

CC  
 CST  
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 MST  
 Sir P. Middleton  
 Mr Cassell  
 Mr Lankester  
 Mr Hall  
 Mr Luma  
 Mr Saunders  
 Mr Hood  
 Mr Riley  
 Mr Tortillo  
 Mr Green (IR)  
 Mr Beilman (IR)  
 Mr Billeman (IR)



Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

28 February 1984

Herbert Walden Esq  
 Chairman  
 Building Societies Association  
 3 Savile Row  
 LONDON  
 W1X 3AF

*Herbert Walden*

Thank you for your letter of 24 February about the changed tax treatment of profits made by building societies on the realisation of gilt-edged securities.

I am glad to note that you do not contest the principle of the change, but are concerned rather with what you see as the retrospective nature of its implementation, and with the lack of prior consultation.

I cannot accept the charge of retrospection. As you will be aware, in law it is open to the Inland Revenue to go back and raise assessments on the revised basis for up to six past years. In fact they will not be doing this, and will be applying the new interpretation of the law only to future disposals. I believe this treats the societies in a very fair manner, and I could not therefore agree to the further concession you suggest.

I quite understand that the Association would have liked advance consultations, or more notice of the announcement. But as I hope you will recognise, advance consultation or notification is just not feasible in the case of announcements of such high market sensitivity.

NIGEL LAWSON

*Nigel Lawson*



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

28 February 1984

R S Weir Esq MA  
Secretary General  
The Building Societies Association  
3 Savile Row  
LONDON  
W1X 1AF

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- SIR P. MIDDLETON
- MR CASSELL
- MR LANKESTER
- MR HALL
- MR LUMMA
- MR SANDERS
- MR HOOD
- MR RILEY
- MR PORTILLO
- MR GREEN (IC)
- MR BRINTON (IC)
- MR BRIDGMAN (IC)

*See Richard,*

*would request if required*  
*No 10. (Mr Turnbull)*

I enclose the Chancellor's reply to Mr Walden's letter of 24 February. I am forwarding this to you because I understand that Mr Walden is not in London today.

The Chancellor's letter will be made available to the press today.

*Yours sincerely,*  
*J O Kerr*

J O KERR  
Principal Private Secretary



## THE BUILDING SOCIETIES ASSOCIATION

3 Savile Row, London W1X 1AF  
Telephone: 01-437 0655

24 February 1984

Dear Chancellor

We were very surprised to receive notice yesterday of the changed tax treatment of gilt-edged gains for building societies. This undoubtedly will have a major impact on the way societies operate in the gilt market and on their interest rate structures.

With regard to gilts, societies probably hold at least one-quarter of all short-dated gilts in issue. Many of the low coupon stocks have been tailored with building societies, not least their tax regime, specifically in mind. Now, after societies have purchased them from the Government, it does indeed seem bizarre that the same Government responsible for their issue without warning seeks to impose a tax on any resulting gains. The whole operation has a distinct element of retrospection in it. Indeed, one could draw an analogy with the personal sector; the outcry would be deafening if a tax were to be imposed on National Savings Certificates whenever they might have been bought.

So far as societies' interest rates structures are concerned, the new measures mean that the corporation tax burden has at a stroke been effectively doubled. This new charge must be passed on either to borrowers in the form of a higher mortgage rate or to savers in the form of a lower investment rate; the prospect of a mortgage reduction within the next month or so is now clearly diminished and at the least any reduction will be less than would otherwise have been the case. If investment rates are reduced this could result in a diminution in the supply of mortgages.

The overnight imposition of what is in effect a retrospective tax, without prior consultation, has had a considerable impact and a much more equitable solution would have been to impose this tax on purchases rather than realisations after a certain date. Indeed it does seem that investors in offshore funds were given far more lenient treatment than societies when their advantages were terminated in 1983.

We should therefore be grateful if you would consider as a matter of urgency applying the new tax treatment to purchases made after 23 February 1984 rather than to sales made after that date.

Yours sincerely

Herbert Walden  
Chairman

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

Secretary-General: Richard S. Weir MA.

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Mr Beighton  
FST Mr Cassel  
Mrs Lomas  
Mr Purre  
PSTIR



L J H Beighton

Inland Revenue  
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Richard S Weir Esq MA  
Secretary General  
The Building Societies Association  
3 Savile Row  
LONDON W1

23 February 1984

Dear Mr Weir

The Inland Revenue have been considering the present tax treatment of profits made by building societies on the realisation of gilt-edged securities and other similar stock.

At present, as you will know, such profits are treated as chargeable gains, and any losses are allowed, according to the rules of capital gains tax. We are now advised however that a society's liquid funds are employed and at risk in its trade as a building society and hence that any profits on the realisation of those investments form part of its trading profits. Accordingly, on this advice they are chargeable to tax at the special rate of 40% laid down in Section 96 of the Finance Act 1972 and Section 10(3) of the Finance Act 1974 (or at 38% in the case of a society whose corporation tax profits do not exceed £100,000). The Board propose to apply their revised view of the law to any gains realised after today.

Inspectors of Taxes with responsibilities for the tax affairs of building societies are being sent copies of this letter. They will be in touch with individual societies to ensure that the latter are aware of the position and will now bring up to date their correspondence with societies where this has been temporarily in suspense.

I am sending a copy of this letter to the Chief Registrar of Friendly Societies. A copy will also be made available to the press in the terms of the attached release.

Yours sincerely