


CONFIDENTIAL

Qa 05131

To: MR LANKESTER

From: J R IBBS

Tax and Housing

1. We saw a copy of your note of 8 August to the Chancellor's Private Secretary about tax and housing. You will know better than we do whether the Prime Minister rejected the alternatives on principle or because of their assumed effect on mortgage relief. Assuming the latter, however, I would offer one comment.

2. One option listed by the Chancellor - the so-called "universal option mortgage" scheme - would offer substantial staff savings in the Inland Revenue (estimated for the Layfield Report at 4,500 staff). It might be worth considering whether it could be adapted in some way to obtain the staff savings while leaving everyone with the same amount of tax relief as at present. An outline of such a scheme is as follows:

(i) Individuals would pay their mortgage repayments to building societies after deduction of the equivalent of tax relief at the basic rate on the interest.

(ii) Building societies would be compensated either by an adjustment to the "composite" tax rate they pay on their income or by a global tax repayment for mortgage interest received.

(iii) Individuals paying tax at the higher rates would claim tax relief against their income as at present but only for the excess over basic rate tax.

3. In this way everyone would receive the same amount of tax relief as now. But since for most people it would be paid in a single repayment to the building societies rather than in individual tax adjustments there would be administrative savings in the Inland Revenue which we understand are currently put at around 1,000 staff, although it might be worth



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exploring why the reduction from the Layfield estimate is so large. Such a change might also have beneficial effects on inflationary expectations since the perceived rate of interest on mortgages would fall even though net payments were unchanged.

4. If the Prime Minister sees any merit in the idea she might like to ask the Chancellor for his views.

5. I am sending a copy of this minute to Sir Robert Armstrong.

19 September 1980

20 SEP 1980



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JS
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Econ PS

10 DOWNING STREET

From the Private Secretary

MR. IBBS

TAX AND HOUSING

Thank you for your minute of 19 September. The Prime Minister rejected some of the proposals in the Chancellor's minute of 7 August, not as a matter of principle, but I think on the grounds that they would involve a reduction in mortgage relief. Her impression was, I believe, that the "universal option mortgage" scheme would involve a reduction in relief.

I think that, rather than showing your minute to the Prime Minister, the best way forward would be for you to take up your suggestion directly with the Treasury. If a scheme on the lines you propose could be worked out, I believe the Prime Minister would be prepared to consider it.

I am sending a copy of this minute to Sir Robert Armstrong. (I am also sending him a copy of the Chancellor's minute of 7 August and my reply of 8 August: I assume you received copies of these from the Treasury.)

T. P. LANKESTER

30 September 1980

IBS