

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 16, 1945

To Mr. Thurston

Subject: Capital Gains Taxation and

From Richard A. Musgrave *RAM*

Capital Values in the United Kingdom

I have not been able to obtain much information as yet, but this is what I have:

## Tax Aspects

The British income tax system does not provide for the taxation of capital gains nor does it allow capital losses to be offset. Capital gains are counted as taxable income only if they are part of the taxpayer's regular business and the assets are considered as stock-in-trade. There has been no change in this provision under the War Income Tax Act.

However, inheritance taxes are very much higher in the United Kingdom than in this country. Thus, the estate tax exemption in the United States is \$60 thousand, while there is none in the United Kingdom. While the tax on a \$50 thousand estate in the United Kingdom is \$1,936, in the U.S. it is zero. On a \$100 thousand estate, \$6,544 is paid in the United Kingdom and \$4,800 in the United States. On a \$200 thousand estate the corresponding figures are \$32,700 and \$20,944 and on a \$500 thousand estate \$126,500 and \$92,704. There is no special gift tax in the United Kingdom, but gifts made within three years of death are counted in on the estate tax.

## Changes in Capital Values

1. Stock prices. Various indices for stock prices give rather different pictures. The Bankers Magazine (1926=100) index shows 76 for 1939, 84 for 1943, and 90 for the end of last year. Other indices show a sharper increase but on the whole the impression is that there has been no boom in stock prices.

Partly the explanation is that income taxes have been so high that there is no speculative interest in dividends whatsoever. Also, available funds have been insufficient. In 1942 there were only 80 persons with taxable income in excess of \$24,000 as against 7,000 of such persons before the war. During the war the market has been entirely on a cash basis, "term settlements" corresponding to our margin trading having been suspended

for the duration. Banks, under informal pressure, have made loans for essential purposes only. In addition, stock market trading is traditionally a much more exclusive affair in London than in New York.

2. Real Estate Values. Data on real estate values in Great Britain seem to be very scarce. However, the Economist reports that residential building costs in November 1943 were 100 per cent above 1939 levels and NHA information indicates the same. Rents have been controlled during the war but not prices of existing houses. The NHA says that they have increased more than the cost of living which would mean they are now not less than 20 per cent above the 1939 level. Because of high housing costs, residential building will have to be subsidized after the war. The Uthwatt Committee on Compensation and Betterment in 1941 recommended that government purchases of land for redevelopment after the war be made at March 1939 prices. But there has been no legal commitment on this. At the beginning of the war the Building Association (which supplies most mortgage loans) agreed to appraise properties for loan purposes at 1939 values. There was little lending from 1939 to 1942. In 1943 lending picked up and there are indications that the 1939 agreement was not adhered to. In particular, there has been concern about speculation in the value of bombed-out lots.

3. Agricultural land values. All I have been able to find out to date is that there is a general impression that agricultural land values have not risen much. British rent control includes farm rents. Since under the British Agricultural System most of the land is rented out to tenants this has probably been very effective in stabilizing land values. Also, price control for agricultural products has been much stricter in the United Kingdom. Price increases have been allowed only where necessary to call forth greater production and these additions to cost have been offset by subsidies to consumer prices.