



10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No.

SECRET AND PERSONAL

CHANCELLOR OF THE EXCHEQUER

MORTGAGE INTEREST RELIEF

I couldn't disagree more with your paper on this subject.

It is fundamental to our policies that we raise the mortgage interest relief ceiling, ~~by a significant amount.~~ It is *central* ~~fundamental~~ to our policies for home-ownership, the property-owning democracy and the family. ~~Those with large mortgages are the very people we should be looking most to help.~~

It was Labour who imposed this ceiling, for precisely the reasons which should lead us to raise it. Ideally, we should this year double the ceiling, and thereafter at least index-link it, as Arthur Cockfield believes. But, given the Budget arithmetic, I would be prepared to settle for a ceiling of £33,000 - i.e. index-linked since May 1979.

On the arguments in your paper:-

- (i) Of course the £25,000 ceiling affects a minority of cases. It is bound to, because there is such a penalty in borrowing more than £25,000. But, as the figures in your paragraph 1 show, increasing

/ the ceiling

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the ceiling would increase the number of mortgages over £25,000 - and, I suspect, would relieve a log-jam in the market at the same time.

- (ii) There is an undue emphasis in your paper on the position of first-time buyers. We do, indeed, want to help them, but we should also help those already with large mortgages, who are our natural supporters, and who are always the target of downwards-levelling policies of successive governments, aided and abetted by inflation.
- (iii) It is quite beside the point that these people are better off now than when mortgage rates were around 15 per cent. It was under us that they suffered the hike to 15 per cent - we are only just below where we were in 1979 on this.
- (iv) I accept that the tax treatment of housing is already favourable as compared with that for industrial and other investment. So it should be: the first house is a home for life and home-ownership is at the centre of our philosophy.
- (v) There is an inconsistency between your view (para 6) that the favourable tax treatment of housing has switched funds from the equity market and your view (para 8) that much mortgage lending ends up financing non-housing expenditure. I am astonished by your argument that tax relief encourages higher borrowing and so leaves more funds for people to spend as they choose: what conceivable objection is there to that?
- (vi) Nor do I rate highly your monetary arguments. There simply is no evidence that our present monetary stance is lax as a result of excessive mortgage lending (para 9).

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- (vii) I note the comparisons between owner-occupiers and council tenants (which, by the way, take no account of rent and rate rebates). The switch away from subsidising council houses and to assisting home-ownership is precisely what we wish to achieve.

There is a further point on which I would be grateful for your view. Under the scheme whereby mortgage relief is deducted at source, will there not be a manpower argument for increasing the ceiling above £25,000? Does not every mortgage above that figure need to be processed by the Inland Revenue, at high and growing manpower cost?

I very much hope that you will now agree to double the ceiling; or, at least, to increase it to £33,000.