

# BUDGET 2018

A Submission from the Residential Landlords Association



## 1.0 About the Residential Landlords Association

- 1.1 The Residential Landlords Association (RLA) represents the interests of landlords in the private rented sector (PRS) across England and Wales. With over 30,000 subscribing members and an additional 20,000 registered guests who engage regularly with the Association, the RLA is the leading voice of private landlords. Combined, their members and guests manage over a quarter of a million properties.
- 1.2 The RLA provides support and advice to members and seeks to raise standards in the PRS through its code of conduct, training and accreditation, and the provision of guidance and updates on legislation affecting the sector. Many of the RLA's resources are available free to non-member landlords and tenants.
- 1.3 The Association campaigns to improve the PRS for both landlords and tenants, engaging with policymakers at all levels of Government to support its mission of making renting better.

## 2.0 Executive Summary

- 2.1 The demographics of those in the private rented sector are changing rapidly. Growing numbers of families with children and older people are bringing the sector under more scrutiny than ever before with growing calls for reforms, particularly around encouraging longer tenancies.
- 2.2 Tax changes over the last few years continue to cause difficulties for the sector with evidence of reductions in supply despite ongoing high demand. Instead, we believe that smarter taxation measures should be adopted, using targeted reliefs to support and encourage the behaviours that the Government is seeking. We propose:
  - Enabling landlords to reclaim the 3% additional Stamp Duty Land Tax where they purchase a property from another landlord and retain the sitting tenants and where landlords are prepared to sell a property on to a sitting tenant;
  - Using tax incentives to encourage the provision of longer tenancies where they are wanted. As the Government's own consultation notes, financial tools of this kind "*could be quicker to implement*" than imposing a standardised three-year tenancy across the sector; and
  - Making tax deductible any work a landlord carries out as recommended on an Energy Performance Certificate, thereby encouraging continuous improvements to the energy performance of homes to rent rather the one-off measures just to meet set targets.

### 3.0 The Challenges of a Changing Private Rented Sector

#### 3.1 Changing Demographics of Renters

3.1.1 The RLA recognises the increased scrutiny the private rented sector is now under as a result of its growth in recent years. It now accounts for just over 20% of all households, a larger proportion than those in the social rented sector. It has more than doubled in size since 2000<sup>1</sup>.

3.1.2 Underpinning such growth are changes in the demographics of those in rental housing. Almost 40% of private rented homes have at least one child living in them, up from just over 29% in 2003/04<sup>2</sup>. Over the same period larger numbers older tenants are reliant on the private rented sector.

*Proportion of older age groups in private rented housing<sup>3</sup>:*

Age Group	2003/04	2016/17
44-54	5%	16%
55-64	5%	10%
65+	4.5%	6.3%

3.1.3 The majority (almost 68%) of private sector tenants though are aged 44 or below<sup>4</sup>.

3.1.4 The challenge for the sector is to deliver the longer-term housing that many families with children and older people want and need, whilst ensuring that it retains the flexibility that many young people prefer enabling them to enter new work and educational opportunities swiftly. As the then Financial Secretary to the Treasury, David Gauke MP, argued in 2015<sup>5</sup>:

*“The provision of rented accommodation...supports the economy through improved labour market flexibility.”*

#### 3.2 Protecting Tenants When Properties are Sold

3.2.1 The Government’s own statistics show that between March 2016 and March 2017 the private rented housing stock fell by 46,000 homes<sup>6</sup>. The RLA’s research suggests there will be a loss of 133,000 properties to rent over the next 12 months as a result of tax changes to the sector.<sup>7</sup> This creates the possibility of substantial evictions of tenants to allow for sales with vacant possession. It is possible however that not all these properties are being lost to the PRS and they are being bought by other landlords. In such circumstances we believe that tax policy could focus on two key areas:

- a) Encouraging and supporting landlords purchasing a property from another landlord to keep existing tenants on in their homes during the sale.
- b) Supporting landlords prepared to sell a property to an existing tenant in residence.

<sup>1</sup> MHCLG, *English Housing Survey 2016/17 Headline Report*, Annex Table 1.1, available at: <https://www.gov.uk/government/statistics/english-housing-survey-2016-to-2017-headline-report>.

<sup>2</sup> Ibid. Annex Table 1.5

<sup>3</sup> Ibid. Annex Table 1.4

<sup>4</sup> Ibid. Annex Table 1.3

<sup>5</sup> HC Deb, 9<sup>th</sup> June 2015, cW

<sup>6</sup> MHCLG, *Dwelling Stock Estimates: 2017, England*, 24<sup>th</sup> May 2018, available at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/710382/Dwelling\\_Stock\\_Estimates\\_2017\\_England.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710382/Dwelling_Stock_Estimates_2017_England.pdf). =

<sup>7</sup> RLA PEARL, *Examining Energy Efficiency & Electrical Safety in the Private Rented Sector*, June 2018, Page 27, available at: <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>.

- 3.2.2 RLA research has found that of the over 2,500 landlords who responded to its most recent quarterly survey, 15% of reported selling properties in the last 12 months. Of these, 30% were sold to other landlords. In such circumstances tenancies are at risk as landlords look to be able to sell a property empty in order to give the new landlord a fresh start and also to allow for purchase from potential homeowners as well as other landlords. In such circumstances, tenants will often then find themselves needing to find a new home to rent. Measures can be taken to address this.
- 3.2.3 Similarly, we recognise the Government's ambitions for home ownership and believe structured routes need to be put in place to support tenants to transition from renting to ownership. 60% of private sector tenants have stated that they expect to buy a property at some point in the future<sup>8</sup>. 74% of non-homeowners say they want to buy a home, but affordability is preventing them from doing so<sup>9</sup>.

### 3.3 Energy Efficiency

- 3.3.1 We recognise the importance of ensuring energy efficient properties both to tenants' health and the impact that energy poverty can have on their finances.
- 3.3.2 Improvements have been made. The proportion of private rented homes with an Energy Performance Rating of F or G has fallen from just over 25% in 2006 to under 7% in 2016<sup>10</sup>. The Government now wants to ensure all private rented properties are rated E or better, with a longer-term aim to see that increase to C or better. However, the RLA believes that an E rating is a low bar to aim at which poorly serves tenants and the environment. We should look to incentivise landlords to do better than this, while still maintaining a minimum level which they must reach.
- 3.3.3 Research by the RLA has found that 37% of landlords with properties rated F or G are unable to afford to bring their property up to at least an E rating. On average, such landlords reported that it would cost them almost £5,800 to bring their properties up to the required standard<sup>11</sup>.
- 3.3.4 The Department for Business, Energy and Industrial Strategy is considering introducing a cap on the amount landlords should be expected to pay in order to meet the Minimum Energy Efficiency Standards, but as it is less than the cost for most landlords to achieve an E rating it will mean that most properties are unlikely to be improved.
- 3.3.5 **The RLA believes a more radical approach could be adopted that would encourage a culture of continuous improvements to properties, while recognising the importance of energy efficiency to tenants and the environment.**

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<sup>8</sup> MHCLG, *English Housing Survey - Private rented sector 2016/17*, July 2018, Page 23, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/723880/Private\\_rented\\_sector\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723880/Private_rented_sector_report.pdf).

<sup>9</sup> HomeOwners Alliance, *Housing ladder broken at every step*, 11<sup>th</sup> June 2018, available at: <https://hoa.org.uk/2018/06/housing-ladder-broken-at-every-step/>.

<sup>10</sup> MHCLG, *English Housing Survey 2016/17 Headline Report*, Annex Table 2.6, available at: <https://www.gov.uk/government/statistics/english-housing-survey-2016-to-2017-headline-report>.

<sup>11</sup> RLA PEARL, *Examining Energy Efficiency & Electrical Safety in the Private Rented Sector*, June 2018, Page 4, available at: <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>.

## 4.0 Finding Solutions

### 4.1 Addressing the Needs of Changing Demographics

- 4.1.1 We welcome the Government's consultation on longer tenancies and concur with it that the use of financial incentives to provide them "*could be quicker to implement*" than imposing a statutory standard three-year tenancy across the sector<sup>12</sup>. Such an approach would ensure that there remained flexibility in the system for those tenants who do not want to commit to a longer tenancy. Using legislation would, we believe, become extremely complicated as every possible scenario would need to be envisaged to permit tenancies of less than three years. It would also make landlords extremely reluctant to rent to any tenant that could be seen as carrying any form of risk at all as they would perceive a risk of being stuck with that person for the longer term.
- 4.1.2 **Smarter taxation should be considered. Research by RLA PEARL has previously found that 63% of landlords would be encouraged to offer longer term tenancies if some tax relief was provided for doing so<sup>13</sup>.**
- 4.1.3 Whilst the RLA has previously considered linked reinstatement of full mortgage interest relief to longer tenancies, we recognise that this fails to address the obvious problem with this, namely that most landlords do not have a mortgage on their property.
- 4.1.4 In countries such as France and Germany Capital Gains Tax relief is given the longer a landlord rents a property out. We believe however that CGT relief would be difficult to calculate if the landlord has a series of longer-term tenancies. Likewise, it would not provide the initial incentive for landlords to offer the tenancy now.
- 4.1.5 We suggest that it could be more beneficial to have a fixed income tax relief from rental income for all landlords that is then tapered by the length of the tenancy (as long as the landlord offers a specific type of longer-term tenancy - which enables policing through the use of a specified model tenancy).
- 4.1.6 As an example, for the first year of a model 2 to 3 year tenancy, the relief could be 15% tax relief on rental income that then jumps up to 20% in the next year, and this continues with a 5% increment each year until a maximum of 40% (6-years) if tenancy is renewed or continued. Any additional years would be at the 40% relief marker. This would encourage landlords to keep the tenancy going for longer.
- 4.1.7 There would need to be some control for when tenants leave the property before the end of a fixed-term through either the landlord serving a section 8 notice or the tenant leaving of their own volition. This could be in the form of the landlord receiving relief at the same rate for a further tax year then reverting to the lower threshold. This would ensure landlords are not unduly penalised for a change in circumstance by the tenant.
- 4.1.8 The RLA believes using taxation in this could garner cross party support:
- The Labour Chair of the Public Accounts Committee, Meg Hillier MP, has previously asked if the Government is considering looking at the supply of private rented housing on longer tenures, perhaps with rent guarantees, and possibly using tax reliefs or other mechanisms

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<sup>12</sup> MHCLG, *Overcoming the Barriers to Longer Tenancies in the Private Rented Sector*, 2<sup>nd</sup> July 2018, Page 21, available at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/721556/PRS\\_Longer\\_Tenancies\\_Consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/721556/PRS_Longer_Tenancies_Consultation.pdf).

<sup>13</sup> RLA PEARL, *The Impact of Taxation Reform on Private Landlords*, Page 31, available at:

<https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>.

the Treasury has in its armoury, “to encourage landlords to provide those longer-term tenancies and better security for the many private rented sector tenants.”<sup>14</sup>

- Speaking during a debate on temporary accommodation, a Conservative member of the HCLG Select Committee, Kevin Hollinrake MP, addressed the issue of incentives for longer tenancies. He said: “I wonder whether one such incentive could be to allow some dispensation around the section 24 mortgage interest provisions that have been introduced, because they have been received quite badly by many landlords.”<sup>15</sup>

4.1.9 Such a measure would need to go hand in hand with reforms to improve and speed up the ability of landlords to regain possession of a property where a tenant is, for example, failing to pay their rent or committing anti-social behaviour. This includes progressing with plans for a new housing court.

4.1.10 The RLA has detailed papers on all these proposals which it would be happy to share for further consideration and discussion.

## 4.2 Protecting Tenants When Properties are Sold

4.2.1 Mindful that many landlords are considering leaving the sector, and given the priority the Government attaches to homeownership, we believe that the tax system could be better used to encourage and support transitions from renting to home ownership whilst also protecting tenants in homes being sold.

4.2.2 The RLA proposes that:

- a) Where a landlord purchases a property from another landlord, the buyer would be able to reclaim the 3% stamp duty levy on the sale in the event that they accept the existing tenants as part of the sale. We would suggest that the levy could be reclaimed provided the tenant(s) were in situ for at least another six months after the sale. This could be verified by requiring a copy of the tenancy agreement given by the selling landlord and a further one from the purchasing landlord.
- b) The 3% stamp duty levy be refunded to the landlord where they invest in a property and then sell it to the sitting tenant. The RLA had previously suggested using Capital Gains Tax relief as a way of encouraging such sales, but is mindful of recent research it commissioned from the Cambridge Centre for Housing and Planning Research which has concluded that it is not clear whether a reduction in the rates at which Capital Gains Tax is applied would incentivise landlords to sell their properties to sitting tenants. The same research highlighted the reduction in investment created by the SDLT levy and this proposal is also intended to encourage that investment to return in a more targeted manner<sup>16</sup>.

4.2.3 There is already a process in place to refund stamp duty levies to purchasers where they are buying a new principal residence and sell the existing one after the purchase. This could be extended to landlords selling to tenants.

4.2.4 Both of these models could include protections as anti-avoidance measures such as the tenant having to have been in occupation for at least a year prior to sale. By setting the anti-avoidance threshold it would also serve to encourage longer tenancies where a landlord considered a tenant was likely to purchase.

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<sup>14</sup> HC Deb (29<sup>th</sup> November 2016), vol. 617, col. 1380, available at: <https://hansard.parliament.uk/Commons/2016-11-29/debates/1C3CD011-FAE3-49FE-858F-ED6B9B6B8F40/HousingSupply>.

<sup>15</sup> HC Deb (7<sup>th</sup> November 2017, vol. 630, col. 1400, available at: <https://hansard.parliament.uk/Commons/2017-11-07/debates/3FBF9645-734A-48AF-86EE-0F09A47D03C7/TemporaryAccommodation>.

<sup>16</sup> Cambridge Centre for Housing and Planning Research, *The impact of taxation reform on the private rented sector*, July 2018

### 4.3 Energy Efficiency

- 4.3.1 Whilst the Government considers introducing a cap on the amount landlords should be expected to pay in order to meet the Minimum Energy Efficiency Standards, we believe a more radical approach could be adopted that encourages a culture of continuous improvements to properties.
- 4.3.2 **The RLA proposes that any work that a landlord carries out to their properties that is recommended on an Energy Performance Certificate (EPC) should be tax deductible.**
- 4.3.3 Such a policy would be self-policing as the recommendations are listed on the EPC and are made by a qualified energy performance assessor. They also have a directly measurable cost-benefit as each recommendation comes with an estimate of its cost and the expected contribution to any reduction in energy bills.
- 4.3.4 This proposal has the further advantage that it continues to incentivise improvements over the long term rather than being a ‘one-off’ as a landlord can get a new EPC having improved the property and carry out a further set of improvements to increase efficiency permitting a further tax deduction. It also encourages improvement beyond landlords simply reaching the minimum E standard and then stopping.
- 4.3.5 If the desire is to focus relief on less energy efficient properties, it would be possible to taper the relief so that properties with higher EPC ratings would not qualify for a 100% deduction in taxable income.
- 4.3.6 DJS Research found that 88% of landlords would be more likely to invest in energy efficiency measures if they could be considered a tax-deductible repair<sup>17</sup>.
- 4.3.7 The Cambridge Centre for Housing and Planning Research, in partnership with the Joseph Rowntree Foundation, has modelled the potential impact of various tax changes in the sector. This included one to make specified improvements to properties tax deductible against income tax (rather than Capital Gains Tax, as at present)<sup>18</sup>.
- 4.3.8 Citing figures within the English Housing Survey, this report argued that *“if all landlords invested in appropriate energy-efficiency measures, they could spend a total of £8,409 million.”* It went on to note however: *“If we assume that 25% of landlords invested in such measures over the next 10 years, this would give a total investment of £2,102 million over the 10-year period, or £210 million per year.”*
- 4.3.9 The JRF/Cambridge Centre study went on to note that landlords renting the estimated 1.2 million PRS properties occupied by people in receipt of housing support are eligible for tax relief on expenditure that improves the quality or quantity of liveable space. The report estimates that *“a fifth of eligible landlords would invest each year, spending an average of £1,000 each - giving a sector expenditure figure of £240 million per year.”* It continued:
- “Taken together with the estimated expenditure on energy efficiency, this would give a total expenditure of £450 million per year.”
- 4.3.10 The report concludes that the cost of such a policy to the Government would be £36 million in the first year, rising to £86 million after nine years.

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<sup>17</sup> DJS Research for the RLA, *Landlords Tax Relief Research*, September 2015

<sup>18</sup> Cambridge Centre for Housing and Planning Research and Joseph Rowntree Foundation, *Using incentives to improve the private rented sector: three costed solutions*, March 2018, Pages 19-23, available at: [file:///E:/clarke\\_and\\_oxley\\_3276\\_incentives\\_final.pdf](file:///E:/clarke_and_oxley_3276_incentives_final.pdf).

## 5.0 How to Pay for It

5.1 The RLA recognises the need to ensure all tax changes are affordable and do not jeopardise the Government's core fiscal commitments and objectives.

5.2 Although we do not have the resource to calculate the precise tax implications, we would suggest that the gross loss of revenue from our recommendations would be very small and actually might lead to a net revenue gain:

- **Tax relief for longer-term tenancies** - any relief given might be off-set by a reduction in the overall benefits bill since, as a previous English Housing Survey has noted, "*private sector rents for long established tenancies do not increase year on year as much as those for new tenancies.*"<sup>19</sup> There are benefits too of families being able to set roots in a community long term.

Increasing tenancy length also provides benefit to the Treasury in terms of tax collected. When a landlord evicts the costs of doing so in terms of court and professional fees is tax deductible. The use of a new agent to find another tenant is also tax deductible. Therefore, encouraging longer tenancies has a direct benefit in that landlords will have fewer deductions from their tax.

- **Removing the 3 percent SDLT levy for where PRS properties are sold and tenants are retained in them and landlords sell properties to sitting tenants** - this would apply to an extremely small proportion of the amount currently being raised by the levy.

Using SDLT to encourage sales to sitting tenants would help to fulfil a central government objective of supporting all those wanting to transition from renting to home ownership. It should be noted also that although nearly all the tenants buying under this model would benefit from the first-time buyer SDLT relief, there may be some stamp duty paid depending on the value of the property.

It would also meet another objective of offering tenants greater security through longer tenancies through preventing tenants having to find a new home in cases where landlords are incentivised to purchase rental properties with sitting tenants in situ.

- **Tax relief for energy efficiency work** - as has been noted, many landlords would potentially be unable to afford the improvements required to bring an F or G rated property up to the Government's desired rating of E, let alone a C. The proposal to cap required expenditure will also mean that many landlords will simply not be required to do work at all. This policy would incentivise and encourage landlords to undertake continual improvements to a property rather than one-off work just to meet specific targets. This in turn would provide new work for those local SME tradespeople whom individual and small business landlords will often use. The DJS Research for the RLA shows that such a policy would encourage a considerable proportion of landlords to make improvements where they might not otherwise have done so. Given concerns about the take up of the Landlord Energy Savings Allowance this could, if the Government wanted, run alongside the energy targets for the PRS, ensuring that both a carrot and a stick approach were in operation.

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<sup>19</sup> DCLG, *English Housing Survey Headline Report 2011-12*, February 2013, Page 17, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/211288/EHS\\_Headline\\_Report\\_2011-2012.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/211288/EHS_Headline_Report_2011-2012.pdf) .