

*Prime Minister**For this afternoon's  
Budget meeting.*

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

*MES 24/2.*

PRIME MINISTER

## MORTGAGE INTEREST RELIEF CEILING

I know you feel very strongly that we should include in the Budget a provision to increase the ceiling on mortgage interest relief. It seems to me that the minimum we could sensibly do would be to increase the ceiling to £30,000. The Revenue estimate that the 1982/83 cost would be £50m. The longer term cost would of course be significantly higher as people increase their mortgages toward the new ceiling.

2. I must say that I am less worried about the revenue costs of this move than about its political impact. It would give an immediate windfall gain to people who already had mortgages in excess of £25,000 who will be among the better-off in this country. The average income of all building society borrowers in 1981 was about £8,800. But the average income of those taking out loans greater than £25,000 was £16,400. I think this would be damaging in a year when I can do little more than bare indexation on the income tax thresholds.

3. Moreover I am concerned that this move, taken together with the measures I propose on Capital Gains Tax and Capital Transfer Tax, would tilt the balance of my budget towards relief for the better-off. That would attract criticism not only from the Opposition but possibly also from our own supporters.

4. There are also, I think, compelling regional reasons for not increasing the mortgage interest relief ceiling. Only in the South-East has the ceiling begun to bite. In 1980, the average

/new mortgage in London



new mortgage in London was £17,000. In the rest of the country it was just over £13,000. In the South-East 32 per cent of new loans in 1981 were in excess of £20,000, (in the GLC area the proportion was 42 per cent) compared to a UK average of 20 per cent. So the benefit of the increase in the ceiling would be concentrated largely on the South-East: in much of the rest of the country the move would be seen as irrelevant. I think again that it would be damaging to make a move whose benefit was concentrated on the most affluent area of the country.

5. Political attention tends to focus on the plight of the first-time buyer. People who already own their houses benefit from their capital gain when they trade-up. But if we were minded to help the first-time buyer a rise in the mortgage interest relief ceiling is not the way to do it. 85 per cent of first-time buyers have mortgages of under £20,000. Mortgages of over £25,000 tend to be concentrated on those with higher incomes.

6. To my mind possibly the most telling objection is the political capital our opponents could make out of an increase in tax relief to owner occupiers when we are at the same time reducing subsidies to council house tenants by putting up council house rents. Owner occupiers are already favourably treated by the tax system. To improve that treatment further when we are, rightly I believe, reducing subsidies in the public sector would be very difficult. Since we took office the central government subsidy to council house tenants has been reduced by 30 per cent in cash terms. Over that same period relief to owner-occupiers has increased from £1.45 billion to £2 billion: an increase of 40 per cent.

7. My last more general worry is that by raising the £25,000 limit we would be open to criticism for giving further encouragement to bank lending for house purchase, with the inevitable attendant risks to the money supply or interest rates, and to the obvious disadvantage of industrial borrowers.

8. Taken together I think these factors point to not doing

/anything on the



anything on the mortgage interest relief ceiling this year.

*gh*

(G.H.)

24 February 1982