



**Spring Budget Submission to HM Treasury
From the Association of Residential Letting Agents (ARLA)
January 2017**

Background

1. ARLA is the UK's foremost professional and regulatory body for letting agents; representing almost 9,000 members. Our members operate to professional standards far higher than the law demands and we campaign for greater regulation in this growing and increasingly important sector of the property market. By using an ARLA Licensed agent, consumers have the peace of mind their agent will provide a professional service and their money is safeguarded by a Client Money Protection scheme.

Comments on current government policy

2. The growth of the private rented sector has led to a greater focus on property conditions. This has meant more legislation and more compliance for landlords and letting agents – not to mention more administrative tasks to undertake; such as Right to Rent checks. ARLA wants to see standards improve in the private rented property, but the sector's expansion has also meant that more money is needed by investors and landlords to maintain and upgrade property. But rather than assisting landlords with this ever-increasing legislative burden, the previous Government decided an ever more punitive taxation regime would achieve the desired result of increased living standards for tenants and more First Time Buyers. It will not.
3. The Government needs to recognise that firstly, the private rented sector has overtaken social housing and is now the UK's second largest tenure after owner-occupation. Secondly, the Government must recognise that 89 per cent of landlords in England are private individuals rather than companies or organisations and 92 per cent of landlords are part-time; with just two per cent having a portfolio of more than ten properties¹. However, if the Government wants landlords to act as professional businesses then the Government must treat them as such and provide landlords with the same reliefs and incentives that all other businesses receive – from April this year letting property will be the only business where it is not possible to offset total costs against income before being taxed on profit.
4. Current Government policy does not reflect the various types of landlord involved in the private rented sector and the different incentives they need to invest. Whilst the housing shortage continues with not enough homes being built each year, landlords are becoming increasingly important to those who need a safe and secure place to live.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/7249/2010380.pdf



5. Inability to offset finance costs against tax liabilities combined with increased mortgage regulation in the Buy-to-Let sector may deter small investors reliant on Buy-to-Let finance from entering the market. Furthermore, in order for individual landlords to be able to afford a Buy-to-Let property, tenants may begin to see these additional costs passed on to them, which means they could see less money spent on maintaining their property and also an increase in rents.
6. If the supply of Buy-to-Let property falls as a result, it will place added stress on a market where demand already outstrips supply in many areas. This will put additional upward pressure on rents, squeezing household budgets and putting the goal of home ownership further out of reach for more people.

Autumn Statement 2016

7. ARLA does not support the ban on letting agents' fees to tenants that was announced at the Autumn Statement on 23 November 2016. We believe fees should be open, transparent and reasonable. They represent legitimate costs to business that need to be covered, such as ensuring the property is in a condition suitable for letting, carrying out reference checks, providing an inventory, correctly administering financial transactions and setting up the tenancy.²
8. We think the Government should ban upfront fees to tenants; allowing agents to spread the costs associated with these essential services over the first six months of the tenancy.³ By allowing the costs of these services to be spread over the first six months of the tenancy, jobs in the lettings industry will be saved. Furthermore, unemployment will not increase as a result and may even reduce further as the small businesses which represent the majority of the industry can continue to grow, train their existing staff and take on properly-trained apprentices who will become the next generation of professional, qualified letting agents.
9. Banning Fees outright will also result in a loss of income to the Exchequer because Value Added Tax (VAT) is currently charged on letting fees. By spreading the costs this will allow the Exchequer to retain VAT receipts. For instance, the average letting fee as outlined in the English Housing Survey was £223, which equates to £185.83 to the agent and £37.17 in VAT to the Exchequer⁴.
10. Furthermore, tenant fees are not currently paid for through the Local Housing Allowance (LHA) or housing element of Universal Credit. If rents do increase as a result of an outright ban, this will in turn increase the LHA rates requiring an increase in the Housing Benefit budget. ARLA's proposal will not cause rent inflation and therefore will not impact the Housing Benefit budget.

² <http://www.arla.co.uk/media/1045377/tenant-fees-research-report.pdf>

³ <http://www.arla.co.uk/media/1045378/arla-proposal-on-banning-letting-fees.pdf>

⁴ https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/570848/Private_Rented_Sector_Full_Report.pdf

11. In essence, by spreading the fees over the first six months of the tenancy, there will be no increase in unemployment support required by central Government for agents who lose their jobs, no increase in Housing Benefit costs, and a retention of tax receipts for the Treasury.

Suggestions for new policy ideas for inclusion in the Spring Budget 2017

Revoke the recent Stamp Duty Land Tax (SDLT) and Mortgage Interest Relief changes

12. Theresa May's Government had stated that it is a Government for all the people. For housing, this appears to be a shift from the previous Government's policy of focusing exclusively on home ownership at the detriment of all other parts of the residential property market. This resulted in three successive attacks on the private rented sector after the 2015 General Election. Not everyone can own their own home and the Government must recognise the importance of the private rented sector.

13. Policies such as the increased Stamp Duty on additional property purchases and the changes to Mortgage Interest Relief will not, as the previous Chancellor of the Exchequer claimed, lead to more First Time Buyers. Indeed, it is likely to result in fewer. This is for two reasons. Firstly, landlords do not buy the same types of properties as First Time Buyers. Landlords operating in the student market look for larger four and five bedroom homes they can rent as houses in multiple occupation (HMOs). First Time Buyers are unlikely to be looking for large family houses. Landlords looking to let to young professionals look for city-centre luxury flats; the value of such properties being outside the reach of most First Time Buyers.

14. Secondly, increasing the taxation burden on landlord's results in these costs being passed back to tenants through rent rises. The increase in both legislative change and taxation has resulted in rents increasing at a much faster rate than wage growth over the last few years. This means that the amount tenants are able to save on a monthly basis from their salaries decreases as they have to spend more of their income on rent. Should house prices remain static, this will result in it taking longer for those tenants the former Chancellor wanted to get onto the property ladder to save for a deposit. However, house prices are ever growing and therefore as house prices go up and the amount tenants can save goes down, the gap between what they need for a deposit and what they can afford to save is ever-increasing; putting the dream of home-ownership, and the former Chancellor's policy intention, further out of reach for the very people he was trying to assist. Indeed the result of this policy will be to have the opposite effect of its intended aim.

15. Therefore, to achieve this Government's aim of improving affordability for tenants and increasing the number of First Time Buyers and home-owners, then ARLA's strong recommendation would be to ease the burden on tenants by scrapping both the recent 3% surcharge on SDLT for landlords and revoke the Mortgage Interest Relief changes brought about in Section 24 of the Finance Act 2015.

Treat letting property as a business activity for tax purposes

16. The Government needs to decide whether or not letting property in the private rented sector is a business. More and more legislative change from various Government departments and devolved administrations are attempting to professionalise the industry. Yet letting property is not treated as a business for tax purposes and instead classed as unearned income.
17. If this Government wants the whole private rented sector to provide professional services to their tenant customers, then by taxing landlords as businesses, the Government is making a clear statement that letting property is a business activity. Landlords should be able to take advantage of the same level of roll-over relief available to other businesses when reinvesting in the private rented sector and the Government should reduce the rate of Capital Gains Tax (CGT) for selling residential property to the same 20 percent rate as CGT on all other gains.
18. Indeed these changes could see an increase in revenue to the Exchequer as instead of converting a large property into several smaller flats to avoid CGT and SDLT whilst simultaneously maximising rental returns, if the tax regime was more favourable, landlords may choose to sell a larger property in favour of purchasing several smaller properties. This has two benefits, firstly it increases churn in the property market (which benefits buyers, sellers and the Exchequer due to tax revenues from both CGT and SDLT) and secondly, it will benefit tenants by ensuring that appropriate private rented stock comes onto the market to meet the needs of the local community.

Provide incentives to improve property conditions

19. It is important that existing landlords who want to expand and improve their property portfolios have new investment channels to tap into. For instance, the Government should reduce VAT on the purchase of materials and labour to improve older property brought onto the rental market and allow improvements to be offset against rental income rather than CGT. This will both improve property conditions for tenants whilst limiting rent increases resulting from the improvements to the property (as landlords will be able to offset the costs against their income tax in the year the work took place) and also assist the Government in meeting its international climate change commitments by reducing the carbon footprint of the UK's private rented housing stock.

Energy efficiency

20. With the collapse of the Green Deal, the only Government scheme ever designed to overcome the "Split Incentive" (the landlord pays for the energy efficiency improvements and the tenants benefits from the reduced bills), the Government must act to ensure landlords can comply with the Minimum Energy Performance Standards (MEPS) regulations for the private rented sector due to come into force in April 2018.



21. To this aim, ARLA believes the Government should reintroduce the Landlord's Energy Saving Allowance (LESA) and extend it to include anything contained within the Recommendations Report of an Energy Performance Certificate (EPC) to help landlords with the cost of energy efficiency improvements to their properties in advance of 2018.

Encourage institutional investors into the private rented sector

22. In order to encourage a stable long term rental culture the Government must build more houses to bring down the cost of renting. We believe that more institutional investors should be encouraged into the residential property sector with local authorities including them in their housing strategies and making available unused public sector land through the planning process where possible.

Introduce Government regulation of letting agents

23. In the absence of overarching Government regulation of the industry, an escalation in institutional investment and larger individual landlord portfolios could result in increased professionalism throughout the sector. However, ARLA believes that full mandatory Government regulation of sales and letting agents is the quickest and most effective method to eliminate unprofessional, unqualified and unethical agents from the rental market; thus improving the quality of the sector in the long term for all.

Ban upfront fees to tenants

24. The Government should ban upfront fees to tenants; allowing agents to spread the costs associated with these essential services over the first six months of the tenancy. By spreading the costs of these services over the first six months of the tenancy, it will force agents to consolidate all charges into a single monthly sum that is can be easily and transparently displayed. This will allow tenants to see exactly what they will be expected to pay and make it easier for them to compare agencies.

25. We believe that banning upfront fees to tenants and spreading the costs of these vital services both complies with the spirit of the Chancellor's announcement during the Autumn Statement whilst providing a practical solution that will avoid the unintended consequences of:

- Removing transparency from the market altogether;
- Increasing rents and homelessness;
- Reducing service levels, property conditions and management standards;
- Damaging small business growth and increasing unemployment;
- Reducing income to, and increasing expenditure from, the Exchequer.