



10 DOWNING STREET

THE PRIME MINISTER

8 April 1980

*Dear Mr. Kington.*

Thank you for your letter of 20 March about Government measures to help small firms.

As you will now have seen from Sir Geoffrey Howe's Budget statement, we have been listening to the wide range of suggestions made in the past year or so for the strengthening of the small firms sector. Much the most important single step we have taken to help the enterprise sector generally was the cut in income tax rates put into effect last year. It has now been possible to add on measures more specifically aimed at small firms. To encourage the flow of equity finance, which you single out for priority, we have introduced:-

- i. the Venture Capital Scheme - tax relief to reduce the risk of loss from direct equity investment;
- ii. a lower charge and higher limit for corporation tax on small profits;
- iii. reductions in taxes on capital;
- iv. an end to apportionment of trading profits;
- v. tax deductibility for some company formation expenses;
- vi. stamp duty relief for dealers in unlisted shares.

/ We selected

*Earl PA VB  
cc:trmt*

*JS*

We selected these measures because they were cost effective and feasible this year. I need hardly say that they are by no means the only ones we have considered, and will continue to consider others in the future.

I note in this context that you attach importance to the Wilson Committee's idea of "Small Firms Investment Companies" and to a Government-backed loan guarantee scheme. The first of these already seems to have borne some fruit in the increased interest on the part of banks and major institutions in equity investment in small firms; a number of subsidiaries specialising in the small firms sector have already been set up. The need for monetary restraint and the contingent public expenditure liability make it difficult for us to launch a government-backed loan guarantee scheme for the time being.

I hope you will not hesitate to keep the Government informed of your views and of the progress of your organisation.

Yours sincerely  
Margaret Thatcher

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