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LONDON SW1P 3EE

My ref:

Your ref:

19 February 1980

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Dear Sir

- will request if required

I wrote to you on 12 February about development land tax and taxation and historic houses. I would be grateful if, in considering your Budget statement, you could also bear in mind 2 further issues which touch on my responsibilities.

Stock Relief

I would ask you to consider again the stock relief provisions. I realise that you revised these arrangements in your Budget last year, but a reduction in the clawback period from six years to four years could be presented as a measure of particular assistance to the construction industry which is very hard hit at present, with little prospect of improvement in the short term. Such a provision would be particularly beneficial to small firms and would accord well into out industrial policies; and as some 90% of the construction industry is made up of very small firms would be well received by them.

will request if required

Capital Gains Tax Relief for Resident Landlords

In your letter of 25 September you said that the question of exempting resident landlords from Capital Gains Tax must be seen in the light of Arthur Cockfield's review of capital taxation. However, I would like to take this opportunity to raise the issue again.

As you know, the Housing Bill received its Second Reading on 15 January. One of its guiding principles is the reduction of local authority housing controls, partly through increased home ownership and rights for tenants, and partly through measures designed to revive the private rented sector. As you will appreciate, an increase in the amount of privately rented accommodation is the one way in which housing needs can be met without a parallel rise in public expenditure. Indeed proposals to stimulate the sector have usually been welcomed by the Treasury as a means of reducing the need for subsidised local authority housing. A positive approach to increasing the supply of privately rented accommodation is vital given the present round of cuts in housing expenditure.

We estimate that in 1977 there were 900,000 dwellings with 2 or more "spare" bedrooms. We are determined to encourage as many home owners as possible to let their rooms and thus combat housing shortages. Two main changes are proposed to boost resident landlord lettings and tap the substantial pool of under-used accommodation in owner-occupied homes. The first is that for new lettings a notice to quit may no longer be suspended by the rent tribunal and no possession order may be postponed for more than 3 months. Second, a landlord will be able to grant consecutive fixed-term tenancies without creating fully protected tenancies. One remaining disincentive to letting, however, is the continuing threat to resident landlords of liability for CGT on the sale of their own houses. Many people feel that the taxman has it both ways - they are not treated as businessmen when it comes to claiming capital allowances, yet the situation is reversed as soon as there is a possibility of paying capital gains tax.

The estimated cost of exemption from CGT for resident landlords is minimal at £0.5m, yet its psychological impact would be great. In addition the public expenditure costs will be reduced each time a landlord who was previously deterred from letting, houses someone who would otherwise be on the local authorities' waiting list. For example the present cost of providing a local authority home for 2 people is £8,000. On the other hand, if such a couple were to be housed by a resident landlord the net result could be a gain to the public purse of income tax on the rent received.

I would be grateful if you could let me have your initial views on the possibilities of this exemption, particularly as the matter is quite likely to be raised again during the course of the Housing Bill, following Nick Scott's reference to it on Second Reading and given the steady amount of correspondence we have received on this issue. You will appreciate that our continuing inactivity looks all the weaker given the fact that before the General Election both Nigel Lawson and Hugh Rossi expressed their support for the proposal.

I am copying this letter to colleagues on E Committee and to Sir Robert Armstrong.

Yours ever



MICHAEL HESELTINE

19 FEB 1980

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