



**Response to Her Majesty's Revenue and Customs Consultation  
On Replacing Wear and Tear Allowance with Tax Relief for Replacing  
Furnishings in Let Residential Dwelling-Houses**

**From the Association of Residential Letting Agents (ARLA)**

**July 2015**

**Background:**

1. The Association of Residential Lettings Agents (ARLA) was formed in 1981 as the professional and regulatory body for letting agents in the UK. Today ARLA is recognised by government, local authorities, consumer interest groups and the media as the leading professional body in the private rented sector.
2. In May 2009 ARLA became the first body in the letting and property management industry to introduce a licensing scheme for all members to promote the highest standards of practice in this important and growing sector of the property market.
3. ARLA members are governed by a Code of Practice providing a framework of ethical and professional standards, at a level far higher than the law demands. The Association has its own complaints and disciplinary procedures so that any dispute is dealt with efficiently and fairly. Members are also required to have Client Money Protection and belong to an independent redress scheme which can award financial redress for consumers where a member has failed to provide a service to the level required.

**Scope of the new replacement furniture relief:**

**Question:** Do you have any comments on the proposed scope of the new relief?

1. Due to the sharp rise in demand for rental property in recent years ARLA recognises that the upkeep of rental accommodation now requires increased attention. We are pleased the new replacement furniture relief will apply to all landlords of all residential dwelling houses; no matter the level of furnishing; and that landlords will no longer need be concerned whether an item being replaced is a 'fixture' or not.
2. However, we would argue that the initial cost of furnishing a property should be included in the scheme; as it is currently contained within the Wear and Tear Allowance. By withdrawing this relief, landlords will be faced with a larger financial burden when first setting up a property to rent and may buy cheaper and less durable furniture and furnishings, knowing they will be able to use the allowance to replace poor quality furniture.

3. Taking this issue further, we would recommend that any new items purchased by the landlord at a tenants request during a tenancy (or before the tenant moves in) should also be included within the scope of the scheme. If they are not, landlords are likely to be reluctant in agreeing to tenant requests for additional items.
4. The administrative burden placed on landlords by these changes should also not be underestimated. Significant amounts of evidence will be required in order to claim this relief and comprehensive guidance will need to be produced in order to clarify the issues raised in this response and for landlords to fully understand what they can and cannot claim.

### **Amount of the relief:**

**Question:** Do you have any comments on the proposals for dealing with any disposal proceeds from the old asset that is being replaced or any improvement element of the replacement asset?

5. We acknowledge that the value of relief will no longer be dependent on the location and local rates of rent. However, whilst we appreciate the Government's aims, we would highlight there is a correlation between rent levels and the cost of furnishings: The tenant of a furnished property rented for £500 per week will expect a far higher quality of furnishing (and therefore more expensive items) than the tenant of a furnished property rented for £500 per month.
6. Further, whilst the new relief would encourage landlords to replace rather than repair items as they wear, based on the example given in paragraph 2.13 of the consultation document any element of the replacement asset that represents an improvement would be excluded from the new replacement furniture relief. As a result, along the same lines as highlighted in paragraph three above, some landlords may be discouraged from replacing basic goods with improved assets that tenants may request or prefer.
7. In addition, again in relation to 2.13, further information is needed to help landlords measure what an improvement actually is; particularly with the same type of product. Would this be determined by size or model and would they need to consult HMRC before purchasing? Further, as improvements to a property can be offset against Capital Gains Tax (CGT) when a property is sold, is it the aim of these changes that items classed as improvements will fall under the CGT allowance? Using the example in paragraph 2.13, would the £200 difference between the replacement cost of the washing machine and the new washer-dryer be allowable as an improvement for Capital Gains Tax purposes when the property is sold?

## Assessment of impacts:

**Question:** Are there additional impacts on individuals or other businesses that are not covered in the table of impacts?

8. It is important to remember that most landlords are not cash rich. Most are heavily leveraged through Buy-to-Let mortgage products. As such, with house prices continuing to rise, net rental yields are only around four percent for most landlords. As the current Wear and Tear Allowance is dependent on the amount of rental income received, we expect to see a rise in rents as landlords try to balance their books and recoup the lost revenue brought about by these changes.
9. In light of the points made in the paragraph above, ARLA therefore believes the Government has failed to realise the impact on tenants. It is likely the additional £705 million (outlined in Chapter Three “Assessment of Impacts” of the consultation document) expected to come into the Exchequer as a result of this change will come from increased rents charged to tenants. The Government has made clear they aspire to a nation of owner-occupiers and yet taking £705 million out of the pockets of tenants will mean they have to spend more of their incomes on rent, which in turn reduces the amount they can save towards a deposit and therefore putting the dream of home-ownership further out of reach.
10. These measures could have been mitigated, to a certain extent, by the Government taking forward measures such as roll-over relief and taper relief on Capital Gains Tax. Landlords face a significant CGT bill on any profits made when they sell a property that has appreciated in value. This tax is payable irrespective of whether the landlord intends to reinvest these gains in further properties for rent. Other businesses which intend to reinvest their gains can take advantage roll-over relief due to the Taxation of Chargeable Gains Act 1992. This can be a disincentive to investment in the private rented sector and lead to landlords adapting properties rather than churning their portfolios in an attempt to react to local market needs. Had these changes been brought into force alongside the other measures outlined in the Budget and this consultation, they would have balanced the taxation changes and ensured the private rented sector has the appropriate properties to meet local housing needs.
11. Finally, taking the issues more broadly, we are also concerned the Summer Budget 2015 did not include any new measures to stimulate house building; despite a shortage of properties being the root cause of house price inflation and pushing owner-occupation out of reach for many people. Alongside these changes, we implore the Government, as a matter of urgency, to bring forward a suite of measures aimed at significantly increasing house-building in the UK as otherwise house price inflation will continue unabated which in turn will further increase the cost of renting.