

# Mortgage Interest Relief

## A. Introductory Note

1. This section gives estimates of the cost of income tax relief for mortgage interest payments.

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2. Relief on mortgage interest repayments was removed on 6 April 2000. Mortgage interest relief for those aged 65 and over who take out loans to buy a life annuity (a home income plan) ended with effect from 9 March 1999, but existing loans will continue to qualify for the remainder of the loan period.
3. Mortgage interest relief is given for the interest paid:
  - i. on loans for the purchase of a property, caravan or houseboat which will be the only or main residence of the borrower;
  - ii. on loans taken out before April 1988 for the improvement of a property which is the only or main residence of the borrower;
  - iii. on loans taken out before April 1988 for the purchase of a house for a dependant relative or divorced or separated spouse of the borrower;
  - iv. on loans to purchase a life annuity where the annuitant is aged 65 or over.

The property must be in the United Kingdom or the Republic of Ireland.

4. Before 1974-75, relief was given for the interest on the full amount of a loan of any size. In 1974-75, however, it was limited to the interest on £25,000. The limit was increased to £30,000 in 1983-84. Before August 1988, each borrower (married couples counting as one borrower) was allowed relief up to the limit even if their loans were for the same property. Since August 1988, the limit for new loans has been £30,000 for each property irrespective of the number of borrowers.
5. Before April 1983, the allowable interest was deducted from taxable income, either in an assessment or by increasing the Pay-As-You-Earn code number. In April 1983, the mortgage interest relief at source (MIRAS) scheme was introduced. Under this scheme, a borrower pays the lender the interest less the tax relief. Up to 1993-94 relief was deducted at the basic rate. (Relief at the higher rates was also available up to 1990-91). For 1994-95 the rate of relief was 20 per cent, from 1995-96 to 1997-98 it was 15 per cent and for 1998-99 and 1999-2000 it was 10 per cent. The Inland Revenue reimburses the lender for the amount deducted. For loans to which the MIRAS scheme does not apply, any relief due up to 1993-94 was given as previously, and since 1994-95 as a reduction in the borrower's tax bill.
6. Before the introduction of the mortgage interest relief at source scheme, people who did not pay income tax obtained a similar reduction in their interest payments under the Option Mortgage Scheme. This scheme was funded by the Department of the Environment. Borrowers are now able to deduct income tax at the available rate from their interest payments irrespective of the level of their taxable income. Any payments to lenders for interest paid by non-taxpayers are treated as public expenditure, rather than tax relief. Similarly, since 1992-93, the part of payments made to lenders for interest paid by lower rate taxpayers which covers the difference between the basic rate and the lower rate of tax is treated as public expenditure.

## C. Data Available

7. Until 1983-84 the annual Survey of Personal Incomes (see '[Income tax and personal incomes](#)' section) collected detailed information on mortgage interest relief. The results of this survey were used to estimate the cost of the relief and the distribution of the relief across income ranges and across regions. Since 1983-84, however, the relief at source scheme which applies to nearly all mortgage loans, has been administered centrally by the Inland Revenue and there is little need for other tax offices to be aware of the amount of mortgage interest paid except where, before

1991-92, higher rate relief was due. Thus the Surveys of Personal Incomes from 1991-92 onwards can no longer provide information on mortgage interest relief for most taxpayers.

8. This gap in information has been filled by the Family Expenditure Survey and information on new building society and bank loans provided by the Department of the Environment, Transport and the Regions. The Family Expenditure Survey is carried out on behalf of the Office for National Statistics covering about 7,000 private households each year. Information is collected on various types of income and expenditure including mortgage interest, and the data, after all information identifying individuals has been removed, are made available for analysis.
9. Estimates of the cost of mortgage interest relief from 1983-84 onwards are derived from Inland Revenue's records of payments to lenders under the arrangements for relief at source along with estimates, derived from the Survey of Personal Incomes, of relief on loans outside these arrangements and all higher rate relief.