



Prime Minister

2

A

A rather negative response. I am afraid.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 22 December 1980

12

27/12

with speed of air
to the Chancellor
not.

T P Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Tim,

Frag A

You wrote to John Wiggins on 4 December with an idea for a tax relief arising out of the Prime Minister's recent discussions with Signor Forlani. The purpose of the relief was to induce unquoted companies to borrow through the market rather than through the banks.

This has a bearing on two areas which the Chancellor has already asked officials to review. The first is ways of encouraging companies to switch from bank borrowing to debentures. The second is fiscal inducement for outsiders to invest in unquoted companies.

In the first, we are not discriminating between quoted and unquoted companies. But in practice anything which emerges is likely to affect mainly quoted companies. This is because there is little by way of market mechanism whereby unquoted companies can borrow from individuals. For the same reason, it is doubtful whether exempting the individual lender from tax on the first part of any interest would have much practical effect. (Entrepreneurs do of course lend to their own companies, often to avoid their companies having to pay high interest rates to the banks.)

The second - the possibility of encouraging investment by individuals in the equity of unquoted companies - is also relevant. There is of course always the possibility that individuals will in turn borrow from the banks in order to invest, with tax relief, whether in equities or through lending. But investment of either kind could help to reduce the dependence of the companies on bank borrowing.

/While we do not



While we do not think the particular suggestion you mentioned is a runner therefore, you will see that we do have this area under close review.

Yours sincerely,

Richard Tolkien

—
R I TOLKIEN
Private Secretary

conqueror