Axe the Tenant Tax

The compelling case against Section 24

Axe the Tenant Tax is
an umbrella coalition of
individuals and organisations
who represent more than
150,000 landlords and who
in turn provide housing for in
excess of one million tenants

Steve Bolton & Chris Cooper

2016

Contents

Axe the Tenant Tax

Executive Summary

Section 24 changes to mortgage taxation rules are an unfair tax on tenants

"Far from levelling the tax playing field, this policy puts a cliff face through the middle of it... It is likely that landlords will increase their rents to compensate for the loss of tax relief and the number of rental properties may decrease."

Institute of Chartered Accountants for England and Wales

BAD TAX POLICY

Hitting small landlords often saving for their retirement and discriminating against individual landlords.

INCREASES RENTS

Survey data suggests 9 out of 10 landlords will increase rents. The failed Irish experiment proves rental increases.

WORSENED THE HOUSING CRISIS

Savills state that one million new homes are needed to rent by 2020 but S24 will reduce the supply of both existing and new stock.

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Section 24 Explained

Our research shows that many people (including some MPs) do not understand the full impact of Section 24 due to its complex and phased nature. The following simple description is very useful in helping people understand the potential consequences of Section 24:

SIMPLE DESCRIPTION:

"Most landlords will pay extra tax of 20% or more on their interest. The tax they pay might be bigger than their real profit, leaving them with a rental loss and a cash shortfall. And the tax will be payable even if they make a real loss, increasing the cash shortfall. HMRC will bankrupt those who cannot pay the extra tax."

MORE ACCURATE BUT MORE COMPLEX DESCRIPTION:

"Add the finance costs on your buy to let properties back to your rental profit, then add all your other income. If the total is more than £43,000 you will pay more tax. The extra tax may exceed 25% of the finance costs. HMRC will no longer deduct finance costs from rent in calculating the taxable profit. This means that the result will be inflated. They will add this inflated profit to your other income, and calculate your tax on the total. Finally they will deduct a "relief" of 20% of the finance costs from the tax they calculated, in order to find the amount of tax you have to pay. Inflating your profit might push you into the higher rate band or even the additional rate band. So you may end up paying tax at 45% on an amount of fictitious profit that is equal to your finance costs, minus 20% of these costs, resulting in a net rate of 25%. In addition you might lose the personal allowance that you otherwise would have been entitled to."

George Osborne's statements were misleading:

"It will only affect the wealthiest landlords."

The complete opposite is true – it will affect those landlords with the most (mortgage) debt.

"It will only affect higher rate tax payers."

In fact it will move thousands of landlords from the lower rate to the higher rate of tax, without them earning a single penny in extra income.

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Impact Assessment

The National Landlords Association survey data shows that in excess of 341,000 landlords will be directly impacted by Section 24.

This is estimated to remove upwards of **615,000** units of rented accommodation from the private rented sector at a time when the Government is committed to increasing supply to meet demand.

The two case studies below highlight why vast numbers of landlords are stating that they are being forced to either increase rents far more than they have ever done before or they will be selling up, having to evict tenants on sale and exiting the market. The larger the portfolio, the harsher the impact:

Sarah

Basic rate tax payer
Moved into higher rate tax band
Child benefit clawed back

Sarah earns £40,000 income from other sources. She has two children and receives child benefit of £1,823.

Sarah has two BTL properties generating rent - net of costs before interest - of £20,000.

Tax on property income:
Current: **£1,923**
Proposed: **£6,546**

Sarah's Effective Tax Rate:

109%

Ian

Higher rate tax payer
Moved into additional rate tax band
Personal allowance withdrawn

Ian earns £45,000 income from other sources.

He has a large property portfolio, generating rent - net of costs before interest - of £200,000.

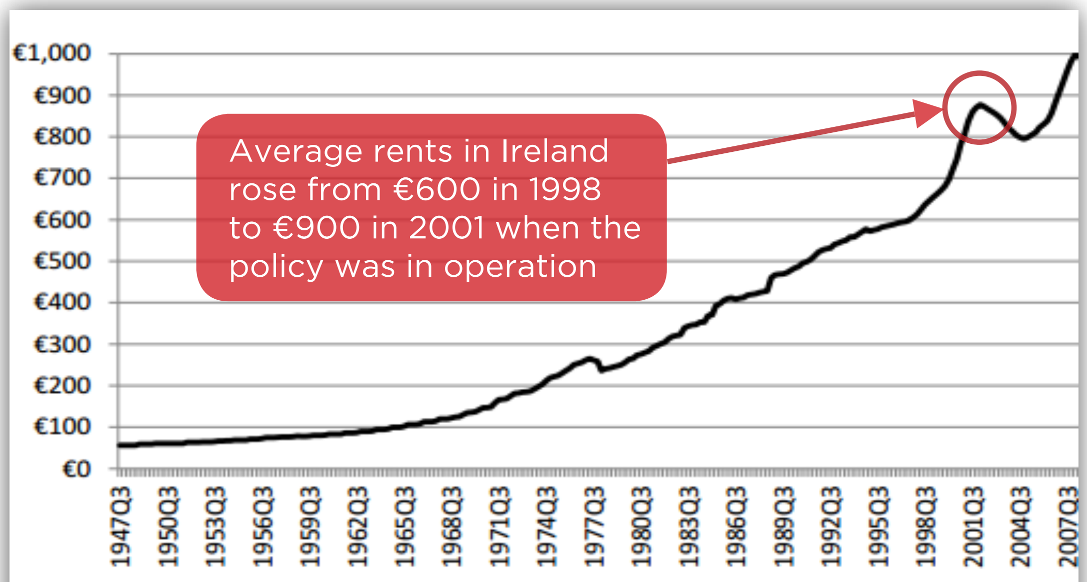
Tax on property income:
Current: **£8,000**
Proposed: **£52,990**

Ian's Effective Tax Rate:

265%

The Failed Irish Experiment

Section 24 is a failed tax experiment from Ireland (Section 23) where it was scrapped after three years when rents increased by 50%.



Source: Central Statistics Office, Consumer Price Index (various issues)

THE IRISH TIMES

Tax change will bring further rent increases.

Rents for residential property are rising in all the main cities according to letting and estate agents, who predict further increases due to provisions included in the Bacon report. The ending of incentives for investors arising from the Government's adoption of the report are likely to mean fewer of them getting involved in buying apartments and houses and putting them up for rent. In time, this will diminish the overall stock of housing available for renting.According to estate agents and landlord associations who spoke to The Irish

Irish tax authority's current guidance on loan interest: [4.8.6] Deductibility of Loan Interest (section 97(2)(e))

"9. Temporary restriction on interest deductibility for residential premises Finance (No 2) Act 1998 terminated the deductibility for interest on borrowed money used on or after 23 April 1998 in the purchase, improvement or repair of residential premises. ...the restriction applied for any tax year or accounting period during which the premises was, at any time during that period, a rented residential premises. This restriction applied from the date of change of use, irrespective of when the borrowed money was used. Finance Act 2002 restored interest relief for residential premises where the interest accrued on or after 1 January 2002, regardless of when the property was purchased."

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A Response to the Response

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Ian Murray MP
House of Commons
London
SW1A 0AA

31 AUG 2015

Dear Ian,

Thank you for your email of 10 August to Philip Hammond enclosing correspondence from your constituent, Ms Susan Porter, about restricting finance cost relief for landlords. I am replying as the Minister responsible for this policy area.

It may be helpful if I explain the Government's position. At Summer Budget 2015, the Government set out a package of measures to reduce the budget deficit and rebalance the economy. The Government wants a fair tax system. This means ensuring that landlords with the largest incomes no longer receive the most generous tax treatment. Landlords are able to offset their mortgage interest and other finance costs against their property income, reducing their tax liability. This also means landlords get relief on their finance costs at their marginal rate of income tax. By restricting finance cost relief to the basic rate of income tax, all finance costs incurred by individual landlords will be treated the same by the tax system.

Further to this, income tax relief for finance costs is not available to ordinary homebuyers and not available to those investing in other assets such as shares. Restricting the relief to the basic rate means that the Government is reducing the distortion between property investment and investment in other assets. It is also reducing the advantage landlords may have in the property market.

Using actual self-assessment data, HM Revenue and Customs (HMRC) estimate that only 1 in 5 landlords will pay more tax as a result of this measure. We appreciate that some of these landlords may face difficult decisions regarding their properties. This is why the Government has chosen to act in a proportionate and gradual way. Basic rate income tax relief will still be available on a landlord's finance costs, the restriction will not be introduced until April 2017 and then it will be phased in over 4 years. This gives landlords time to plan ahead of the changes.

Given that only a small proportion of the housing market is affected by this change, the Government does not expect these changes to have a large impact on either house prices or rent levels. The Office for Budget Responsibility (OBR) also expect the impact on the housing market will be small. Taking account of this and other measures at Summer Budget 2015, the OBR did not adjust their forecast for house prices.

The Government recognises that the private rented sector plays an important role in the UK housing market and economy. The provision of private rented accommodation allows for a more flexible and responsive work force. Landlords will continue to be able to claim income tax relief at their marginal rate on the day-to-day costs incurred in letting out a property, such as letting agent fees and replacing furniture. Finance costs are different to these other expenses as having a mortgage on a property allows the landlord to purchase a more expensive property and incur larger gains on the investment than they would have done without the mortgage.

Please pass on my thanks to Ms Porter for taking the trouble to make us aware of these concerns.

Kind regards,

Jane Ellison

JANE ELLISON

Homebuyers pay no Capital Gains Tax (other businesses pay 20% but BTL pays 28%), they pay 3% less Stamp Duty, need lower deposits and pay lower interest rates on mortgages. Landlords also pay tax on profits made from rental income whereas homebuyers can benefit from rent a room tax relief of £7,500 p/a. Landlords simply do not have an 'advantage'.

Government calculations were based on self assessment returns. However, because rental incomes are lumped together, they cannot actually say how many properties will be affected. More than 1,200 landlords used real figures for their current tax liabilities and over 60% will be put into the higher tax band by 2020. A further 17% of higher rate tax payers will be pushed from 40% tax to 45%.
(Source RLA)

A freedom of information request failed to provide any evidence of any form of impact assessments on rents. The most conservative survey shows that 58% of landlords will be forced into putting up rents.

Expert Comment

"This line of argument is plain wrong…. that the current tax system supports landlords over and above ordinary homeowners and that it puts investing in a rental property at an advantage. Rental property is taxed more heavily than owner occupied property. The problem is a lack of supply. This change (Section 24) will not solve that problem."

The Institute of Fiscal Studies

"Far from levelling the tax playing field, this policy puts a cliff face through the middle of it… It is likely that landlords will increase their rents to compensate for the loss of tax relief and the number of rental properties may decrease."

Institute of Chartered Accountants for England and Wales

"This is an under-graduate finance error that should not be made in the Treasury."

Professor Philip Booth, Institute of Economic Affairs

"The Government's buy-to-let tax changes could destabilise Britain's housing market by triggering a sharp fall in prices, if not a crash."

Lord Howard Flight,
former Shadow Chief Secretary to the Treasury

"Only a minority of sales to landlords involved bids from both landlords and first-time buyers."

London School of Economics

"Section 24 contravenes the Generally Accepted Accounting Principles (GAAP) that HMRC will continue to use for every other enterprise in the country."

Nicholas Hopkin, retired Senior Partner, PwC

"Section 24 means that most landlords will (effectively) be paying tax on the interest they paid to their mortgage lenders, as if the money was still in their bank accounts."

James Fraser, Conservative Councillor

Negative Impact on Tenants

"So the new Government regulations (Section 24) are already forcing us out of our current property. We're at our canopy level in terms of our rental maximum price we can afford to pay."

Mark Dawson, Tenant and Employed Training Manager

"If rent was to go up we wouldn't be able to save for a mortgage at all, we'd have no spare money to put aside to save for a deposit for a mortgage, so sadly the ultimate dream wouldn't exist anymore."

Hannah Lockley, Tenant and Office Manager

"I am a church minister who has prided himself on providing good quality accommodation, an attentive landlord who fixes things within hours. I have 9 properties and I have only ever had 2 tenants move out in 8 years. As a result of the tax change, I am being forced to sell, forcing good tenants to move home/become homeless. They are low income individuals who have no hope of ever becoming owners. They are devastated by the tax change too."

Rev. William Ruddle

"I inherited 7 properties all with mortgages after my parents passed away last year. I am on the cusp of being a higher tax payer as a police sergeant. The new tax rules will push me well over the tax threshold and will mean the business is unsustainable as I cannot offset the mortgage interest. I will be forced to sell them and 7 families will need to seek new homes to live in. Not only have I lost my parents, but I will lose the business that my father spent years setting up."

Alex Pigott

Negative Impact on Landlords

"I have calculated that with an interest rate rise of, say, 2.5% between now and 2020, coupled with the tax rises, I will need to raise rents by over 5% every year until 2020, just to break even, thereby really penalising the tenants. If the market can't bear this increase, I will have to sell."

Dorian Hardacre

"I have had to give notice to a family who have been tenants for many years at a rent £150 below market rates. In two months' time they will have to leave and move into smaller accommodation or pay £150 a month extra, which they can ill afford. Never missed a rent payment. The reason? I will no longer have any income from the property and am selling up."

Gary Nock

"I've a number of properties that I renovated from derelict to provide good quality, cheap accommodation to my tenants. Some of my tenants have not had a rent rise in over 6 years as I feel it is a moral obligation to help people out, where I can afford to. The impact of these changes will mean I will have to now charge market rates, in some cases an increase in 30-40%. The tenants will have to leave, after I serve notice, and they will not be able to afford similar properties in the area whereas I know lots of others can."

Thomas Waterman-Smith

"I own one buy to let two-bed flat in Nottingham. This was the home of me and my partner for five years, until her job moved to London in 2013 and I joined her a year later. We rented in London for a year, paying rent that was nearly twice the rental income of the property in Nottingham which left us out of pocket even then. I have not increased the rent for my tenant since first letting out the property, but as a result of this tax change I am now looking at having to do so."

Oliver Sweeney

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Negative Impact on Trades

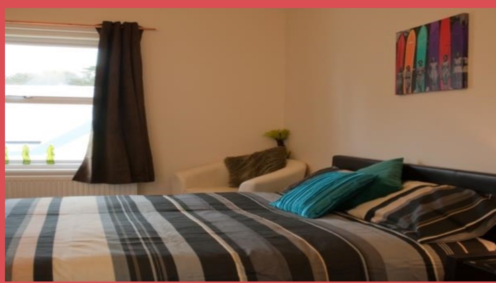
"If landlords have less money, they can spend less on refurbishment, maintenance and with suppliers.

If tenants have less money, they can spend less in the economy and will be unable to save for that all important deposit."

Jamie Fraser,
Professional Landlord and Stevenage Conservative Councillor

Before Landlord Improvements

After Landlord Improvements



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Distorting Competition

Section 24 discriminates against:

- Landlords with mortgaged properties owned in their own name

It does not affect the following:

- Anyone who owns property with no mortgage (the wealthiest landlords)
- Anyone who owns property through a company

London Rents

"As the UK's largest flat and house-sharing website, SpareRoom has seen huge growth in people sharing accommodation - up 129% in the past five years. The percentage increase in London is much higher.
And it's not just twenty-somethings and students either,
the fastest growing group of sharers are the over 45s!

Research we carried out earlier this year revealed that a rent increase of as little as £25 a month would be enough to force 23% of London sharers to move. Almost one in two would have to move if their rent went up by just £50 a month.

If landlords pass on the increased cost of doing business to their tenants, as many have indicated they'll have to, the already squeezed sharing population of the UK will find themselves financially struggling."

Matt Hutchinson, Director, SpareRoom
(helping more than 200,000 find shared accommodation p/a)

Axe the Tenant Tax Objectives

The Axe the Tenant Tax coalition have two clear and very focussed objectives:

1. Overturn Section 24 via a Judicial Review.

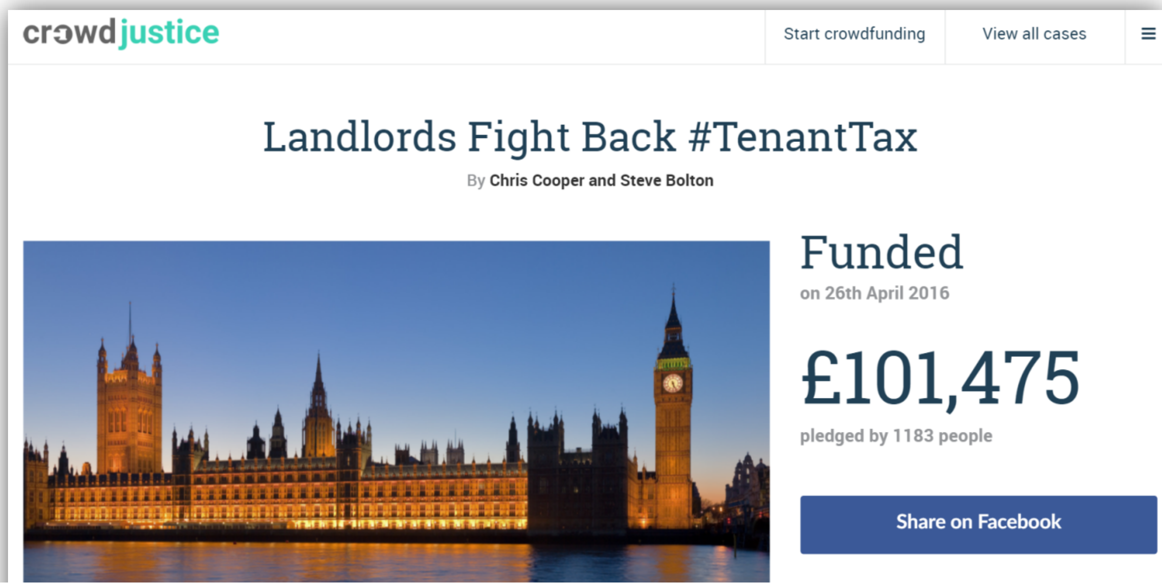
   OR
2. Make the Government remove the retroactive nature of Section 24, so that buy to let property purchases made prior to April 2017 are excluded from its scope.

Section 24 - Judicial Review

Two legal crowdfunding records were broken to raise the funds required for the first two phases of the Judicial Review.

The next step in the process is a Permission Hearing on 6th October 2016. The legal case is fully funded for the current stage.

Over 1,000 national media features have covered the case.



Platinum Sponsors

Representing 65,000 Members and Associates with 750,000+ properties

Representing 23,000 members, 16,000 registered guests with 500,000+ properties

Total lending in excess of £3.3 billion

Representing 250 Partners providing accommodation to 5,000 tenants

300 offices nationwide with 100,000 landlords and over 100,000 tenants

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2016 Media Coverage

The Daily Telegraph
THE TIMES
FT FINANCIAL TIMES
BBC
London Evening Standard
theguardian
THE INDEPENDENT
The Sunday Telegraph
MailOnline
REUTERS
This is MONEY.co.uk
West Sussex Gazette
ESSEX CHRONICLE
THE WEEK
YourMoney.com
Express & Star
YAHOO! FINANCE
Money Observer
South Yorkshire Times
CITY A.M.
YOUR PROPERTY NETWORK
mortgage strategy
MORTGAGE INTRODUCER
PropertyHawk
MortgageSolutions
property industry eye WHERE NEWS COMES FIRST
PROPERTY INVESTOR NEWS
propertyreporter
TAX-NEWS GLOBAL TAX NEWS
ResidentialLandlord uk buy to let resource centre
propertysecrets*
PropertyTribes
what MORTGAGE
PROPERTYWIRE Premier global property news service
TheMoveChannel.com
ASPIRE art • lifestyle • culture • entertainment
property118.com
ESTATES GAZETTE
houseladder.co.uk
Just Do Property The No 1 portal for Property Investors
LandlordTODAY
ifr INTERNATIONAL FINANCING REVIEW
lovemoney.com
Mortgages for Business
money marketing
Mortgage Finance Gazette
LandlordZONE Rental Property Knowledge
ASSOCIATION OF LOCAL LANDLORDS Wessex
LettingAgentTODAY
YOUR MONEY, YOUR LIFE Moneywise

Further Information

Axe the Tenant Tax Website – www.tenanttax.co.uk

Judicial Review Crowdfunding Campaign 1:
https://www.crowdjustice.co.uk/case/clause24/

Judicial Review Crowdfunding Campaign 2:
https://www.crowdjustice.co.uk/case/tenanttax/

Axe the Tenant Tax Media & Lobbying Campaign:
https://www.crowdpac.co.uk/campaigns/36/axe-the-tenant-tax

Axe the Tenant Tax Facebook Page:
https://www.facebook.com/clause24

Axe the Tenant Tax Twitter: @TenantTax

Contact Details

Steve Bolton & Chris Cooper

Info@tenanttax.co.uk

Charlie Flake, PR and Campaign Manager

Info@tenanttax.co.uk

T: 01202 652100 **M:** 07584 473 473