chex.ps/jmt2/89

PERSONAL AND
BUDGET CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

STAMP DUTY

As you know, I intend to announce in the Budget that the ½ per cent duty on share transactions will be abolished from the end of 1989, making it the sixth tax abolished since we came to office.

You asked me whether there is any risk of distorting stock market trading in the period between the Budget and the actual abolition of stamp duty at the end of the year. I have considered this point and have concluded that there is not for the following reasons.

Economic studies suggest that, although the long-term effect of abolition on share dealing will be substantial, the full effect may take time to build up.

When I cut the rate from 1 per cent to ½ per cent in 1986, there was no evidence of any market problems although the gap between the announcement on Budget Day and its implementation on the date of Big Bang was not a great deal shorter than the gap I now have in mind.

ie in the autumn
PReb.

Now, as then, the immediate impact is small relative to the price of shares. Even if the full benefit were passed on to buyers, it would be equivalent to only 10 points off the FTSE index at its current level; the market can move a good deal more widely than that in the course of a day's trading. Many factors enter into decisions about whether and when to buy shares, and it seems unlikely that the prospect of a change in stamp duty would have a substantial effect on the timing of transactions, even in the few weeks immediately preceding abolition. And to the extent that, in that period, some buyers did decide to hold off until after abolition, the expectation that prices would rise as a result post-abolition would encourage other buyers to enter the market in anticipation of arbitrage gains.

NL

[N.L.]

6 February 1989