

Harrell Harris Hughes cc CF *File*
Thank you. I'm not handling
CONFIDENTIAL *the PM with these papers at*
this stage, I'll keep you thought in
mind for post-Christmas.

PAUL GRAY

14 December 1989

Rec'd
14/12

1990 BUDGET - THE D T I SUBMISSION

1. Mr Ridley's letter to the Chancellor of *11* December makes a number of suggestions which would be very welcome to London financial markets.

2. He would like to abolish stamp duty and points out that it now represents 75 per cent of the transaction costs on the biggest deals. German and French stamp duties are likely to go and London risks becoming uncompetitive.

3. The London market in futures and options is under-developed because non-tax paying investors like pension funds are not able to use these derivatives because profits may be taxed as "trading" rather than "investment". New definitions are needed because otherwise firms which want to reduce risks in this way will do so in Paris. The same point extends to the new breed of pooled vehicles investing in futures and options - the DTI will authorise them but they will have no takers in London unless new rules can be hammered out.

4. Mr Ridley gives strong support to the proposals of the Unit Trust Association for changes in the taxation of unit trusts to make them more attractive to non-residents and companies. Here again, European-based trusts will otherwise swamp the market because their tax regulations are less restrictive.

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5. On wider share ownership, Mr Ridley's suggestion that stamp duty be abolished is clearly important, but he also urges a substantial increase in the annual gains tax allowance together with an increase in the maximum amounts which may be invested in Personal Equity Plans. This forms part of the whole process of "levelling the playing field", and would help to arrest the decline in the proportion of shares owned by individuals and, in so doing, contribute to the liquidity of markets.

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