



Prime Minister <sup>2</sup>

MUS 17/3

Treasury Chambers, Parliament Street, SW1P 3AG  
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The Rt. Hon. Margaret Thatcher MP  
Prime Minister

Dear Margaret

As you know, last year's Finance Act introduced new arrangements for giving tax relief for mortgage interest, which take effect in April. The change is entirely an administrative one, but it is nonetheless important. Most people with mortgages will come within the new scheme, and it will simplify the way in which they get their tax relief. It will also make a significant contribution to our drive for manpower savings in the Civil Service.

A first round of publicity about the scheme is already under way, and there will be a second round in April when the scheme comes into operation. As the change may give rise to enquiries from Members' constituents, Nicholas Ridley is writing to all Members to give them some explanatory notes about the new scheme. You may find it helpful to have the enclosed copy of his letter and enclosure, in case points are raised with you by constituents or on other occasions.

In the context of the Budget I am concerned to ensure that, so far as possible, there is no confusion in the minds of the five-six million owner-occupiers concerned. On the one hand, the effects of the new scheme will be to reduce net pay (from the first pay day on or following 6 April) because the tax relief due will be given direct by deduction from the mortgage payments rather than through PAYE. On the other hand, there will be improvements in net pay as a result of my Budget. The effects of the latter will be felt in pay packets rather later - on the first pay day after 10 May. The main risk therefore is that some people might think that the reduction in net pay as a result of the new mortgage interest relief scheme had something to do with the Budget. The publicity campaign in early April referred to above, as well as publicity on the Budget measures themselves, is designed to minimise this risk. But I thought you might like to be aware of the point, as it underlines the need to get the message on the new scheme over as clearly as possible.

We have, of course, shown that this  
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GEOFFREY HOWE