

Autumn Budget representation to HM Treasury

From ARLA Propertymark

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Background

1. ARLA Propertymark (Association of Residential Letting Agents) 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 2017

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

3. To improve affordability for tenants and help increase the number of First-Time Buyers, the Government should scrap 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.
4. Increasing the taxation burden on landlord's results in these costs being passed back to tenants through rent rises. For instance, more than a quarter (27 per cent) of agents saw rent costs rise for tenants in May – the highest level since July 2016, when the figure was 28 per cent.¹
5. 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

¹ <http://www.arla.co.uk/media/1045979/arla-propertymark-prs-report-may-2017.pdf>

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.

Treat letting property as a business activity for tax purposes

6. 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 to provide professional services to tenants.
7. 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. Furthermore, Capital Gains Tax (CGT) should be charged only on gains released from the business as profit.
8. 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 landlords with incentives to improve property conditions

9. It is important that existing landlords who want to expand and improve their property portfolios have new investment channels to tap into.

10. 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.
11. 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.

Help landlords with energy efficiency rules

12. 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.
13. 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.
14. According to the English Housing Survey there are 298,000 Private Rented Sector properties with an Energy Performance Certificate rating of F and G. Latest figures from the Residential Landlord Association show that the average amount spend by a landlord to bring a property to Energy Performance rating of E or above as the rules require is £6,781.²

² <https://news.rla.org.uk/rla-secures-1-5million-energy-funding-pot-for-members/>

Exempt reference checks from the ban on letting agent fees to tenants

15. In order to ensure that a tenant takes on manageable levels of financial commitment and help to ensure that they are not subsequently made homeless, the Government should exempt reference checks from the proposed ban on letting agent's fees.
16. Reference checks are an essential part of the letting process, giving landlords the reassurance that their tenants are who they say they are, work where they say they work and are able to make rental payments.
17. Whilst reference checks benefit the landlord, they also benefit the tenant as it ensures they are not overstressing themselves in terms of what they can afford. If a tenant falls into rent arrears this could result in County Court Judgments made against them, which could have a significant impact on their credit rating and their subsequent ability to obtain credit.

Allow the housing element of Universal Credit to be directly payable to landlords

18. 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 were on the Alternative Payment Arrangement whereas 29 were not) all with rent arrears and the landlord was owed £22,000.
19. To this end, tenants should have choice over whether their housing element of Universal Credit is paid direct to their landlord.
20. In February 2017, 34% of ARLA Propertymark letting agents who we surveyed told us that they had seen a reduction in landlords renting to Universal Credit claimants compared to 21% who said they had not. From the same survey, 45% of ARLA Propertymark letting agents said that offering tenants in the private rented sector who are in receipt of Universal Credit the option of direct payment of their housing costs to their landlord would help. Popularity for this option was particularly high from ARLA Propertymark letting agents working in Yorkshire and

Humberside (71%), the North East (89%) and North West (67%; areas with higher housing benefit claims.

Comments on current government policy

21. The private rented sector has become increasingly important to the UK economy and in 2015-16, 20% (4.5 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 landlords⁴ with 60% of properties managed by letting agents.⁵
22. 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.⁶ Legislation on residential lettings is amended regularly with new laws introduced frequently.
23. We do not agree with the Government's decision to ban letting agent fees to tenants. Independent research commissioned by Capital Economics predicts that as a result of a full ban on fees tenants will pay an increased rent of £103 per year. Furthermore, Residential lettings activity provides 58,000 jobs, which generate employee taxes in the order of £400 million for the Exchequer each year.⁷
24. 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. If letting agents leave the sector, landlords will likely be unaware of new (and existing) legal requirements, potentially causing widespread non-compliance and putting tenants in danger. This will likely cause added pressure on local authorities as tenants look for assistance.
25. 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

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/627686/Private_rented_sector_report_2015-16.pdf

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>

⁶ http://www.propertychecklists.co.uk/downloads/20170508_1

⁷ <http://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf>

other businesses receive – since April this year letting property is the only business where it is not possible to offset total costs against income before being taxed on profit.

26. 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.
27. 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.
28. 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.