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Autumn Budget representation to HM Treasury
From ARLA Propertymark
September 2018

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents; representing over 9,000 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.

2. Our members operate to professional standards far higher than the law demands, hold Client Money Protection and we campaign for greater regulation in this growing and increasingly important sector of the property market. By using an ARLA Propertymark agent, consumers have the peace of mind that they are protected and their money is safe.

Suggestions for new policy ideas for inclusion in the Autumn Budget 2018

Make no further restrictions on letting agents in the Tenant Fees Bill

3. The Government must ensure that the Tenant Fees Bill[1] allows: A Security Deposit that does not exceed the equivalent of six weeks' rent; Holding Deposits capped at no more than one week's rent; charges for a Change of Tenancy or Sharer; Surrender of Tenancy; Tenant Default Fees; utilities, communication services and Council Tax; and Green Deal Charges. Further changes to the Bill will have an even more draconian impact on the private rented sector.

Sectoral Impacts

4. We do not agree with the Government's decision to ban letting agent fees to tenants. Letting agents deliver a hugely valuable service and fees cover the costs of ensuring a tenant's home is safe, legally compliant and professionally managed. Up to June 2015, there were 145 laws with over 400 regulations that landlords need to abide by to legally let a property in England and Wales[2]. Legislation on residential lettings is amended regularly with new laws introduced frequently. Furthermore, the private rented sector has become increasingly important to the UK economy and in 2016-17, 20% (4.7 million) of households in England were renting privately[3]. It is estimated that 71% of properties in the private rented sector are owned by individual landlords[4] with 60% of properties managed by letting agents[5]. If letting agents leave the sector as a result of the ban on fees, landlords will likely be unaware of new (and existing) legal requirements, potentially causing widespread non-compliance and putting

[1] https://services.parliament.uk/bills/2017-19/tenantfees.html
[2] http://www.propertychecklists.co.uk/downloads/20170508_1
[3] https://www.gov.uk/government/statistics/english-housing-survey-2016-to-2017-headline-report
[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/7249/2010380.pdf
[5] https://www.york.ac.uk/media/chp/documents/2008/prsreviewweb.pdf

01926 496 800
arla.co.uk

Arbon House
6 Tournament Court, Edgehill
Drive Warwick CV34 6LG

Propertymark Ltd. trading as
Propertymark Registered in
England No. 897907

tenants in danger. This will likely cause added pressure on local authorities as tenants look for assistance.

Revenue implications for the Exchequer

5. Residential lettings activity provides 58,000 jobs, which generate employee taxes in the order of £400 million for the Exchequer each year. Furthermore, real estate activities, including commercial and residential lettings and sales, as well as management, support 240,000 jobs and add £13 billion of value added to the United Kingdom economy. Real estate activities pay out around £5 billion in wages and pay a total of £5 billion in taxes. ARLA Propertymark has surveyed letting agents to ask what the impact of a ban on fees would be: 90% think that the ban will lead to a rise in rents; 60% think that the quality of properties will decline; and 40% think it will result in a fall in employment in the medium to long term. Our research forecasts letting agents will lose £0.2 billion in turnover, landlords will lose £0.3 billion in income and tenants will pay an increased rent of £103 per annum following the ban.[6]

<u>Revoke the April 2016 Stamp Duty Land Tax (SDLT) surcharge and Mortgage Interest Relief changes</u>

6. To improve affordability for tenants and encourage further investment to the private rented sector, the Government should scrap both the April 2016 3% surcharge on SDLT for landlords and revoke the Mortgage Interest Relief changes brought about in Section 24 of the Finance Act 2015. Increasing the taxation burden on landlords results in these costs being passed back to tenants through rent rises. Consequently, tenants will be unable to sufficiently save to buy a home and the Treasury will receive less in Stamp Duty Land Tax (SDLT).

Sectoral Impacts

7. Revoking the three per cent surcharge on buy to let property would reverse the negative impact the policy is having on the private rented sector by increasing supply and reducing rent rises. In July 2018, 61% of surveyed ARLA Propertymark members reported a decrease in rental supply since the introduction of the 3% SDLT surcharge. Where landlords are still investing in buy-to-let property the result of a higher tax burden directly contributes to added costs for tenants. 45% of surveyed ARLA Propertymark members stated that since the reforms to SDLT, they have witnessed increases in rent. Both figures have risen significantly from January 2018, when 43% saw a decrease in supply and 32% of agents witnessed rent increases. The SDLT surcharge of three per cent has increased landlords' tax burdens and led to rent rises.

[6] http://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf

8. Under the changes brought in under Section 24 of the Finance Act 2015 to restrict Mortgage Interest Relief for residential landlords to the basic rate of income tax, thousands of landlords will pay more tax. The change will push many landlords up a tax band despite their income not increasing as tax will be applied to turnover instead of profit. To cover these additional taxes landlords will increase rents for new and existing tenancies. Many will also have to cut back on other expenses such as property maintenance. As the extra tax mounts up some landlords will sell up altogether and leave the sector. Over the long term this will impact on the value and quality of property available. By revoking the Mortgage Interest Relief changes landlords will be able to reduce the costs that they pass on to tenants. It will also ensure that landlords remain in the sector and provide long term affordable homes for tenants.

Revenue implications for the Exchequer

9. As the amount tenants can save goes down, the gap between what they need for a deposit to buy a property and what they can afford to save is ever-increasing; putting the dream of home-ownership out of reach and reducing the Treasury's Stamp Duty receipts. Should house prices remain static (a highly unlikely outcome, research obtained through ARLA and NAEA Propertymark, indicated that house prices will increase by up to 50% by 2025[7]), this will result in it taking longer for those tenants the Government's wants to get onto the property ladder to save for a deposit. However, house prices are ever growing and therefore as house prices go up (in the year from July 2017 to July 2018, the UK saw an increase of 3.1%[8]) this puts home-ownership further out of reach for many people. The consequence of the Government's policy means that the amount tenants can save monthly from their salaries decreases as they must spend more of their income on rent.

<u>Help landlords with energy efficiency rules</u>

10. 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). This would help landlords with the cost of making energy efficiency improvements to their properties in compliance with the Minimum Energy Performance Standards, and the requirement for all private rental homes to have an EPC rating of an E or above by 1 April 2020.

Sectoral Impacts

11. 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. The English Housing Survey

[7] http://www.naea.co.uk/media/1043988/housing-2025.pdf
[8] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/july2018

2016/17 estimated that around 7% (320,000) of all private rented stock had an Energy Performance Certificate (EPC) rating lower than E[9]. Recent research conducted by the Residential Landlords Association (RLA) suggests that on average landlords of properties with an EPC rating below E believe that it would cost them on average £5789.72 to bring their property up to the regulatory standard. The same research indicated that 20% of these landlords will have to sell these properties as they cannot afford the costs involved in making them more energy efficient[10].

Revenue implications for the Exchequer

12. By offering an incentive or financial assistance to bring all properties within the Minimum Energy Efficiency Standards, private landlords will be encouraged to continue letting property in the sector. This is beneficial to HM Treasury in three ways. Firstly, it will encourage landlords to make the changes to their properties rather than exiting the sector. Secondly, not only will tenants find themselves saving money in their energy bills and consequently spending more on local goods and services but by making improvements to a property's EPC the landlord is making an investment in their property. Thirdly, improving the energy efficiency of properties directly contributes to reducing the UK's carbon footprint and thus has environmental benefits; taking some of the financial burden away from Government energy saving initiatives.

<u>Allow the housing element of Universal Credit to be directly payable to landlords</u>

13. To improve how Universal Credit is being delivered the Government should do two things. Firstly, tenants should have choice over whether the housing element of their Universal Credit is paid direct to their landlord. Secondly, the Government should also introduce the option for tenants to be paid their Universal Credit twice monthly to assist with budgeting.

Sectoral Impacts

14. Problems in how Universal Credit is being delivered is creating rent arrears and forcing landlords to evict as their only option. In particular the impact of waiting periods and other delays causing rent arrears are having an impact on landlord's attitudes to low income households. We know of one landlord who has 49 tenants on Universal Credit (20 are on the Alternative Payment Arrangement whereas 29 are not) all with rent arrears and the landlord is owed £22,000. In February 2018, 35% of ARLA Propertymark letting agents who were surveyed told us that they had seen a reduction in landlords renting to Universal Credit claimants compared to 22% who said they had not. These figures slightly increased from the year before. From the same survey, 43% of ARLA Propertymark letting agents said that offering tenants who are in receipt of Universal Credit the option of direct payment of

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723880/Private_rented_sector_report.pdf
[10] https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf

housing costs to their landlord would help. Popularity for this option was particularly high from ARLA Propertymark letting agents working in the North West (67%) where the number of housing benefits claimants is the highest in the UK amounting to 11.9%[11] of all those receiving the benefit.

Revenue implications for the Exchequer

15. By actively working towards measures that encourage private landlords to take on recipients of Universal Credit as well as making budgeting for tenants more straightforward, the Treasury will benefit in three ways. Firstly, by lessening the likelihood of rent arrears and consequential evictions, it goes some way in alleviating the cost of the rising number of homeless applications. Secondly, the private rented sector is now the second largest housing tenure above social renting and provides much needed housing options, particularly for those on lower incomes who cannot access property in the social rented sector. Without these properties local authorities would face further pressures. Finally, by allowing direct payment to landlords from the outset, this lessens the costly and lengthy process of Alternative Payment Agreement reviews, which can only be secured after a tenant has fallen into rent arrears. Direct payments would mean that households reliant on benefits are more likely to be able to afford the rent in advance and deposits required to set up a new tenancy, and the costs associated with moving.

<u>Treat letting property as a business activity for tax purposes</u>

16. By treating the activity of letting property as a business for tax purposes and not classing it as unearned income, the Government would send a clear statement to the industry that it wants to support the sector provides professional services to tenants. The Government should ensure the same level of roll-over relief to landlords that other businesses receive.

Sectoral Impacts

17. Ensuring that Capital Gains Tax (CGT) roll-over relief applies where the proceeds of a rented property are re-invested into another rental property will further stimulate the supply of long-term properties to rent. This is because the existing CGT mechanism discourages landlords from selling their property in order to reinvest. Unlike many other businesses, landlords are unable to take advantage of Business Asset Rollover Relief. As rental income is considered to be unearned, landlords may not defer their CGT liabilities when disposing of assets to invest in new or existing rental property. By extending Business Asset Rollover Relief to the sale of residential property (used exclusively for the purposes of a lettings business) would help encourage longer tenancies because it would allow landlords to reduce the

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/706661/housing-benefit-caseload-data-to-february-2018.ods

‘gearing’ (borrowing to support an investment) of their portfolios, thereby protecting against market shocks and improve stability over the long term.

18. To further encourage long term investment in the sector the Government should unify CGT rates for property with those relating to other types of investment. In March 2016, CGT rates were cut significantly from 28 per cent and 18 per cent, for top rate tax payers, to 20 per cent and 10 per cent for lower earners. However, landlords were excluded from this cut and this means that while sale of shares in a company that owns property would incur CGT at 20 per cent, individuals making reasonable gains on the sale of a second property would face the existing 28 per cent. The move ignores the positive contribution made by landlords and property companies as the incentive is to invest in companies over property. Excluding landlords from CGT cuts makes this asset class less attractive at a time when the supply of rented homes is tight. Furthermore, keeping the old rates of CGT on residential property makes it more difficult for existing buy-to-let landlords (who also face a cut in income tax relief on interest payments) to reorganise their portfolios towards better performing property.

19. The Government should also introduce a CGT cut or taper for landlords on they will need to pay when they come to sell their property based on how long they have owned and let it out for. The current way CGT is applied fails to recognise the difference between landlords’ long-term holding of property as a business asset and short-term speculative trading. To this end, longer term holdings (longer than five years) should be subject to an increasingly generous taper, where CGT liability is reduced to a maximum of 50 per cent for property held for more than 10 years. For example, a landlord selling a property bought three years ago would pay CGT on 100% of any gains made, whereas a landlord selling a similar property after nine years would pay 60% of the relevant gain. Landlords who have invested in residential property for the long term are different from short-term speculators who buy and develop properties. Therefore, to help encourage longer tenancies the Government should recognise this when it comes to how much CGT landlords pay when they decide to sell.

Revenue implications for the Exchequer

20. These changes could see an increase in revenue to the Exchequer as it provides an incentive for landlords to reinvest within the sector. 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. CGT tapering for landlords would further encourage sector reinvestment of those who have owned their let property for the long term. Another benefit of extending Business Asset Rollover Relief to the sale of residential property (used exclusively for the purposes of a letting business), would reduce the amount of landlords ‘gearing’ (borrowing to support an investment) their portfolios, thereby protecting against market shocks and improving stability over the long term.