, 1979

Dear Margaret

INSTRUMENTS OF MONETARY POLICY

The points raised in Adam Ridley's note of 5th March on this subject are, of course, important. Nigel Lawson and I find ourselves discussing them frequently wherever we go in the City and take exactly the line set out in the second sentence of Adam's second paragraph.

There are other related issues, such as the extent to which Gilt transactions in particular enjoy a favourable tax position (these are not the only tax privileges which add to the size and power of the institutions). For example, the latest Public Expenditure White Paper, in the table listing the "cost" of various tax reliefs shows that the exemption of Gilt transfers from Stamp Duty "cost" £1.3 billion a year. This is, of course, an over-statement since if any Stamp Duty was imposed, the turn-over in the market would be sharply reduced.

There is also the fact that sales of Gilts which have been held for more than twelve months are exempt from CGT. Curiously the "cost" of this is not stated in the White Paper and I am arranging for the point to be raised in a PQ.

By way of example of what all this means, it may be worth knowing - in confidence, of course - that the Gilt edged turn-over of one insurance company during 1978 was almost £800 m. This established tax-free profits of £22 m. and offsettable tax losses of £7m. Profits free of CGT were £7m. with allowable losses on that front of £5m.

On this last point, we need to be even more careful before we say anything at all.

For all these reasons, I agree with Adam that it would be well worth arranging a discussion, after the Budget, with Gordon Pepper. It would be important for that discussion to be based on some preliminary analysis on paper undertaken by George Cardona as Adam suggests.

The Rt.Hon.Margaret Thatcher MP
cc Adam Ridley

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