

208



THE BUILDING SOCIETIES ASSOCIATION

34 Park Street, London W1Y 3PF
Telephone: 01-629 7233

ECON POL. 2
Prime Minister:

Tb. note
I have
acknowledged

JA

30/12.

Handwritten initials

22 December 1982

Dear Prime Minister

1983 Budget Representations

I am enclosing for your information, the Association's 1983 Budget Representations which are, today, being sent to the Chancellor of the Exchequer. The Association has greatly welcomed your recent statements on tax relief and I am sure you will find our representations on this point to be of interest.

Yours sincerely

Handwritten signature of J A Cumming

J A Cumming
Chairman

The Rt Hon Margaret Thatcher MP
Prime Minister



THE BUILDING SOCIETIES ASSOCIATION

December 1982

REPRESENTATIONS TO THE CHANCELLOR OF THE EXCHEQUER ON THE 1983 BUDGET BY THE BUILDING SOCIETIES ASSOCIATION

1. Since 1978 the Association has requested Chancellors of the Exchequer to act in respect of two fiscal measures which are not in harmony with the policy of encouraging owner-occupation and which also can have adverse effects on the mobility of labour -

- (a) Stamp duty on the purchase of owner-occupied dwellings.
- (b) The £25,000 ceiling on loans qualifying for tax relief.

2. The Association was encouraged by the measures contained in the Finance Act 1982 to reduce the impact of stamp duty. In these Budget Representations, the Association renews these requests. The state of the housing market and the general economic recession mean that action in respect of these two points is particularly appropriate. House prices have begun to move upwards, albeit slowly, thus increasing the burden of stamp duty and meaning that the £25,000 ceiling for loans qualifying for tax relief is being further reduced in real terms. Stamp duty and the tax relief ceiling hit hardest at those buying in London and the South East where house prices are considerably higher than the national average. They can also have a particularly adverse effect on first-time buyers and those forced to move house for job reasons.

Stamp Duty

3. The costs of buying a house are considerable. They may include valuation, survey and legal fees and Land Registry charges and, first-time buyers apart, there are the expenses of selling the present house. They will include stamp duty where the price of the house exceeds £25,000. The duty is levied on the whole of the price (not just the excess over £25,000) and is at the rate of $\frac{1}{2}\%$ where the price is over £25,000 and up to £30,000, 1% where the price is over £30,000 and up to £35,000, $1\frac{1}{2}\%$ where the price is over £35,000 and up to £40,000 and 2% where the price exceeds £40,000. In many cases, the largest single item of expense will be the stamp duty.

4. The latest figure (October 1982) for the average price of houses mortgaged to building societies is £26,502. The purchaser of this average house would therefore pay £130 in stamp duty. In the third quarter of 1982

The evidence is that the £25,000 limit deters potential house-buyers in that there is a bunching of mortgage loans just below that figure. Presumably this means that some purchasers are able to find the additional resources themselves, but others are probably excluded from the market. The number excluded will rise as house prices increase.

14. There is the further point that next April, as a result of the Finance Act 1982, the method by which house purchasers obtain tax relief on their mortgage interest will change. Instead of making a gross payment to the building society and recovering tax relief through the PAYE system, borrowers will pay a net rate to their society. Societies have made a substantial investment in this change of system and are enabling the Government to save some 1,000 civil servants. If the £25,000 limit is not increased this work will be wasted as an increasing proportion of new loans will be outside the new arrangements and will have to be treated as special cases by building societies and will be subject to tax relief through PAYE as at present, thereby necessitating an increase in the number of civil servants. The Association and building societies have worked to bring in the new mortgage tax relief system, believing it to be in the interests of the great majority of their borrowers. The value of this work, and the new system as a whole, will be nullified if it is not the Government's intention to increase the £25,000 limit.

15. If the Government feels unable to restore the limit to nearer its real value in 1974 then the Association urges that the limit should be increased modestly to £35,000 so as to continue to embrace the vast majority of first-time buyers and not to undermine the changes in the tax relief system. The limit should then be further increased to take account of inflation year by year.