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10 DOWNING STREET

From the Private Secretary

4 December 1980

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Down BA.

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See Italy: Visits by
PM: Part 2.

You will have seen from Michael Alexander's letter of 24 November in which he summarised the Prime Minister's tête-à-tête discussion with Signor Forlani the previous evening that Signor Forlani said that the Italian Government were offering tax incentives to enable non-quoted companies to borrow through the market rather than through the banks.

The Prime Minister has asked me to say that she was much impressed by this idea, and she would like the Chancellor to consider the possibility of introducing something on similar lines here. Presumably this could be looked at as part of the further work on small firms. Signor Forlani indicated that non-quoted companies in Italy would be given an incentive to borrow through the market by being exempted from paying tax on the borrowings. It is not clear that such a scheme would be applicable in the UK since, as I understand it, interest is deducted from trading profits before corporation tax is charged. The Prime Minister has accordingly suggested that we might emulate the Italians; not by exempting them from tax on their borrowings, but by making the interest received by individuals on lending to non-quoted companies up to a certain figure (say £1,000) tax free.

Could you please let me have a note within the next three weeks on whether this idea might be a runner for the Budget.

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SP.