New Landlord Tax Could Affect 4.6 million Tenants

Gareth Wilson - Published on 05/02/2016

Research conducted by Property118 members has revealed how up to 4.6 million tenants could be affected by George Osborne's tax attacks on buy-to-let landlords.

In spite of ever-mounting criticism of the Clause 24 tax-grab from various quarters of the United Kingdom's private rental sector, constituency MPs persist in replying with the following two points, duplicated courtesy of the Treasury.

These arguments, designed to justify and excuse Clause 24 are that:

- The measure ensures the landlords with the largest incomes will no longer benefit from higher rates of tax relief.
- Less than 1 in 5 of individual landlords are expected to pay more tax as a result of this measure.
- Source – **https://petition.parliament.uk/petitions/104880**

The first of the Treasury's arguments is completely incorrect. Clause 24 will not affect the country's richest landlords: these of course being corporate rental providers – some with property portfolios reaching into the thousands – and wealthy cash-buyers. The second argument seeks to down-play the effect by giving a misleading impression.

Now, I would like to correct that impression. My aim here is to estimate how many tenants are likely to be affected by Clause 24. HMRC'S impact statement did not give any indication of this, or even mention the word "tenant".

This article is going to explain how the Treasury's declared targets – those 1 in 5 of individual landlords "with the largest incomes" – have been calculated to be housing around 4.6 million of the Nation's tenants. Such a statistic may sound remarkable, but its basis is rooted in the size of the largest, individual landlords' portfolios.

Among his responses to irate landlords, disseminated to fellow MPs, the Treasury Minister David Gauke explains *"The Government appreciates that this will cause some landlords to take difficult decisions regarding their rental properties, which is why the restriction will be phased in over 4 years from April 2017".* The difficult decisions, to which Mr Gauke refers, are of course whether the affected landlords should significantly raise their rents or evict their tenants and sell with vacant possession.

Unfortunately, Mr Gauke and a great many of his Government colleagues have failed to account for the multiplier effect of the aforementioned 1 in 5 of landlords, namely the significantly greater number of tenants on the receiving end of such rent rises and evictions. These landlords each own multiple rental properties.

Let us take as our starting point, the total number of private individual landlords in the United Kingdom. In response to an FOI request, the Treasury stated "When producing the impact report on the proposal to restrict finance cost relief for individual landlords HMRC assumed there were 2.1 million individual landlords in the UK who declared that they rent out 3.7 million properties in total."

The next stage is to discover how many properties the 1 in 5 own.

For such a data set we must turn to page 11 of the Department for Communities and Local Government's ***Private Landlords Survey 2010***. This is the latest government study that is available. Here it was reported that 81% of landlords owned just one rental property. Applying this percentage to the 2.1 million individual landlords as per the FOI request gives 1.7 million owning, by definition, the same number of properties, leaving the other 400,000 individual landlords (19%) with the remaining two million properties.

Though evictions and property sales triggered by Clause 24 would almost certainly be concentrated on directly-impacted mortgaged properties, rent rises designed to mitigate these extremes would likely be applied by buy-to-let landlords across their entire portfolio, irrespective of which property is mortgaged or mortgage-free. The simple logic of such a strategy would be to minimise the financial burden upon individual tenants. This would mean that even tenants living in mortgage-free homes would be paying higher rents as a result of Clause 24.

Having obtained a figure for the affected number of properties, the next step is to determine the number of tenants at risk. **According to the ONS**, the average rental property in England and Wales is occupied by 2.3 tenants. If we multiply the two million properties calculated above by the average number of tenants per rental property in England and Wales (2.3), **the sum total of tenants at risk of rent increases or eviction due to Clause 24 is 4.6 million!**

Those tenants unable to afford rent increases will be evicted, as will those whose landlords are forced to sell up. With poorer renters increasingly priced out of the private rental sector, the supply of rental properties available to those on benefits will fall, resulting in people having to move into temporary, unsuitable bed and breakfast accommodation at considerable expense to the public purse. The demand for social housing will increase at a time when there are already very large waiting lists for social housing.

In summary, around 400,000 individual landlords (1 in 5), housing 4.6 million tenants, are to be put under financial pressure to increase rents as a result of Clause 24.

Even if only 1 in 5 individual landlords are adversely affected by George Osborne's buy-to-let tax grab, the number of people impacted throughout Britain will be significantly greater than this quoted grouping suggests. After accounting for the much greater number of their tenants, we can say with confidence that the negative consequences of Clause 24 – of rising rents, evictions, expanded council housing waiting lists, and contracting rental supply – will be massive, widespread and far in excess of official Treasury expectations.

Download this page as a PDF document

Related articles – LINK

http://www.property118.com/category/budget-2015-campaign/