7 December 1983
Policy Unit

PRIME MINISTER

CAPITAL ALLOWANCES FOR SHARED OWNERSHIP IN THE PRIVATE SECTOR

You may recall that at the Family Policy Group last year, you asked the Treasury and John Stanley to resolve this question. The Treasury still won't budge (see Ian Gow's letter of 6 December, attached).

The question is basically simple enough. The home-sharer is naturally entitled to tax relief on the mortgage on that part of the dwelling which he buys. He pays rent on the remainder. That rent must be reasonable if the scheme is to be significantly cheaper than outright purchase. But if the rent is too low, then there is no profit for the housebuilders, because they are not entitled to capital allowance on the rented element.

The volume housebuilders accordingly claim that unless they are granted capital allowances on their share of the dwelling, shared ownership is not worth their while. With capital allowances, Laure Barratt has estimated that up to 60,000 extra houses a year might be built - 60,000 extra low-income families introduced to home-ownership.

Ian Gow makes an important new point: that the value of capital allowances on a shared ownership dwelling would be less than the cost of the additional tax relief to an outright purchaser. Thus, the total government subsidy per shared-ownership dwelling would be less than that on a home purchased outright. Therefore, even if we did grant this concession, we would still be offering a lesser subsidy to low-income families striving to place a first foot on the home-ownership ladder than to better-off families with mortgages.

I am as anxious as the Treasury not to introduce a fresh distortion into the tax system. But in this case, the distortion is already present in the unfair bias against shared ownership in the private sector as compared with (a) outright purchase; or (b) wholly-rented assured tenancies where, since the 1982 Budget, landlords have been entitled to capital allowances; or (c) shared ownership in the public sector, where the rented element may be subsidised by the public authority; and (d) council housing.

The existing distortion may be clearer if we put it like this:

	Mortgage Tax Relief	Housing Subsidy on Rented Element	Capital Allowance on Rented Element
Outright purchase	YES	-	-
Assured tenancy, shared ownership, private sector	YES	-	NO
Shared ownership, public sector	YES	YES	-
Assured tenancy, wholly rented, private sector	-	-	YES
Public sector rented housing	-	YES	-

Would you care to raise this question with the Chancellor at your next tête-à-tête?

Yes MT

FERDINAND MOUNT FM

BF Wednesday evening. AT 12/12

Family Policy Briefing.

10 DOWNING STREET

From the Private Secretary

Prime Minister

Ferdy and Ian Gow are arguing that as the builder/landlord can get capital allowances where property is 100% rented, and owner occupier gets mortgage interest relief where property is 100% owned, it is illogical to deny capital allowances for part-rented cases.

I think logic is on their side. If the Treasury want to contain cost of housing subsidies, it would make more sense to have some general restriction, rather than deny relief to a particular form of tenure (and a deserving one at that)

Agree raise with Chancellor?

AT 9/12

Yes mt

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

My Ref: G/PSO/46290/83

6 DEC 1983

Dear John,

Thank you for your letter of 24 November on capital allowances for shared ownership responding to mine of 31 October and Ferdy Mount's of 1 November.

I am sorry that you do not favour my proposal on the grounds that the granting of capital allowances for shared ownership would, by introducing a substantial subsidy, distort the housing market. I have difficulty in reconciling this view with our present policy for tax relief on mortgages for home owners.

61% of households are now in owner occupation and mortgage tax relief is the Government's principal instrument for assisting those families in achieving this. My proposal would not introduce a distortion into the housing market - quite the opposite - but would extend the assistance available already to a further tranche of potential owner occupiers.

The effects of additional tax relief on the PSBR are, as you point out, as costly as public expenditure. But as Ferdy Mount has indicated, the countervailing savings must be taken into account. My officials have produced a comparison, based on the Inland Revenue's examples of shared ownership prepared earlier this year, between the cost on the one hand of an anual rate of 50,000 additional households which would have bought outright and the same number buying via shared ownership.

This shows that the present value of capital allowances would be less than the cost of additional tax relief to outright purchasers. We would not, I assume, begrudge the tax relief to full owner occupiers. Can we therefore withhold this lesser benefit to those households of lower average income who are striving to place a first foot on the home ownership ladder?

Indeed, if the value of the capital gain (taxed under Corporation Tax) and the profit on the rent are taken into account, the medium-term savings available under my proposal are considerable.

For that reason we should be prepared to countenance the temporary initial cost to the PSBR.

I am sending a copy of this letter to Ferdy Mount with many thanks for his contribution to this discussion.

Yours

Ian

IAN GOW

John Moore Esq MP

2F

BRIEFING NOTE
No. 37
1/12/83

3. Housing Benefit

The Chancellor announced in his Autumn Statement on 17th November 1983 a reduction in the amount of Housing Benefit going to certain better-placed families.

Housing benefit at present goes to one household in three, sometimes to people on average incomes. The reduction will amount to less than 5 per cent of the total spent on Housing Benefit, and the poorest households will continue to be protected. Housing Benefit will still help over 6¼ million householders. including more than 3½ million pensioners. These changes, which come into effect in April next year, will save £230 million.

In April 1983 Housing Benefit replaced both supplementary benefit payments to help people pay their rent and rates, and the rent and rate rebate and rent allowance schemes formerly administered by local authorities. It provides a much simplified single benefit to help low income householders with their housing costs. Now, all help with rent and rates comes from local authorities in the form of rebates or, for private tenants, allowances; and the local authorities are reimbursed by the Government. Supplementary benefit claimants normally get 100 per cent help, although deduction may be made if there are 'non-dependants' in the household. The Department of Health and Social Security sends a certificate of entitlement to the local authority. In other cases, known as 'standard cases', recipients get a partial rebate or allowance.

The scheme has a number of advantages: it is simpler to understand; many people on supplementary benefit now pay no rates or rent because they are fully rebated; and local authorities are better able to control arrears because tenants now get rebates.

From April 1984 a number of changes will be made in the operation of the scheme. First, there will be increased tapers above the needs allowance, which means that benefit will be withdrawn more sharply for 'standard' recipients on higher incomes. This will save £115 million. Secondly, people with small entitlement will no longer get help. This will affect people with a rent rebate entitlement of up to £1 per week or a rates rebate entitlement of up to 50p per week. Thirdly, deductions which take account of the income of non-dependants in the household will be increased and extended, although deductions for pensioners and long term sick and unemployed remain unchanged. This will save £40m. Fourthly, 18-20 year olds on supplementary benefit will no longer receive the 'non-householder's contribution'. This will save £60m. Fifthly, higher thresholds will be set for high rent schemes (where local authorities are able to pay higher benefits to standard benefit tenants where rent levels are above nationally-set thresholds). This will mean that fewer authorities will pay benefit under high rent schemes after April 198
Lastly, there will be an increase of £1 per week in the dependent child addition to the needs allowance, which will benefit half a million families.

Conservative Research Department,
32, Smith Square, London S.W. 1.

CD/TH/SC-B