SECTION 24

of the Finance (no. 2) Act 2015:

"The unjust legislation that will make the UK housing crisis much worse"

By Property118 Landlords Group

A note about Property118 Landlords Group:

A group of landlords were so incensed with 'Section 24,' (s24) which was announced by George Osborne in the Summer Budget of July 2015 that we came together on the Property118 website and we have campaigned against the measure ever since. We are determined to get this grossly unfair tax policy reversed and in the process of working towards this aim we have made an extensive study of the rationale behind this exceptional move by the former Chancellor and the implications of it for landlords and the wider economy.

As most of us are portfolio landlords, we have extensive experience and expertise in the sector, meaning that we have been able to conduct an in-depth analysis of many of the ramifications for the private rented sector; something which we believe has not been done to date.

Furthermore, although we have written the report as portfolio landlords we have endeavoured to back up all of our statements with evidence, facts and valid references; as will be shown, this is far more than the Government has done in the 'justifications' or lack thereof for its policies against what it calls 'individual' landlords.

The first aim then of this report is to educate as many people as possible about the negative consequences to the economy and to society as a direct result of what we truly believe to be the most ludicrous piece of legislation ever to reach the statute books. The second and primary aim of the report is to get s24 scrapped before it does more damage than it already has done.

Contributors:

Dr Rosalind Beck, David Knox, Kathy Miller, Cllr Jamie Fraser, Mark Alexander, John McKay, Neil Patterson, Chris Cooper, Barry Fitzpatrick, Steve Bolton, Gareth Wilson, Charmaine Royce, David Price and Ruhal Uddin.

Executive Summary

1. **Experts and commentators agree that Section 24 makes no sense, as it proposes 'individual' landlords pay tax on their profit but stops them from offsetting the costs of making that profit.**

2. **The logical conclusion of Section 24 is that many landlords will pay huge amounts of tax.** The two real case studies in this report show effective tax rates of 83% and 93% for two portfolio landlords as soon as s24 is fully in place. Interest rate rises are likely to cause the tax rate to exceed 100% of their real profit. It will even be payable on a loss, making the rate infinite.

3. **The tax will be confiscatory**. If the landlord is able to pay it out of another salary or savings, the salary/savings will be confiscated by the Government. If the landlord is not able to pay it, HMRC will bankrupt him or her, and the property will be confiscated by the lender. Tenants will be evicted and landlords' livelihoods and lives will be ruined.

4. **Landlords have been made the scapegoats of the housing crisis** which is due to a decades-long under-supply of new dwellings. This blaming is ironic as **landlords have made a huge contribution to the supply of new dwellings.** The crisis would be much worse now if they had not done this and both rents and house prices would be higher than they are today.

5. Organisations like Shelter and many sections of the media have vilified private landlords for years, although surveys show that more than 80% of tenants are satisfied with their homes.

6. There was no consultation whatsoever before this policy was announced, there was no valid analysis of how many landlords would be affected, and the impact report on the measure did not mention tenants as an impacted group, although one estimate is that 4.6 million tenants will be affected, with the most in need being the most hard hit.

7. The way the policy was introduced throws up serious questions about the 'independence' of the Office of Budget Responsibility (OBR) and the Bank of England from the Treasury.

8. Even before Section 24 was announced, UK landlords received worse tax treatment than all their counterparts in the advanced world, with the exception of Ireland.

9. Similar, yet far milder, policies were introduced in Ireland twice in the last 20 years and both times there were adverse consequences, including sharp rises in homelessness. The UK Government has made no reference to this. In fact, Section 24 is far more extreme as it applies to properties already owned; in Ireland it only initially applied to new purchases. **It is the fact that Section 24 is retroactive legislation that is so damaging and that will lead to the bankrupting of currently successful businesses**. **The Irish Government has now made the dramatic announcement that their measure against private landlords is to be repealed, because of how it has exacerbated Ireland's housing crisis.** The UK Government needs to learn from the lessons of others which are clear to behold.

10. **If, instead of draconian tax punishment,** t**he Government offered the same incentives that landlords in other advanced countries enjoy, private landlords would increase the supply of new dwellings even faster than they did up to 2015 without such incentives.** They financed new-builds, rehabilitated run-down properties and converted large residential or commercial buildings into flats or houses of multiple occupation (HMOs).

11. **To avoid bankruptcy, landlords have already started to pass on the Government's levy to their tenants by increasing rents.** Those on housing benefit cannot afford the increased rents and are being evicted, increasing the homelessness problem for councils who have to find 'temporary' accommodation for them. These costs are significantly higher than housing benefit; the cost in human misery is incalculable.

12. In tandem with the attack on 'individual' landlords, the Government has supported 'Build to Rent' by institutions, some of whom are Conservative Party donors. These institutions will charge higher rents than private landlords, so will not alleviate homelessness. No justification has been advanced for this preferential treatment.

13. Landlords were so furious at the sustained attack on them by the Government since the Summer Budget of 2015 that they even attempted to obtain a Judicial Review of the policy (this was however refused). Such anger towards the Government from landlords is unprecedented and indicative of the sense of betrayal felt over this hard-left measure; this is in the context of the Conservatives having presented themselves as the party of business in their general election campaign.

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1. What experts and commentators have to say about Section 24:

Richard Dyson, Finance Editor at The Telegraph:

'George Osborne has killed off buy-to-let for all but the very rich.'

'We now have a tax that is applied at a rate of more than 100pc on investors' returns. We now have people paying tax on zero income. We now have a tax regime that appears not to be able to distinguish between revenue and profit.

It is a tax from Alice in Wonderland, a truly bonkers tax, a tax you'd laugh at – if it were being applied in a Third World country by a lunatic dictator.'[i]

'We need a stable tax regime. Business and individuals need to be able to plan. We need to know that if we invest in a property or business or save into a pension today, we are not going to be kippered at some point in the future by an arbitrary change in tax law. What we don't need is an unstable, party-politicised tax regime where the rug can be pulled out from under our feet, whipped on by whatever populist cause wins the day.

Basic tax ground rules, such as the ability of businesses to offset borrowing costs, should remain untouched. Many hate buy-to-let and blame its rise for our dysfunctional housing market and wider social problems. Shoving a spanner into one of the central precepts of our tax system isn't the solution.'[ii]

Richard Evans, of the Telegraph:

'We have seen the absurdities of the tax that you pay on losses rather than gains, courtesy of the inane and incoherent income tax regime for buy-to-let landlords.

The delights of the stamp duty surcharge, which penalises some couples for being married and others for being divorced, have also been exposed.

Both of these monstrosities require immediate removal from the statute book and Theresa May, despite her many pressing duties, should ensure that it happens.'[iii]

Simon Jenkins, writing for the Guardian:

'Osborne's assault on buy-to-let is mystifying…Renting is the most efficient use of urban property. It keeps things flexible. It is first and last recourse of the homeless and the refugee as well as of the middle-class young…persecuting all landlords helps no one.[iv]

Stephen Glover, of the Daily Mail:

'The common view [of landlords] is that they are leeches and parasites who drive up the price of property by snaffling desirable houses and then renting them out for obscene amounts of money. The strange thing is that a Tory Chancellor seems largely to share **this idiotic belief.**

Isn't this [persecution] the reverse of what one would both expect and hope to happen under a Tory Government? Why has the Chancellor turned on the 'little people' who aspire to buy and let out properties?

'… there can only be one consequence of Mr Osborne's inexplicable war on buy-to-let landlords. Some of the smaller fry will be driven out of business by punitive taxes and tougher lending rules. If that happens and the market contracts, rents are likely to go up. Is that what the Chancellor wants?' [v]

The Institute of Chartered Accountants of England and Wales:

'The provisions are retroactive as they impact transactions already undertaken. Taxpayers will have priced and borrowed according to the tax relief they expected and these borrowing decisions would by necessity have a long time line and many taxpayers will not be able to restructure their debt.'

'Denying a business tax relief on expenses wholly and exclusively for the purpose of the business is not fair and reasonable.'

'We can think of no other business where the cost of funding the capital of the business is not tax allowable.'

'The idea that landlords will be taxed on the profit of their businesses, but not be allowed to offset the costs of creating that taxable profit is absurd, unjust and unsustainable. It overturns a fundamental, centuries-old principle of taxation.'

'The Chancellor introduced the change to "create a more level playing field" but as the measure does not apply to companies far from being level **it leaves the playing field with a cliff edge in the middle.'**[vi]

Paul Johnson of The Institute of Fiscal Studies:

'This line of argument [about the 'level playing field'] is plain wrong. Rental property is taxed more heavily than owner occupied property.' [vii]
[NB. David Cameron stated that the IFS economists are the 'gold standard'.[viii]]

Professor Philip Booth the Institute of Economic Affairs:

'…this is an elementary undergraduate public finance error that should not be made in the Treasury.'[ix]

The Intermediary Mortgage Lenders Association:

'Scrapping tax relief for buy-to-let landlords will constrain the supply of rented property and make life harder for tenants…The Intermediary Mortgage Lenders Association said measures that discouraged investment in private rental housing at a time of population growth and low supply would only push up rents.'[x]

The Residential Landlords Association:

'Government needs to back down on its decision to tax landlord's income and not profit. No other business is taxed on this basis.'

'The main impact of the Government's tax changes is going to deter investment by landlords in new homes to rent. With rising demand, rents will rise as shortages increase and landlords seek to recoup the extra costs being imposed on them. Either way, it is tenants who will suffer.'[xi]

The National Landlords Association:

'No business pays tax on their gross turnover alone so why should landlords be treated any differently?

'Removing their ability to deduct legitimate costs before declaring their taxable profit would essentially force them to suck up one of the most significant expenses they face in being able to provide homes for others.'[xii]

'The removal of mortgage interest relief from 2017, combined with the government's benefits freeze and the reducing availability of social housing, will create a perfect storm whereby some tenants will struggle to find any sort of housing at all.'[xiii]

2. Section 24: What is it and why is it important?

2.1. 'Sophistry'

When the former Chancellor, George Osborne announced in his Summer Budget speech of July 2015 that he would 'restrict finance cost tax relief for 'individual' landlords,' it wasn't clear to most observers what this actually meant.

The method of describing the change was so opaque that only tax experts would have understood it initially. Landlords across the country had no idea what it meant. This was because to fully understand what 'Section 24, of the Finance (no.2) Act, 2015' signified, one would need to understand the concept of 'sophistry.'

'SOPHISTRY'.

The Oxford Dictionary definition: **a subtle, tricky, superficially plausible, but generally fallacious method of reasoning.**

The Cambridge Dictionary definition: **the clever use of arguments that seem true but are really false, in order to deceive people]**

The Chancellor' accompanying statements added to the confusion. Notably:

2.2. The idea that it would create a 'level playing field:'

The Chancellor's stated objective was to 'create a level playing field between those buying a home to let, and those who are buying a home to live in.' As many experts have attested, however, the measure does nothing of the sort and it is the wrong comparison.

In fact, what the policy consisted of was disallowing finance costs as a legitimate business expense for unincorporated landlords when calculating their rental profits. At the same time it introduced a new form of tax deduction for 'individual' (that is, unincorporated) landlords of up to 20% of their finance costs, to be subtracted from their tax bills.

2.3. The idea that most landlords would be unaffected:

For most landlords hearing the Chancellor's reassurance that it would only affect a minority of 'wealthier landlords', they would have concluded that they didn't therefore need to be concerned (especially if they were basic rate taxpayers). This was also sophistry at work.

Naturally, landlords – who knew they were allowed, like all businesses in the UK to offset their finance costs along with all other costs to arrive at a taxable profit – could not believe that this basic tenet of tax law had suddenly been scrapped (and only for them).

A central tenet of tax law is: Profit = income – costs (but no longer for 'individual' landlords).

This was a clever move as landlords couldn't believe for days, weeks, months in some cases that such an idea could become law in a civilised country and that they could be taxed on profit but not be allowed to deduct some of the main costs of producing that profit.

2.4. It is of course the case that some landlords will be unaffected by the measure, notably where the sum of their real income and their finance costs does not exceed £43,000.

However, many landlords, despite receiving no more actual income than they get today, will face enormous tax bills, because they will be taxed on a large part of their finance costs as though that money had not been paid to the lender and as though it were still in their pockets. They will be taxed not on their actual profit, but on the majority of their turnover.

When Lord Lawson, in the context of HMRC agreeing Google could pay a derisory amount of tax (2.77%) over a ten-year period insisted it should be replaced with a levy on annual revenue, rather than profits, George Osborne condemned the idea, **arguing companies would be hit with high tax bills regardless of their profits.**

"Before we rush to some other solution, I would try and make corporation tax work. I've heard lots of proposals about getting rid of corporation tax altogether, creating a turnover tax," Mr Osborne said.

"I would enter this note of caution: that means a business that has made no money in a particular year, maybe in a recession or a company that has lost a big order, being hit with a tax bill."[xiv]

He had no such qualms about landlords facing a tax bill regardless of their profits, however.

In the words of landlord, James Fraser:

'I was astonished and dismayed that such a tax change could be introduced by the Conservative party. I voted for them because they are supposed to be the party of business. And then they bring this in which will ruin me.'

In the words of another landlord, Michael Fickling:

'…this tax change is in fact entirely punitive. It is not really a TAX at all…you will find that a

landlord with say 75 to 85% finance who was operating at an annual break-even or indeed a small loss as many have been (in many cases investing for the long term as a pension or longer term investment), will now pay tax upon that same loss or break even situation. That is not TAX as we know it but effectively a punitive fine upon borrowing.

That means that it is in fact not income "TAX "as we have always previously known it but rather an annual charge or a fine or levy upon the cost of a landlord's borrowing… it is not merely an extension of or an increase in tax; it is in fact something so absolutely and completely different to tax. It is a levy upon borrowing and therefore an unlawful unjustified and inappropriate use of taxation law and procedure to create such a levy.

And if a government can "tax" any business based upon its main cost then this is a huge inversion of every previous conception and construction of what both profit and TAX actually are. It would allow for and "open the gates" for any business person to be taxed upon all their business finance costs rather than upon a fraction of income or profit and as such a thing it should have been very fully exposed to a national debate and examination of epic proportions. Its significance would potentially be certainly more significant to UK business people than something called brexit for example!

The majority of all business people use large amounts of finance; very few will be fully and properly aware of clause 24's true nature and the huge precedent which it sets in completely inverting what was previously a sensible and previously accepted principle that income tax is based upon INCOME not cost.

It completely breaks all previous and fundamental principles of our taxation system.

2.5. There are several technical explanations of how the tax will work (see, for example, Carl Bayley, 2015[xv]) and Appendix 1, but the best way to illustrate s24 is to look at real-life examples.

The case studies which follow demonstrate how it will work in practice – how portfolio landlords will be pushed towards financial ruin by this measure, unless they take effective and extreme action (including rent rises, evictions, selling their rental properties and even moving abroad – see Appendix 2).

3. CASE STUDY 1:

The Plymouth Portfolio: What Section 24 means for Caroline, a portfolio landlord in Plymouth.

Current tax: £15,200. Tax in 2020/21: £54,100. Increase: 256%

Caroline is a higher rate taxpayer. In the last year she earned £65,000 from her property portfolio of 40 flats and houses. She has no other income. She has one child but receives no child benefit.

Her properties generate £333,000 in rent. Maintenance and other business costs total £113,000, and she pays £155,000 in mortgage interest.

Under the current tax rules Caroline makes a net profit of: £65,000, on which the tax is £15,200. This leaves her with £49,800. **Her effective tax rate is 23.4%.**

After Section 24 is fully implemented, Caroline's net income would be deemed to be £220,000. The **tax will be £54,100, leaving £10,900 a year for herself and her child to live on. Her effective tax rate would be 83% of the real profit**. She will be moved into the additional rate band, and lose the benefit of the personal allowance.

If the Bank of England Base Rate (BBR) goes up to 1.5% her rental profit will go down to £17,000, but her tax under Section 24 would be £44,500**, an effective rate of 262%. She would have nothing to live on and a cash deficit of £27,500.**
Whatever the BBR rises to after that, **her after-tax income will be £43,300 lower under s24 than under the Generally Accepted Accounting Principles that have been applied up to the current tax year.**

She will have to pay tax even if she makes a rental loss, making the tax rate infinite.
In order to avoid bankruptcy Caroline has started to increase rents - 'professional' or 'full-time' landlords rarely increase rents on a tenant in situ,[xvi] which means they are now finding it easy to do so. Where it isn't possible, they will **replace tenants on benefits with employed people**. 18 of her tenants on benefits have been evicted from 9 properties, on which the rents have gone up by an average of 10%.

In order to still have a net income of £49,800, Caroline will have to increase her rents by £71,000, or 21%, between now and March 2020. She will not be any better off than she is today, despite her rents increasing by so much; her tenants will be worse off.

In response to letters from landlords the Treasury has stated that this tax is 'proportionate.' If it is proportionate, then what would be disproportionate?

4. CASE STUDY 2:

The Pension Portfolio: What Section 24 means for Chris, a portfolio landlord with properties spread around Northern and Southern England.

Current tax on property: £4,600. Tax in 2020/21: £15,000. Increase: 226%.

Chris is a higher rate taxpayer. He works for an airline, earning £34,000pa. He pays £4,600 tax on this. Several years ago he began the process of by buying and creating a portfolio of 15 flats and houses to support him in retirement. His properties generate £104,000 in rent; maintenance and other business costs total £37,000, and he pays interest of £51,000.

Under current tax rules Chris makes a net profit of: £16,000, on which the tax is £4,600, at **an effective tax rate of 28.8%.** The total tax on his total real income of £50,000 is £9,200 leaving him with £40,800 before the deduction of £3,120 for NI contributions, or £37,680 net.

After Section 24 is fully implemented, Chris' net income would be deemed to be £101,000. The total tax would be £19,600, leaving him with £30,400 a year before the deduction of £3,120 for NI contributions, or £27,280 net. **The effective tax rate on his real rental profit would be 93%.**
He will lose part of the personal allowance as a result of s24.

If Chris had no properties, the income tax on his current salary would be £4,600 and his after-tax amount would be £29,400 before the deduction of £3,120 for NI contributions, making £26,280 net. **So he will be only £1,000 a year better off from having the properties**. If his interest was £1,250 higher, the tax rate on his real profit would be 100%.

Even without an increase in interest, **when his salary goes up by £2,500 the tax on his real rental profit will be 100%. Chris will have to pay tax even if he makes a rental loss, which will turn the tax rate infinite.**

If the Bank of England Base Rate goes up to 1.5%, his rental profit will be turned into a loss of £275. Yet under s24 he would have to pay tax of £11,800. **The effective rate on the nil real profit would be infinite.**

The £11,800 would be in addition to the tax of £4,600 on his salary, making a total of £16,400. Deducting this from his salary would leave him with £17,600, less NI contributions of £3,120, less the loss of £275. **He would have £14,205 to live on.**

In order to still have a net income of £40,800 , Chris will have to increase his rental profit by £24,400, between now and March 2020. As his agents' fees of 14% go up in line with rents, **he will have to increase rents by £28,400, or 27%. He will not be any better off than he is today. His tenants will be worse off. He will also now not be accepting tenants on benefits.**

5. Why was s24 introduced?

5.1. There are various theories regarding why the Government introduced this punitive tax regime for 'private' landlords (corporate landlords are exempt). It really was a bolt from the blue. As no-one outside of the Treasury was party to the discussions, we can only speculate on the motives. These may include:

- It's a tax grab, pure and simple (and landlords are an easy target), and George Osborne was under a self-imposed pressure at the time to eliminate the budget deficit.
- It's to help first time buyers or at least give them the illusion they were being helped (according to this, attacking one group helps another) and also to further favour owner-occupiers in the tax system, as increased owner-occupation levels are a Conservative Party goal (this group has been fiscally favoured for decades).
- It's to eliminate the 'small-time' landlord, so that 'institutions' can take over the market. This is justified publicly as a move which will improve rental conditions, but institutions also happen to donate to the Conservative Party coffers.

5.2. One thing cannot be in doubt, however, and that is that it was a populist move, yet one which landlords were shocked to see a Conservative Government introduce, as it is such a 'hard-left' policy. Logically, it will lead to the effective confiscation of assets in many cases. This is because landlords will be forced to sell at a time not of their choosing, possibly in a falling market and in many parts of the country properties are still in negative equity. It will therefore bankrupt many landlords who will not have the funds to repay the mortgages (they will have planned to keep the properties for many years and would not have priced in having to suddenly sell them because of retroactive legislation).

5.3. The groundwork for the measure was laid by anti-landlord organisations such as Shelter and Generation Rent and fuelled by biased media coverage of 'rogue landlords' over several years. Because of this it passed through Parliament very smoothly. Indeed the Labour Party did not oppose it, as to do so would have placed them to the right of the Conservatives, politically. It therefore went unchallenged by the Opposition and other parties, with the Labour MP, Siobhain McDonagh, even suggesting that this extreme measure be made more extreme.[xvii]

5.4. It is worth mentioning how since then, the Labour Party has continued to attack the sector by distorting the truth. In Jeremy Corbyn's keynote speech to close the Labour Party conference in Liverpool in September 2016, for example, he accused the

Government of 'subsidising' private landlords by spending £9 billion of housing benefits in the sector, not mentioning that the total cost to taxpayers for Government social housing had been £15.2 billion. As one landlord commented:

'The word 'subsidise' means to help by giving money, to pay part of the cost of something.

It is not landlords who are being subsidised, it is the people who are given the welfare money. They are being subsidised for not being able to command an income high enough to support their households. The purpose of the subsidy is to prevent people becoming homeless and having to be housed by councils at greater cost than the private sector rents… [Corbyn said:]

"Instead of spending public money on building council housing, we're subsidising private landlords."

This suggests to his gullible audience that a government could stop paying housing benefit and divert the money instead towards building houses.

This is another example of either sophistry or economic illiteracy. Where would the people on housing benefit go once they had been evicted en masse for non-payment of rent? How much would it cost to put them in "temporary" accommodation – which might become permanent?'[xviii]

Another observer and expert on the housing market, Kate Faulkner, pointed out how even before this speech by the leader of the Opposition:

'… landlords had been unfairly blamed for a lack of social housing. They are being unfairly scapegoated, and I'll tell you the one bit that really winds me up is when they are accused of pocketing housing benefit,' Kate stated 'Landlords don't go around and force people to rent from them. Kate suggested that recent levies on landlords were evidence that people misunderstand how wealthy many landlords actually are.…They're being hit by several different departments and nobody's sat and actually worked out the cost … [which] is horrendous from a landlord's perspective. I think they're being caught in the crossfire and I just think there is a complete lack of understanding of what an investor earns from property.' She points out elsewhere how a typical landlord might be a nurse or a teacher for example.

One can only add that this 'subsidy' for housing the less well-off in society will be less of a problem in the future as landlords vacate this part of the sector in droves.[xix]

5.5. These kinds of appeals to populism in the context of the media onslaught on landlords in recent years, meant that when it passed through various committee stages of Parliament, the Labour Party and Scottish National Party waved it through, ignoring

and raising none of the points made in nearly a hundred written submissions by experts and affected parties.[xx] Dr Rosalind Beck wrote to the Committee as follows:

Letter sent to the two Chairpersons of the Committee, 16th October 2015:

Dear Sir Roger and Mr Howarth

I am writing regarding the Finance Bill Committee meeting yesterday. There were approximately 90 submissions made, the vast majority relating to Clause 24. These covered the issues most comprehensively, in addition to letters sent to Committee members which summarised the salient points. As you can imagine, many hours would have been spent preparing these by concerned people and experts in the field from the whole country in order that the Committee could be fully informed, and for an intelligent debate to take place. We had been encouraged to volunteer our expertise and understanding of the measure, utilising this democratic procedure.

We were, therefore, astonished to read the transcript of the meeting, because it was instantly apparent that no MPs had read any of this vital information. The sparse discussion that did take place for a couple of minutes demonstrated the Committee members' ignorance of the contents of the Clause and its repercussions and implications. Had the Committee members read even a fraction of the written evidence, they would have had serious concerns about this going ahead. I am surprised that you, as the Chairs, did not admonish them for this and adjourn the meeting.

If the Committee members do not even read the written evidence, what is the point of this being invited from concerned parties? I would prefer to be told that no written evidence is admissible as none is going to be read. This would be the honest course of action.

Could you please let me know the procedure to follow to make a formal complaint about this?

Yours sincerely

Dr Rosalind Beck

Property118 Landlords Group

5.6. Richard Dyson at the Telegraph agreed that the anti-landlord sentiment prevailing at the time eased its passage through parliament; in response, the Telegraph launched an 'Axe the Buy to Let Tax' Campaign shortly after the Budget.

‘This tax change, which was called for by cynical politicians and commentators hoping to strike a populist tone, sets a new benchmark of absurdity in Britain’s already ludicrously complex tax regime. ‘

It since became apparent that anti-landlord prejudice was present within the Treasury. During a meeting between the Treasury and the Residential Landlords Association, the following was reported in May 2016:

‘**The Residential Landlords Association said it was "shocked" by the response of the [Treasury] minister, during a private meeting earlier this month as it tried to raise concerns about a crackdown.**

‘Alan Ward, chairman of the Residential Landlord's Association, said he did not want to name the minister to spare him "embarrassment".

‘He said: "We went last week to raise landlord's concerns with specific reference to the mortgage interest relief and the Government's taxation policies towards private landlords.

"We wanted to make the case that we have a history of a significant contribution to housing and that this crackdown is unfair and prejudiced.

"**The minister's comment was that if landlords are squealing then the Government will take the view that the medicine is working.**

"The minister made the point that the Government is determined to increase the number of homeowners, and then re-iterated the issue about first time buyers.

"We were all a bit taken aback by the comment, we could hardly believe our ears. The government's idea of medicine is potentially lethal for landlords and tenants.

"Why would the Chancellor want to dish out a deadly dose to swathes of landlords who contribute a vital part of the nation's housing?"[xxi]

Populist-led policies also pose a danger for the working of our democracy.

5.7. **As the policy was not in the Conservative Party Manifesto but was introduced just two months after the General Election, the electorate was certainly misled.** ‘Private’ landlords across the country have stated that they would never have voted for the Conservative Party had they known that the Party had it in their sights to no longer allow them to offset the finance costs of their businesses. Indeed, the Party made much of itself as the ‘party of business’ during the election campaign, which reassured landlords (the other parties were upfront about their intentions to further regulate the PRS).

5.8. In addition, despite it being an assumption that a vast number of potential first time buyers were waiting in the wings, no statistics were presented regarding the number who were actively seeking to purchase a home and in a financial position to do so, or indeed how many starter homes might be freed up from rental stock by landlords offloading their portfolios (and evicting tenants to do so). No assessment was made as far as we are aware of the considerable regional and local variation in supply and demand.

Had the Government done some research before legislating on this critical matter, it would have found that millions of people do not have it in their sights or ambitions to purchase a property:

> 'This was confirmed in last year's Tenant Survey, with 38% of under-35s saying they didn't want a mortgage or that renting suited their lifestyle, rising to 49% for those aged under 25. The number of under-45s living in the sector has more than doubled, to nearly 3.1 million over the last decade, and those aged 25-34 now account for nearly 37% of PRS households, up from 32% in 2009, according to the English Housing Survey.'[xxii]

5.9. The Government would also have realised that the assumption that landlords and first time buyers are in direct competition with each other is largely false. In a report by the London School of Economics it was found that landlords and first time buyers are mostly interested in different types of housing and that:

'Only a minority of sales to landlords involved first time buyers.'

Facts such as these were conveniently disregarded when the Government launched its attack.

6. How was it justified by George Osborne?

6.1. Since much of the groundwork was laid over recent years to turn 'private' landlords into scapegoats for the housing 'crisis,' this made s24 far easier for George Osborne to introduce. However, it was still necessary to put a veneer of respectability over the sudden attack on the sector when announcing it in the 2015 Summer Budget. To this end:

6.2. He stated that it would only affect wealthier landlords:

'The ability to deduct these costs puts investing in a rental property at an advantage. Tax relief for finance costs is particularly beneficial for wealthier landlords with larger incomes, as every £1 of finance cost they incur allows them to pay 40p or 45p less tax.'

HMRC's accompanying Policy Paper suggested the proposal would:

'make the system fairer... This will ensure that landlords with higher incomes no longer receive the most generous tax treatment.'

None of this was true.

As the IFS stated:

The reduction in generosity of tax deductions from landlords' mortgage interest is not reducing a net tax advantage of buy-to-let but increasing its tax disadvantage relative to owner occupation.'[xxiii]

S24 will not affect 'wealthier landlords,' or those with 'higher incomes.' It won't touch the wealthiest landlords, who do not need finance to purchase and whose tax liability will remain unaltered; it will affect landlords who **owe the most** (a bizarre definition of wealth). Thus it is portfolio landlords, like Caroline and Chris, above, with high interest costs who will in many cases be ruined by the measure.

6.3. In the subsequent impact assessment, HMRC stated that 'only' one in five private sector landlords would be affected by the decision (that is 'only' 400,000 of the two million landlords in the UK). Apart from this being a huge number of potentially affected individuals, this missed the point as it is the 1.6 million properties which are secured with buy-to-let mortgages in the UK and the households which occupy them which is relevant. As mortgaged landlords with medium to high gearing (and exposed to large annual interest bills) are more likely to be portfolio landlords, the number of properties and therefore tenants at risk of rent rises and evictions is huge.

One estimate is that 4.6 million tenants will be adversely affected by Section 24. The Government's estimate of impacted tenants is ZERO (as tenants did not even figure as an impacted group according to the Government).[xxiv]

6.4. In addition, the Government gave no realistic indication of how it had arrived at this notion of 20% of landlords being affected. Estimates from other sources suggest otherwise, notably a survey by the Residential Landlords Association found that 60% of landlords will move from being basic-rate taxpayers to being higher-rate tax payers as a result of the re-definition of mortgage interest as 'profit' to be taxed; this 60% is obviously affected and face considerably higher tax bills, despite their actual income remaining unchanged. Add this to the fact that higher-tax rate payers also face considerable tax hikes (even without interest rate rises) and the '1 in 5' argument is untenable.

The NLA has also confirmed the fact that many basic rate taxpayers will become higher rate taxpayers, calculating that:

'…146,121 landlords who are basic rate taxpayers would have their salary and rental incomes effectively added together, meaning that they would move into the 40 per cent tax bracket, which starts at income over £42,385.

Landlords who found themselves in the higher rate tax bracket would, in many cases, also lose child benefit.

The Government believes that this estimate is too high but would not say why. David Gauke, the Treasury minister, told MPs that it was impossible to calculate the figure.

"The actual number of taxpayers affected will depend on behavioural changes and other economic factors," he said (in a statement so generalised as to be meaningless; alternatively, it can be seen as another example of sophistry).

6.5. A policy which causes an increase in the number of higher rate taxpayers also runs counter to Government policy. As a general rule, the Treasury is trying to reduce the number of people in the 40 per cent tax bracket by raising the threshold to £50,000 by2020.'[xxv]

6.6. The further justification by the former Chancellor was on the grounds that it would create a 'level playing field.'[xxvi]

He said:
'Buy-to-let landlords have a huge advantage in the market as they can offset their mortgage interest payments against their income, whereas homebuyers cannot.'[xxvii]

6.7. Osborne's comparison of landlords with homeowners in this context was however incorrect. The day after the Budget, the Director of the Institute for Fiscal Studies' Paul Johnson, pointing out the Chancellor's error, stated:

'At present if you own a property which you let out to tenants you can set any mortgage interest costs against tax due on rent received. The Budget red book states that this means that 'the current tax system supports landlords over and above ordinary homeowners,' and that it 'puts investing in a rental property at an advantage.'

'**This line of argument is plain wrong**. **Rental property is taxed more heavily than owner occupied property.**' [xxviii]

6.8. Even the Government's favoured think tank, the Policy Exchange, confirmed this view noting that:

'**In truth, the tax system massively favours home ownership** – for one thing home owners do not have to pay capital gains tax on their principal residence, whereas buy to let landlords do on the rental properties they sell. Rental income is also taxed (and even more now).[xxix]

6.9. The Institute of Chartered Accountants of England and Wales disproved the Chancellor's statement categorically in their submission to the Finance Bill Committee:

'The level playing field argument is specifically referenced to home owners not being able to claim tax relief on their mortgage interest, but the playing field is also skewed by the capital gains tax treatment; the home owner pays no capital gains tax on the sale of their home but a landlord pays capital gains tax at up to 28%.'

<u>The idea that landlords will be taxed on the profit of their businesses, but not be allowed to offset the costs of creating that taxable profit is absurd, unjust and unsustainable. It overturns a fundamental, centuries-old principle of taxation.</u>

'The Chancellor introduced the change to "create a more level playing field" but as the measure does not apply to companies far from being level **it leaves the playing field with a cliff edge in the middle.'**

They further state:

'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.'[xxx]

Higher rents will also not help first time buyers to purchase as raising enough money for a deposit will become more difficult.[xxxi]

6.10. Professor Philip Booth of the Institute of Economic Affairs, reporting his expert opinion to the Treasury Select Committee on the Summer Budget, also made it clear that the decision did not address the problems of supply and planning restrictions which were the real cause of the housing shortage. He added that the reasoning behind the decision to disallow landlords' interest costs:

'…didn't make sense.'

6.11. The idea that 'private' landlords should no longer be able to offset the finance costs of their businesses when calculating profit had been mooted by various groups before the Summer Budget, but it was seen by Professor Booth as a very retrograde step, who warned several months before the Summer Budget that this should not be seen as a serious policy, having conducted an analysis of what was at the time a Green Party Manifesto commitment (for further comment see Appendix 3, where Professor Booth outlines the implications).

6.12. The Green Party had this as a party policy despite having made no study of the potential impacts on landlords, tenants, first time buyers, owner-occupiers, businesses which depend on the BTL sector, house prices and the economy in general. Indeed, there is no evidence that the Government made any such study either. The only 'consultation' the Treasury engaged in was to ask the Residential Landlords Association, to come up with an impact study, **after** the measure had been announced, which naturally was seen by many as lip-service.

6.13. It is worth quoting at length what Professor Philip Booth had to say about this several months after the Budget:

> ‘**Osborne is either being deliberately dishonest or simply does not understand the issue** when he uses the tax relief for owner-occupiers example. Tax on owner occupied imputed rent was abolished in 1963 (in my view it should be brought back, but that is a separate point) and tax relief on mortgage interest was intended as an offset against that (because interest is taxed in the hands of the financier of the mortgage, if appropriate). When the tax on imputed rent was abolished the tax relief that remained was an anomaly (or, arguably, designed to shove society in the direction of owning rather than renting). There was nothing any longer to relieve (so, of course, it just relieved general income tax paid on income).
>
> **The case of renting is totally different. Here, tax is paid on the rent and the interest is a business cost (as with any other business). One should pay tax on the profit and the financier of the mortgage pays tax on the interest.**
>
> Any other position is essentially arguing that providing shelter for people who cannot afford to buy is less economically worthy than any other economic activity that would be taxed as a business and it should therefore be discriminated against.
>
> **To put it quite bluntly, this is an elementary undergraduate public finance error that should not be made in the Treasury.’**

6.14. Professor of taxation at Oxford University, Michael Devereux, also pointed out in another context the basic principle that:

> **'If you are trying to tax profit you have to give relief for the cost of earning it.'** [xxxii]

6.15. The Institute of Chartered Accountants of England and Wales agreed:

> ‘It is a long established principle of taxation that expenses incurred wholly and exclusively for the purposes of the business are deductible when calculating the taxable profit. This proposal contravenes that principle and will result in proprietors of property businesses being liable to
> tax on an economic loss.’ [xxxiii]

There is consensus among experts that the decision is wrong in principle.

6.16. In addition to being wrong in principle, it is likely to cause great damage.

Lord Flight, a former Conservative Shadow Chief Secretary to the Treasury, attacked the Government’s buy-to-let tax changes, warning they could in fact destabilise Britain's housing market by triggering "a sharp fall in prices, if not a crash".[xxxiv]

This is not therefore just a policy which will affect one section of landlords; it will have wide repercussions if it is not reversed and it also sets a dangerous precedent.

6.17. Finally, one has to question the Government's assessment of the tax revenue it will raise.

Putting aside the questionable morality or justice of the measure, there was the stated advantage that it would at least swell the coffers of the Exchequer. On closer examination, this is seen to be a highly simplistic assumption.

6.18. According to HMRC's policy paper, the measure is expected to raise £225 million in 2018/19, £415 million in 2019/2020 and £665 million in 2020/21. It is curious how they come to this figure given that, in June 2015, ministers admitted in answer to a parliamentary question that the Government had made no assessment of the total tax take from individual residential landlords.[xxxv]

In any case, these figures did not take into account lost revenue from existing landlords who will exit the private rented sector or downsize the scale of their portfolios or go bankrupt as a direct result of the measure. As Professor Booth states:

'Houses for let will be sold and we will see a decline of the rental market again. Here, there will be no gain to the Exchequer because owner-occupied property is not taxed at all (indeed, there will be a loss to the Exchequer).'[xxxvi]

6.19. The long term impact for the Treasury could be a net reduction in tax, not an increase as suggested by the impact statement. Whilst the Government might obtain Capital Gains Tax (CGT) and Stamp Duty Land Tax (SDLT) windfalls as a result of landlords disposing of properties, this is likely to be a short term windfall and has not been quantified by the Government.

In any case, landlords will take tax planning advice and seek to minimise the CGT and SDLT paid.

6.20. Local councils' Bed and Breakfast bills for homeless people are likely to soar in less desirable areas where landlords give tenants notice in order to prepare the properties for sale and then wait some time before a buyer is found. If the buyer is an owner-occupier that area loses a rental property. There have already been large increases in the numbers of people asking councils for assistance in obtaining housing. Peterborough Council has stated that they have paid over a million pounds to hotels for emergency housing. In the same area, tenants are being evicted in order that their housing can be used for the 'homeless'! Councils across the country have a surprise coming.

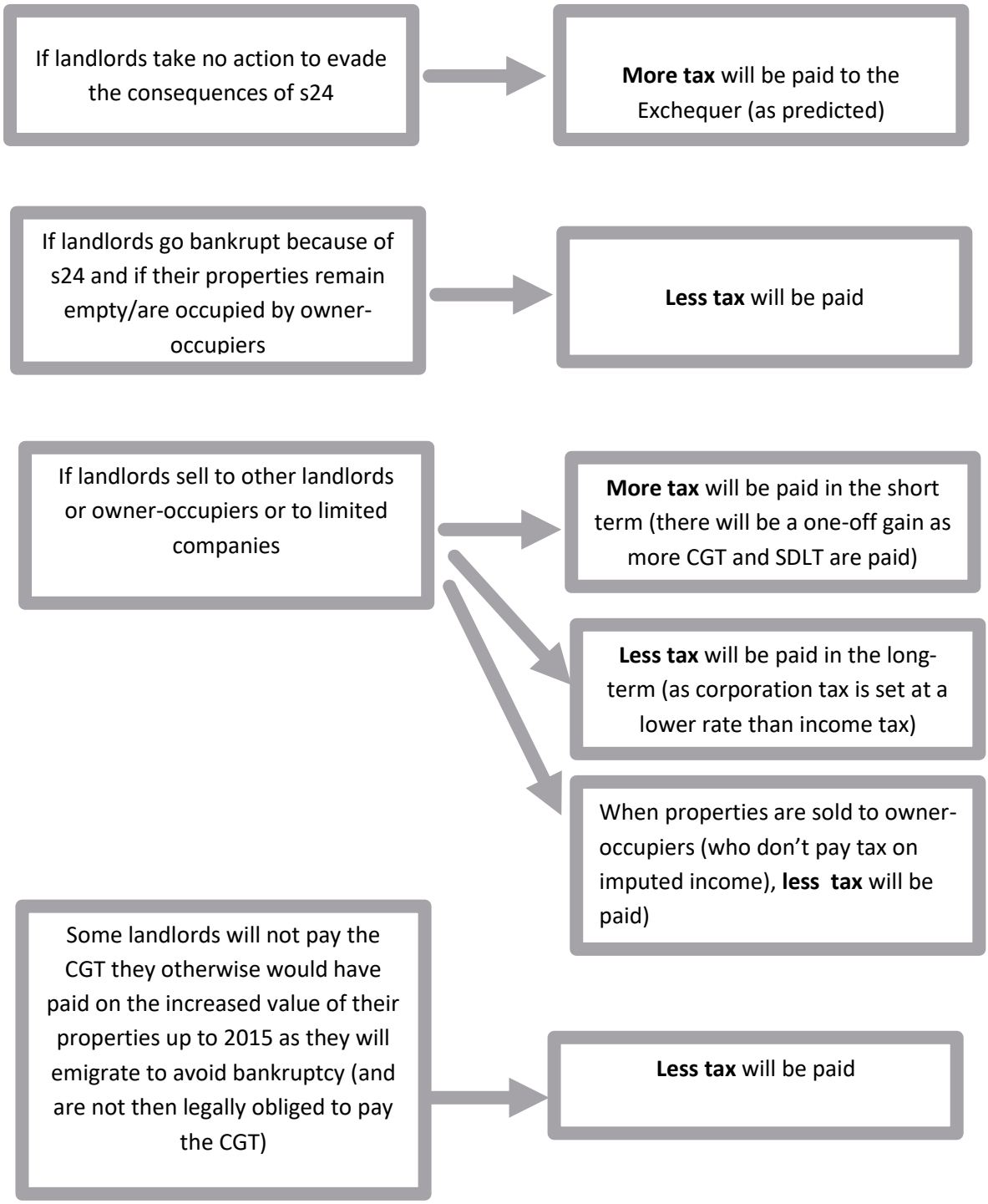
In the words of landlord James Fraser, 'The media have criticised landlords for taking taxpayers money in the form of housing benefit. They seem to think landlords are somehow stealing that money. Pretty soon – when none of us can afford to house anyone on benefits – the councils will be begging us to take that 'taxpayers money.' I for one will say: 'No.'

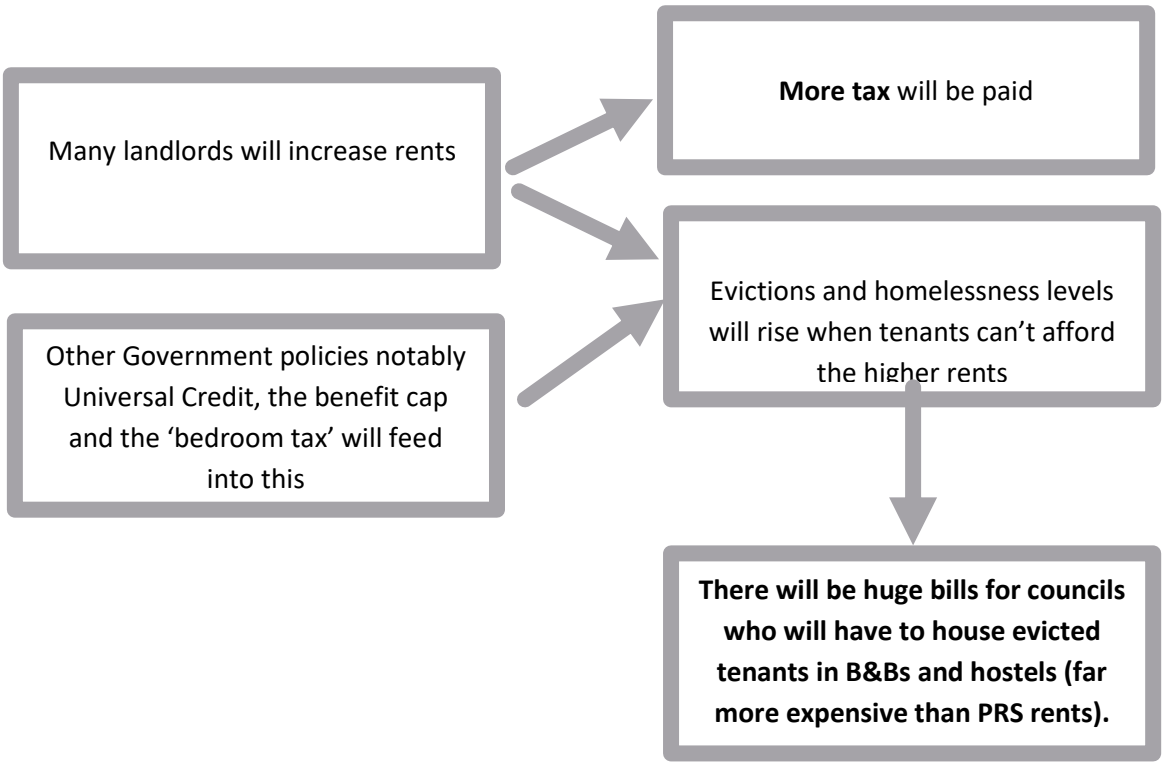
6.21. In sum, it is clear that the Treasury needs a far more comprehensive analysis of the costs of this policy, which takes in the whole range of knock-on costs that the state, both nationally and locally, will incur.

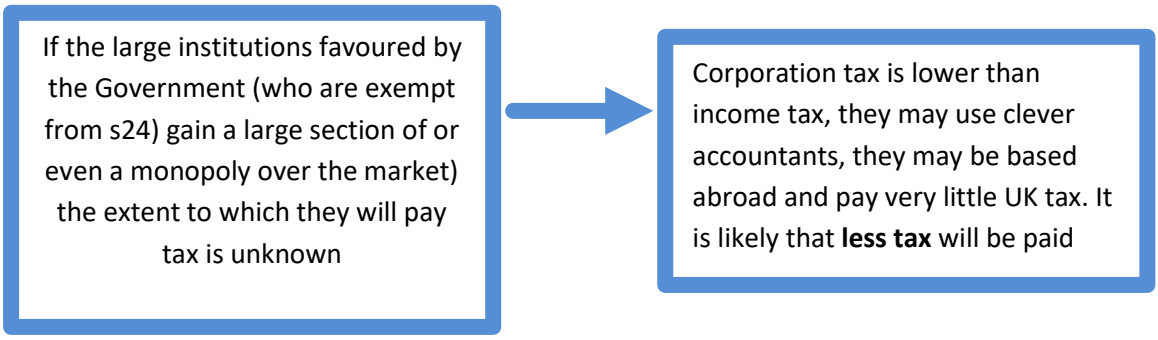
A fuller discussion of the inadequacy of HMRC's impact statement is laid out in Appendix 4.

7. Will the measure at least bring in the tax the Treasury has predicted?

The Treasury expectation of a net gain in tax receipts appears to be based on guesswork. A more complex examination of the likely financial impact is necessary. The following diagram gives a few pointers regarding the areas where the Government should be making projections and should be attempting to quantify the changes to tax likely to be received:





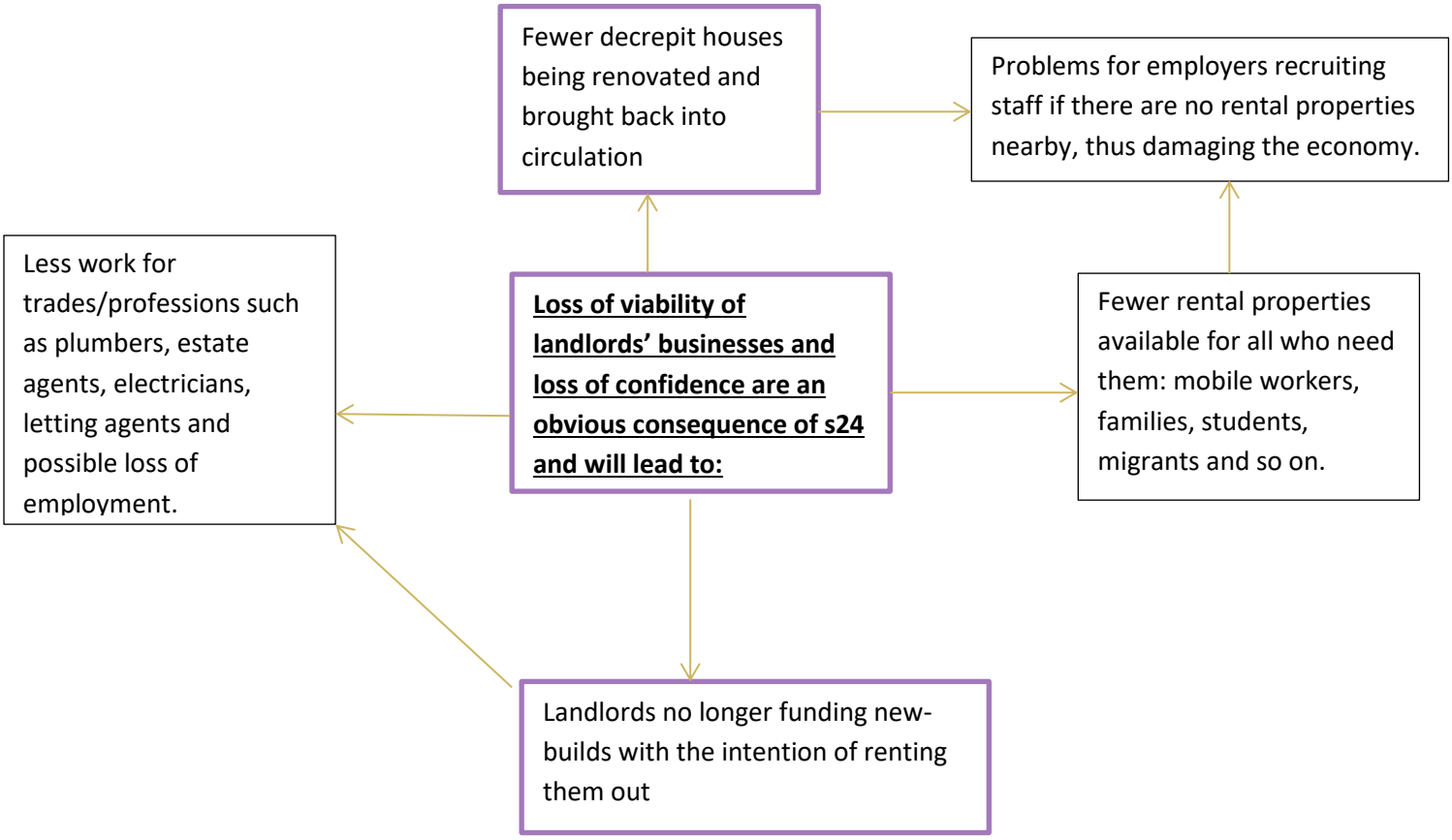


This complexity of the impact of s24 has been ignored by Government and it is particularly regrettable that the time-bomb facing councils has not been addressed as councils will be left with huge bills to house people in 'temporary' accommodation, with the word 'temporary' inevitably becoming a misnomer. One might say that the Government will be 'passing the buck,' as councils have the statutory responsibility to house the homeless, but they will not have the means. As potential owner-occupiers are often tenants in the PRS, purchasing a property, the Government's alleged aim behind s24 will also be thwarted, because higher rents will make saving for a deposit that much more difficult (and many other problems thwart owner-occupation that have nothing to do with landlords; mortgage lending criteria, most notably).

8. Further consequences of s24:

Some of the other problems (not necessarily purely financial) which s24 throws up are depicted below. It is clear that the damage to the private rented sector and the social and economic costs of the measure are going to be huge and the costs to the Exchequer will far outweigh any increased tax take.

This diagram depicts just some of the complexity which has been completely ignored by the Treasury:



9. S24 is retroactive:

9.1. The Institute of Chartered Accountants of England and Wales has pointed out:

> **'The provisions are retroactive as they impact transactions already undertaken**. Taxpayers will have priced and borrowed according to the tax relief they expected and these borrowing decisions would by necessity have a long time line and many taxpayers will not be able to restructure their debt.'

9.2. The Chancellor acknowledged the injustice of retrospective tax changes in the same Summer Budget where he announced s24 in the context of car taxes, saying how **it would be unfair for new taxes to be applied to cars that people already own. Clearly the same principle must be valid for houses already owned, which are a far greater financial commitment.** If landlords had known that a central pillar of tax law would be abolished, they would not have heavily invested their own money in providing the essential housing the UK needs.

9.3. When a similar measure was introduced in Ireland (see below) and ran between 1998 and 2001, rents went up by 50% and this was **despite the measure in Ireland not being retroactive**, but only applying to new purchases. Therefore it did not bankrupt and ruin already extant businesses, but simply deterred further investment in the sector. The results of 'just' doing that were bad enough.

9.4. Moving the goalposts for 'private' landlords though, is not only retroactive, it is destructive. As landlord, Mark Alexander said:

'I have a substantial portfolio and if I'd been given any clue that finance costs would not be an allowable expense I would have built my businesses in a company.'

9.5. It has also been simplistically assumed by some that s24 will not affect 'professional' landlords, because they will be able to afford tax advice and also have available any funds needed to incorporate their properties to get around paying the new levy.' In fact the costs associated with incorporation are prohibitive[xxxvii] and in the two case studies above, both landlords have found this is completely unviable for them (costs include CGT, SDLT, penalties for redeeming mortgages, fees for new mortgages, legal fees and so on running into hundreds of thousands of pounds). For the landlords who are able to do this, the costs will be huge and if anything it is likely to have a negative impact on the quality of their housing provision as they will have far less money at their disposal after such a pointless and hugely expensive exercise.

9.6. Media reporting on this has exposed the high level of ignorance about the wide implications of s24 for the sector, although increasingly journalists are ‘changing sides’ and beginning to explicitly support ‘private’ landlords.

10. The questionable role of the OBR and Bank of England.

10.1. One would hope that before a Government Department introduced a significant change to tax law in the field of property, it would consult extensively with experts in the field, especially if it were seeking to abandon a centuries-old tenet of taxation law.

This is particularly important for the Treasury given that the average age of its staff at the time of the 2015 Budget was, according to Iain Duncan Smith, 27 and the average length of time in post was under two years. Given this lack of experience and, presumably, in-depth knowledge of complex taxation, housing issues in general and the private rented sector specifically, such consultation was all the more imperative; none took place.

10.2. The Chancellor was able to use one source of 'expert' opinion, however: The Bank of England. It was the Governor of the Bank, Mark Carney, who helped lay the foundations for the fiscal attack against landlords with his statement made shortly before the Budget, when he suggested BTL could pose a threat to the economy.[xxxviii] The Bank's report on this ended with the statement:

'Buy-to-let lending could pose a risk to financial stability. The actions of buy-to-let investors affect the broader housing and mortgage markets as individuals compete to buy the same pool of properties… And in a downswing, investors selling buy-to-let properties into an illiquid market could amplify falls in house prices, potentially raising losses given default for all mortgages."

10.3. **There are at least two things wrong with the report. Firstly, it is largely not the case that 'individuals compete to buy the same pool of properties.'** There is some overlap, but relatively few owner-occupiers buy derelict buildings and re-habilitate them, or buy houses that are too big for families and turn them into HMOs, or buy off-plan and wait a year or two for the property to be built. Secondly, the statement: 'in a downswing, investors selling buy-to-let properties into an illiquid market could amplify falls in house prices, potentially raising losses given default for all mortgages' is partial and weak.

Experience after the credit crunch in 2007 showed that landlords did not choose to do this. They would not sell at a loss. If the market was illiquid, there would be no finance for a buyer. If prices were falling, aspiring buyers would not buy something that would lose value. **This appears to be nothing more than 'scaremongering' by the Bank with no basis in fact to the statements; statements which were then utilised by the Chancellor to justify the measure.**

10.4. The fact that there was no evidence for the scaremongering can be seen in the last paragraph:

'HM Treasury will consult on tools for the FPC [Financial Policy Committee] related to buy-to-let lending later in 2015, with a view to building an in-depth evidence base on how the operation of the UK buy-to-let housing market may carry risks to financial stability. The FPC will continue to monitor this sector closely.'

This shows that the Treasury had no evidence as to how Buy to Let might have posed a risk at all at the point of announcing the policy (and that it was ignoring the evidence to the contrary).

10.5. One might add that even if the future growth of BTL mortgages did pose a risk, that is no justification for bankrupting people who bought property in previous years or decades by introducing a tax with retroactive effect. If George Osborne really wanted to influence future behaviour he should have made the change apply to future purchases only. This is the normal procedure for tax changes. Furthermore:

'A common accusation levelled at the buy-to-let market before the financial crisis was that it was untested in recessionary conditions. After the worst economic environment for nearly 60 years, buy-to-let has been severely stress-tested and has proved its resilience.'[xxxix]

10.6. So, the attack on BTL, on the basis that it is 'risky' is not evidence-based; the comments by the Bank of England suggesting otherwise were also not evidence-based, despite Mark Carney's public statements that the Bank works on this basis. In the words of Lord Flight:

The tax changes **"risk the very crisis in the buy-to-let housing and lending markets of which the Bank of England has recently warned".**[xl]

10.7. Unfortunately, the Bank of England did not act in the even-handed way we would expect of it. For example, the Bank has said that BTL is a problem because it had £15.6 billion in new loans in 2014-15; it did not mention that £47 billion went to far riskier first time buyers. As first time buyers put down much smaller deposits – even as low as 5% - whilst landlords cannot get reasonable deals now for over 75% loan to value, in any downturn, **it will be first time buyers who run the risk of moving into negative equity, not landlords.**

10.8. The bank has further asserted that BTL is the most risky sector for mortgage lending by taking the 'second-charge' owner-occupier loans - which are the most risky by far - and the Bank has lumped BTL in with them. The Bank can then claim that BTL is the most risky! One could argue that this is unscientific at best, and dishonest at worst.

10.9. In another context, during the EU referendum campaign, George Osborne also used the Bank and specifically the Governor to support Government policy. Mark Carney was taken to task for this by Jacob Rees-Mogg, MP and also the journalist Peter Oborne who quoted Nigel Lawson calling Carney's behaviour disgraceful; they both called for his resignation over this.

Further comment about Mark Carney's role:

'He was also the personal appointment of Chancellor George Osborne. This was troubling because the Bank of England is constitutionally meant to be independent of political control... This meant that right from the start there was a giant question mark about where Mark Carney's loyalty lay.

Was he looking after the long-term economic future of Britain? Serving the short-term ambitions of George Osborne? Or simply his own interests, given that he is rumoured to have ambitions to become prime minister of his native Canada?'

'There is, however, very troubling evidence indeed that Mr Carney makes his errors in part because he is placed under political pressure. This became obvious during the EU referendum campaign. He turned the Bank into a leading activist for the Remain campaign by providing important support for George Osborne's unscrupulous 'Project Fear'. As a result, Mr Carney, 51, has cemented his reputation as a man who does not simply get his predictions wrong, but reliably wrong.'[xli]

As landlord, Jamie Fraser argues: 'This raises the question as to whether the illogical, scaremongering propaganda about BTL in July 2015 was because Carney was Osborne's creature, or because Carney is consistently wrong.'

10.10. To present the OBR as an independent and expert group in this way was disingenuous as has been reported elsewhere.[xlii] Indeed, as Berry and Berry point out, it was Osborne who created the OBR, whilst in Opposition in 2009 and who, in 2010 formally announced its creation. How can it be deemed to be independent when it is led by three members whom the Chancellor directly appointed?[xliii] It has been argued that, in essence, the body was a Conservative Party organ, transposed directly into the machinery of the state. The first chair of the OBR was Sir Alan Budd, the same person who had been doing the job for the Conservatives in opposition; the only difference being that his salary was now funded by the state.

10.11. It has been argued moreover that giving the Chancellor any role at all in the appointment of the OBR meant that Government forecasting would become less independent that it had been previously. One might say that given its position within Whitehall the OBR is subservient to or at the very least enmeshed with the Treasury. Add this to the 'close' relationship between the Bank of England and the Treasury, and

one might add HMRC's relationship with the Treasury and one can see the problem. Indeed, a Memorandum of Understanding between the OBR, Treasury, HM Revenue and Customs and the Department for Work and Pensions sets out in detail how the work of these bodies is to be coordinated and resources shared between them. Only the Bank of England is omitted from the list.

10.12. A notable example of how the OBR helped Osborne out a sticky patch was when the OBR changed its predictions of tax revenues and Government borrowings over the 5 year parliament in the autumn of 2015. It conjured up a £27 billion improvement compared to its predictions of a few months earlier. In other words, it made the future look rosier by, as Robert Peston said, finding this money 'at the back of the sofa.'[xliv]

10.13. **The point that is being made here is that with a strong-willed Chancellor at the helm of the Treasury, in effect also controlling HMRC and the OBR and having significant influence at the Bank of England, it is easy to see how policies can be pushed through capriciously, without due care, consultation, research and impartial advice and without any evidence base**. With a Chancellor who refuses to listen to advice and has an obsession with one form of housing tenure – home-ownership, for example – and a dislike of another - the private rented sector, perhaps? – dangerous, populist policies can be pushed through which could greatly damage the economy.

11. The potential contribution of UK landlords in combatting the housing crisis.

11.1. It has been recently estimated that an additional million rented homes will be needed by 2020 and although the Government has been encouraging institutions to build, it is becoming clear that they will come nowhere near to delivering these extra homes.[xlv]

11.2. In any case, institutions do not tend to provide the range of housing that is needed, instead focusing on the 'higher' end, where returns are greater (they need to satisfy their shareholders by constantly maximising rental returns). They do not show a proclivity for venturing into areas where tenants on benefits predominate; a demographic which many 'private' landlords cater for, where yields are variable and the risks of defaulting tenants and damages to properties high.

11.3. In fact, as the RLA has pointed out, there are many thousands of 'private' landlords who would be able to contribute massively in the endeavour to build more homes and they could do this far more quickly than large institutions.[xlvi] Landlords have a track record, being responsible for the creation of 2.5 million homes between the 1996 and 2013, which was 83% of the increase in dwellings over that period in England alone.[xlvii] They could also continue in what is an area of speciality for landlords - the conversion of commercial buildings and renovation of derelict property.

In the words of Stephen Glover of the Daily Mail:

> 'In fact, without the widely criticised buy-to-let landlords who have entered the private sector over the past few years, we would be in an even worse pickle than we are. Instead of scourging them, Mr Osborne should be congratulating them for taking a risk and investing.'[xlviii]

As landlord, Mark Alexander said:

> 'If they want to see the kind of positive work we do, the Government should watch a few episodes of 'Homes under the Hammer.' Then they'd see how it is landlords who can be bothered with sorting out little grubby two-bed terraces with their ceilings falling down – and turning them into lovely and often very cheap rentals. And after they've watched that they could look at some of the evidence of the awful situations thousands of decent landlords have to endure because of awful tenants who get away with murder, often because of anti-landlord legislation, which allows them to stay in the properties for months on end paying no rent and leading to immense suffering for the landlords who are the victims of a crime, but who have no legal redress in this country.'

11.4. The Residential Landlords Association has been bemused at the Government's approach to 'private' landlords, stating:

'Research published by The Resolution Foundation has shown the biggest fall in home ownership has been over the last 10 years. The only alternative is renting, so why, asks the RLA do governments see this as a bad thing?'[xlix]

11.5. We would suggest that the reason the Government's official position at the moment is that this is a 'bad thing' is that they have bought into the idea of a direct competition existing between landlords and first time buyers that in large measure does not exist.

The Government has found a 'solution' to something that is largely not a problem (competition between owner-occupiers and landlords) and it has then made the mistake of seeing the PRS as part of the real problem (the housing shortage), when it is part of the solution.

12. ‘Private’ landlords’ conversion of commercial property into residential units.

12.1. Case study: The landlord who created 75 homes.

The Telegraph reported on the case of ‘private’ landlord, Graham Chilvers, as follows:

‘Torquay landlord Graham Chilvers owns 75 properties. None of them, he says, could have been bought by first-time buyers - because in every case he either built or restored them himself.

Under the Government’s proposed tax changes, the financing of such projects would no longer stack up, he said.

Potential properties would remain derelict or would have to be developed by large commercial companies who are not impacted by the proposed new tax, which only targets private individuals.

“The Government justifies its attack on buy-to-let by saying landlords have an unfair advantage over people wanting to buy their own homes,” Mr Chilvers said. “But no homebuyer was competing with me on any of these properties.”

Mr Chilvers is pictured in front of a former Victorian hotel which in 2004, when he bought it, was in disrepair and occupied by squatters. He converted the main building into nine two-bedroom apartments, and built two three-bed homes in the space formerly occupied by a swimming pool.

Many of his other properties were also once hotels or care homes, while some he built from scratch…

One of Mr Chilvers’ biggest anxieties is the way the proposed tax will bite when interest rates rise. Because of the perverse way in which the tax operates, landlords will actually pay more tax [than under the current rules] when their mortgage costs go up - even though this will result in their having less gross profit.[l]

“Not only will this tax prevent me from undertaking further development, but it poses real risks to my business just at a time that interest rates could rise,” said Mr Chilvers.’[li]

The Government has not explained its support for new-build projects by institutions whilst penalising landlords who make excellent use of buildings already in existence. Surely this contravenes the Government’s environmental priorities?

12.2. The Council of Mortgage Lenders has pointed out that even if 220,000 plus homes are built every year for the next decade in England, 90 per cent of the housing stock that will exist in 2025 has already been built. **They have called for better use of that existing stock:**

'Government measures that nudge us towards even slightly more intense use of our current stock could contribute materially to improving the overall supply-demand picture.'[lii]

12.3. One thing is for sure: landlords such as Mr Chilvers will not take on such projects in the future – possibly not even under the auspices of a 'company' as who is to say that such companies will not be penalised in the future? George Osborne, for example, considered such a move in 2010 (see Appendix 3).

Landlords throughout the UK are now thoroughly demoralised at what is seen as one rule for the elite and one rule for landlords. In the words of John McKay, landlord and founder of Peterborough Property Investors Group:

'It's extraordinary how these people can display such contempt for the British Public. David Gauke [Financial Secretary to the Treasury] used taxpayers' money to help fund stamp duty and purchase costs on a second home in London, and also claimed expenses on it when he only lived an hour away. In addition to this, when he sold the flat he pocketed £27k as MPs only have to pay back any profit they've made within the last two years.

George Osborne flipped his second home allowance on to his constituency home and then claimed expenses on it till the rules changed. He since sold it making a handsome profit of around £400k and has kept the lot.

His family firm hasn't paid tax in 7 years.

Yet these two men are the architects of one of the cruellest stealth taxes in British history. The change in rules on mortgage interest relief will cause tremendous hardship to the country's tenants and particularly the lowest paid families of our society. It will lead to even worse homelessness than we have now and in addition will drive many landlords to bankruptcy. Meanwhile they'll be enjoying their very dubious gains!'

13. ‘Private’ landlords’ conversion of larger houses into Houses of Multiple Occupation (HMOs):

13.1. Houses of multiple occupation are also an essential part of the PRS and something which many ‘private’ landlords specialise in. The Government has made no analysis of the important role these have played in optimising the use of existing housing stock in the UK. There is, for example, evidence that there are 25 million empty rooms in the UK. When a landlord purchases a large house that has been occupied by one or two people and creates an HMO which can, for example, house six people, this is a socially useful development as it often houses students and young professionals.[liii]

13.2. Such housing is also essential for the British economy. Young, professional and/or migrant workers need such housing for job mobility and affordability (outside of London, many professionals can be housed for under £400 a month with all the bills included; in some areas such rents are as low as £220). This also means young people have more chance of saving for a deposit. Many HMOs are also used to house people on benefits. As councils are often desperate to house the latter and also asylum seekers, one would expect councils encourage the development of them instead of introducing expensive licence schemes for such housing, which serves as a clear deterrent.

13.3. **These HMOs, housing maybe 6 or 8 tenants often sit next to a house of the same size occupied by one or two people**. Councils in recent years have developed a generally negative attitude towards these HMOs, largely in response to dissatisfaction from owner-occupiers. Many councils seem to be attempting to thwart the ‘studentification’ of areas. This is actually a misnomer, however, as HMOs are increasingly occupied by professionals as much as by students and the councils’ endeavours to license and otherwise penalise the landlords of HMOs as though they are doing something bad constitutes a clear form of discrimination against tenants as a whole (compared to owner-occupiers – as though tenants are less worthy) and also against students and young professionals who need this form of accommodation. Increased licensing results in higher costs for landlords; this naturally leads to upward pressure on rents.

13.4. The current Housing Minister, Gavin Barwell, has opposed such licensing on these grounds.

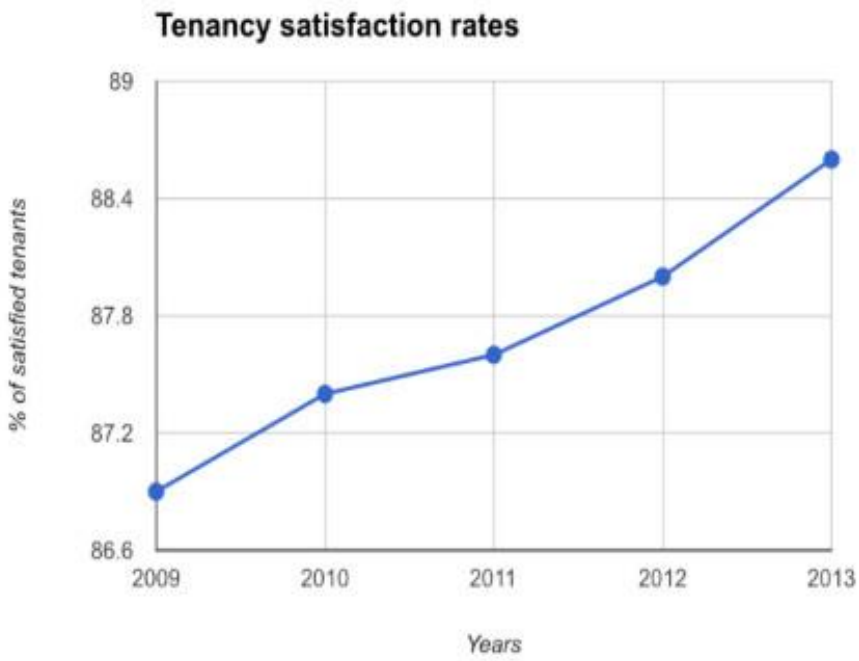
‘It doesn’t take a genius to work out what will happen if this scheme goes ahead: landlords who make the payment will simply pass the cost on to their tenants.’
(Gavin Barwell, on Croydon Council’s landlord licensing scheme, 2014).

Mr Barwell should, logically oppose s24 for the same reason, but at the time of writing he had not yet made a statement to that effect.

14. Tenant satisfaction in the PRS:

14.1. As has been seen, the penalisation of landlords through the taxation system and the raft of legislation aimed at landlords in recent years are based on a negative view of landlords' work. This perception is at odds with reality, as seen for example in the fact that tenant satisfaction levels with 'private' landlords are high, with surveys showing 8- 9 out of 10 tenants are satisfied with their rental accommodation.[liv lv lvi]

14.2. According to the 2012-13 English Housing Survey 'Households Report' the amount of PRS tenants satisfied with their lodgings has grown by 1% as 84% of PRS tenants now say they are either very or fairly satisfied with their homes.



14.3. A more recent survey found:

'The sector is also witnessing high levels of tenant satisfaction. Nearly eight in ten (79%) tenants surveyed said they are satisfied with their current landlord. Further, 85% of tenants consider their current rental property to be their 'home' and 69% believe the level of rent they pay to be 'good' or 'very good' value for money.'[lvii]

Such statistics are quite at odds with the picture painted by anti-landlord groups such as 'Shelter' of a sector in disarray, ruled by 'rogue landlords.'

15. The impact of Section 24 on low-paid tenants and/or those on benefits:

15.1. One of the most regrettable aspects of the Government's refusal to reverse s24 in the context of growing awareness of how wrong it is, is that tenants, despite being a key affected group, have been rendered invisible in all Government utterances on the subject. The word 'tenant' was not even mentioned in the impact statement accompanying the Bill.

Fact: The PRS has played an essential role in this area of the housing market, especially since council and Housing Association accommodation has been sold off.

Fact: There is growing demand for the PRS to house the 'lower' end of the market. However, s24 will send landlords running in the other direction.

15.2. Four surveys of landlord intentions following the Budget decision showed that a majority of landlords will increase rents to combat the new massive tax bills that will become payable (the Residential Landlords Association found 65% of landlords would increase rents; for Rentify the figure was 56%; and the National Landlord Association estimated £118 per month would be added to rents; a Scottish Association of Landlords survey estimated the average rent rise expected as a direct result of the measure to be 12%). The massive new tax burden placed on landlords is also likely to lead to a decline in maintenance standards. This move is thus detrimental to the interests of a large number of tenants in the private sector.

15.3. In fact Section 24 is already causing significant problems for tenants: Taking a closer look at what will happen to Caroline's portfolio of properties (the case study on page 12) and her tenants: the following illustrates the serious repercussions Section 24 will have for thousands of tenants who are less well-off and/or on benefits.

Because of the dramatic effect on Caroline's tax position she has already been working to reduce her vulnerability to the bankruptcy that s24 would otherwise cause (she points out that since she first took out a mortgage in 1980 she has never defaulted). She has already taken the following evasive action as seen in the table:

This is a sample taken from Caroline's portfolio of how rents have been increased in anticipation of the new tax; tenants on benefits have largely been replaced by working tenants:

	Previous tenant	New tenant	Previous rent*	New Rent**	Where has old tenant gone?
1.	Claiming LHA***	Employed	£550	£675	Council/Housing Association Property.
2.	Low paid and claiming LHA	Employed	£695	£800	Private rent
3.	Claiming LHA	Employed	£610	£650	Hostel.
4.	Claiming LHA	Employed	£650	£700	Refused hostel; living with mother.
5.	Low paid and claiming LHA	Employed	£575	£625	To live with mother.
6.	Claiming LHA	Long-term sick	£595	£650	Whereabouts unknown.
7.	Claiming LHA	Employed	£725	£800	Council/Housing Association Property.
8.	Employed	Employed	£600	£675	Caravan parked illegally
9.	Low paid and claiming LHA	Unemployed	£895	£950	Inherited derelict house

*prior to s24; ** post-s24; *** claiming Local Housing Allowance

15.4. **What these figures mean:**

- Caroline had to serve notice on long-standing tenants to replace them with tenants with greater means.
- The tenants had lived in the properties for 18 months to 13 years (5 years on average).
- As rents had not been increased by Caroline (with one exception of one increase on the 13-year tenancy), it was hard for tenants to find affordable alternatives after being served notice. This is compounded by recent and imminent cuts in benefits.
- Caroline's rents have gone up by 10.7% in one year as a direct consequence of s24.
- Caroline is not alone in taking such action. Individual landlords across the UK are taking similar action, increasing rents and evicting tenants.

15.5. In addition to the impact on tenants, Caroline has incurred many additional costs in this process, which the increased rent will not recoup for some time. Three of the nine evictions had to be court ordered and these costs run into many hundreds, with arrears and damages on top taking the costs to many thousands.

Recent Governments have delivered a triple blow to the housing needs of those on benefits (a group of people who have also been demonised in recent years, as though they are all scroungers and have not genuinely fallen on hard times, have a disability to deal with and so on):

1. The Government has brought in a tax policy which will force landlords to abandon this market in droves and lead to a crisis in 'social' housing within the PRS. The Government does not seem to have any plans for where these people will go; it just states that it is Local Authorities' responsibility to house them.

2. The Government has brought in the 'Bedroom Tax' and capped rents, which means that a sub-section of this group will be evicted as they will not have enough money to pay the market rent.

3. The Government has introduced Universal Credit, giving the rent directly to the tenant who can then do with it as they wish. The Government ignored pilots which showed that not only in the PRS, but in Housing Association properties, Universal Credit has led to massive levels of arrears, never seen before in HAs especially. This will lead to a crisis in the PRS and also in HAs and add to the homelessness problem as non-paying tenants are evicted.

15.6. As the NLA points out:

'Local councils are failing to support a growing number of tenants who are most in need of a home and the proportion of landlords willing to let to tenants in receipt of benefits has halved over the last few years. Their perception is that the risk is too great, and it's easy to see why if payment delays appear to be inherent within the benefits system.

'The pressure on those private landlords who have remained in this part of the market will be seriously increased by the government's benefits freeze and the devastating changes to mortgage interest relief announced by the Chancellor in July's Budget.' [lviii]

They also point out:

'Being a landlord is a business and there are landlords who specialise in letting in the housing benefit market. They tend to be the more experienced landlords with larger portfolios, who understand how to manage tenancies to ensure stability and minimise the risk of arrears.'

It is this very group of landlords who will hit most by s24.

16. What does this mean for tenants' lives?

16.1 Some of the consequences of the displacement of tenants because of Section 24 and the other measures mentioned can be seen here.

16.2. The costs of homelessness and/or living in temporary accommodation can be felt in terms of social misery, but also the financial cost to the taxpayer is severe – in terms of the housing, but also because of the higher prevalence of mental and physical health issues which ensue and because of the loss of future earnings of children whose education is disrupted.[lix]

Did George Osborne take this into account when he launched his sudden 'tax grab'?

16.3 The Government will be directly responsible for an escalation in homelessness because of Section 24. Low-paid tenants and those on benefits who cannot afford the higher rents and whom landlords cannot afford to retain as tenants, faced with potentially infinite tax rates, will not all find alternative, affordable accommodation.

‘Shelter’ and other organisations have sometimes tried to blame landlords for homelessness, citing as evidence statistics about how the end of a private tenancy is the most common cause of homelessness. This is only because landlords are providing housing in the first place! In fact the causes of homelessness are complex:

‘Some factors and experiences can make people more vulnerable to homelessness: these include poor physical health, mental health problems, alcohol and drugs issues, bereavement, experience of care, and experience of the criminal justice system... Structural factors can include poverty, inequality, housing supply and affordability, unemployment, welfare and income policies. [lx]

16.4 As landlord and founder of Property118, Mark Alexander states:

‘Relationship breakdown is considered to be the most significant cause of homelessness; yet Shelter chooses to often focus on landlords as though *we* cause it and they also help tenants who are taken to court by us because they either owe us a stack of rent or have damaged our properties. Where is the free help for us? Some of these tenants are no better than criminals and yet Shelter still sees them as the ‘victim’ and us as some kind of perpetrator.’

16.5 Despite this, in fact, in only 7% of cases is it the landlord who brings a tenancy to an end, and the most common reason is tenants’ defaulting on the rent. Councils and Housing Associations also evict tenants who don’t pay. Why the landlord should then be blamed for ‘causing’ homelessness is inexplicable.

16.6 One thing is clear, however, and that is that there are going to be considerable human and financial costs associated with the increase in homelessness. It has been estimated that there will be a million homeless people in the UK by 2020 and this estimate did not take into account the effects of s24.[lxi]

16.7 **In this context, it is incredible, that the 'impact statement' by HMRC accompanying Section 24 made no mention of tenants as an impacted group and the Treasury has maintained this silence on the subject of impacted tenants.**

17. The promotion of institutions will lead to rents rising:

17.1 The Housing Minister should also view with scepticism the encouragement of 'Build to Rent,' as this is going to cause rents to rise even more. To take one example: in Cardiff, institutions catering for students have been found to charge three times the amount charged by local 'private' landlords (South Wales Echo, 7 April, 2016). Thus some institutions charge approximately £900 a month, compared to 'private' landlords charging £300 a month in rent.

17.2 Comparing the costs of 'private' vs 'institutional' rents for students over a three year degree (this is a simplified, yet representative table):

	'Private' rental	**'Institutional' rental**
Annual rent	£3,300 (11 x £300)	£9,900 (11 x £900)
Debt which student is left with after three years	£9,900	£29,700

17.3 Of course, such institutional accommodation may be luxurious (there may be a pool table and cycle storage), but if 'private' landlords are stamped out in these areas, the institutions will enjoy a monopoly and students will have no choice but to be saddled with tens of thousands more in debt. The very existence of these expensive lets will also have a knock-on effect and enable 'private' landlords to gradually increase their rents towards the new rent ceiling.

17.4 In fact the Government has made no explicit attempt to justify its favoured treatment of 'Build to Rent' at the same time as it has pulled the rug from under the feet of 'private' landlords. In this context, a key factor for consideration is the fact that:

The 'Build to Rent' scheme is aimed at providing housing for market rent; it will not replace affordable housing lost as a result of individual landlords having to evict tenants on benefits/low pay to replace them with working tenants with greater financial means. These evicted tenants will have very limited options.

17.5. It has also not justified its differential treatment of incorporated versus unincorporated landlords. It makes no sense, for example, in the context of the fact that many landlords have some properties which are incorporated and some which are not and they provide an identical housing service with properties under both legal statuses. Under s24 identical homes will therefore face vastly different tax regimes.

18. Further attacks on the private rental sector:

18.1 **The 3% stamp duty levy on second homes and buy-to-let properties:**

The picture is further complicated by the Government's recent introduction of the 3% stamp duty levy on second homes and buy-to-let. What the Intermediary Mortgage Lenders Association had this to say about the 3% stamp duty levy, would equally apply to s24:

'This is a poorly constructed intervention in the housing market which will be complex to operate and which will be a source of tension and confusion. The absence of any impact assessment raises the question of whether HM Treasury has any understanding of how it will affect the market as a whole, let alone the Buy to Let market within it. No evidence is advanced to support the policy case and the operational detail makes clear this will be a punitive regime with tight timescales and requirements. It will complicate housing transactions and will damage markets where the growth of the PRS has returned many empty or low demand homes to use. The policy as set out fails to satisfy its own intentions to be efficient, fair or simple and if not withdrawn then significant reworking is required over a more sensible timescale. IMLA members see little merit in this proposal which is being put in place on top of a range of other interventions, the impact of which will not fully known for several years.'[lxii]

18.2 The Institute of Fiscal Studies (the organisation David Cameron stated had the 'gold standard' economists in the UK) is also against the 3% levy on second homes and BTL purchases:

Paul Johnson, head of the Institute for Fiscal Studies think tank, commented:

'A £3bn tax on the payrolls of companies with pay bills over £3m is substantial, as is an increase in stamp duty land tax of nearly £1m on second homes and buy-to-let properties.

'The latter especially is also ill-designed, not least because it reintroduces, albeit on a small scale, a cliff-edge into the stamp duty schedule a mere year after the chancellor made much of abolishing cliff-edges in the stamp duty schedule.'

18.3 Professor Booth, referring to this further fiscal attack on landlords in the 2016 Budget, added:

'The 2016 Budget was not a good Budget for tax neutrality. Once again, the abandonment of this important principle was extended in an adverse way to buy-to-let landlords.'

18.4 Ironically, it is also likely that the fiscal attacks on the PRS will push landlords more in the direction of competing with buyers for the same properties as the evidence is that landlords are focusing on less expensive properties to buy in the wake of the stamp duty levy.[lxiii]

18.5 What is particularly intriguing with regard to the stamp duty levy is that the Government has not exempted institutions from it. This seems to run counter to the Government's encouragement of this sector in other ways and therefore can be seen as contradictory to the Government's stated objectives of increasing housing supply.

Adam Challis, head of residential research at property agent JLL, had this to say: 'New-build properties are heavily reliant on off-plan investors to trigger development finance. A reduction in demand from this group will dramatically reduce the viability of many new-build schemes, reducing supply.

'It is extraordinary that the chancellor has not ring-fenced new-build property from this change, as it will act in direct contradiction to the raft of government policy designed to expand the rate of housing construction.

"The raft of policy changes are incredibly disruptive to market activity and create uncertainty that results in disinvestment. The government does not seem interested in the market distortions it causes through its actions."[lxiv]

18.6 Notable consequences include:

- Institutional investors as well as 'private' ones will be deterred from investment in the housing sector.
- As a result, the Government's targets for Build to Rent will be compromised.
- Build to Rent Schemes will take place only in prime locations where tenants can afford high rents.

18.7 In the words of the RLA:

'Rather than mega corporate schemes which need infrastructure and long planning processes, thousands of landlords are ready to develop a few properties each which would mean a huge boost to supply. These homes are likely to come on-stream far faster than those planned by large, clunky institutions.

18.8 Much of the Government's focus has been on attracting big institutions to develop swathes of rented accommodation supported by a £1 billion build to rent fund and its £3.5 billion debt guarantee scheme for the sector. The evidence has shown these institutions have failed to step up to the plate. The

private rental market is good for Britain. It supports and enables a flexible labour market and provides much needed housing for those who have yet to buy or may not want to.[lxv]

18.9 The special case of 'live-in' landlords:

It must be added that in the same Budget where 'live-out' landlords were penalised, the Government passed a further inexplicably contradictory policy measure: namely, it raised the 'Rent a Room' relief for 'live-in' landlords from £4,250pa to £7,500pa.

Again, there was no justification or theoretical explanation of why when a landlord lives in the same house as a tenant, in addition to not facing the 'tax on finance costs' (because if they have a mortgage it will presumably not be a BTL one), they should also receive a large amount of income tax-free. This seems a counter-intuitive measure as surely most tenants would prefer not to live with their landlords!

18.10 **Furnished holiday lets were also exempt from the tax on finance costs:**

The Government exempted holiday lets, again with no theoretical justification or explanation. In fact, it is counter-intuitive in a housing crisis to encourage the letting of homes for some of the time, but penalise those who ensure the properties are occupied all of the time. Anecdotally one is already hearing of landlords in London changing the use of rental houses into holiday lets to escape the tax on finance costs. Even if holiday homes were occupied all of the time by visiting guests, these guests presumably already have a home and are thus leaving their own home vacant whilst they are on holiday. The provision of holiday lets can therefore be seen as a luxury rather than a necessity.

18.11 Everyone gets a reduction in capital gains tax except 'individual' landlords!

Not content with imposing s24 and the stamp duty levy and treating live-out landlords in a hugely fiscally disadvantageous way, the former Chancellor then announced a reduction in capital gains tax for everyone except landlords!

It is worth mentioning that this later blow was delivered to landlords by George Osborne only 8 months after the Summer Budget; and again there was no attempt at justification, just a simple statement that it would apply to all businesses in the land, except 'individual' landlords.

18.12 David Cox, managing director of the Association of Residential Letting Agents (Arla), said:

'… this is now the third budget which directly attacks landlords. The sector has been punitively taxed, with stamp duty on buy-to-let properties, mortgage interest relief and now capital gains tax changes. It's an outright assault on the sector,' Cox said.[lxvi]

The measures are also contradictory in their alleged aims. In the words of Lucian Cook, head of UK research at the estate agents Savills:

'Keeping the old rates of CGT on residential property will make it more difficult for existing buy-to-let investors (who face a cut in income tax relief on interest payments) to reorganise their portfolios towards better performing property. It will also act as a longer term disincentive to invest in residential property compared to other asset classes which may put further pressure on the supply of private rented homes against the backdrop of rising demand. That may well put upward pressure on rents.'[lxvii]

One would be hard-pressed to work out the reasoning behind all of these contradictory tax policies. The only consistent element is that they all adversely affect 'individual' landlords.

19. The differential tax treatment of similar businesses.

Section 24 aggravates what is already a highly contradictory tax treatment of broadly similar (sometimes identical) housing provision. This can be seen in the following table.

Assuming that each of the property owners in the table received an annual rental income of £200,000 and made annual interest payments of £100,000 on the borrowing costs they incurred in setting up their businesses and other costs (repairs, maintenance, running costs etc.) came to £50,000, each would make a **pre-tax profit of £50,000.** The table shows how after the full implementation of s24, their tax treatment will be hugely inequitable. **For example an incorporated landlord would pay £7,950 in tax whilst the 'individual' landlord would pay £33,600**. The number of properties in the portfolios and the amount of work involved in running the portfolios would be irrelevant as would the 'professionalism' with which they were run. As, historically, the preferred advice to landlords was to set up as 'individuals' and not as companies, most portfolio landlords who run highly successful and viable portfolios are in the second category of tax treatment.

	An individual landlord (with any number of properties from 1 to more than 100)	**An incorporated landlord or institution (with any number of properties from 1 to more than 100)***	**A B&B landlord or an owner of furnished holiday accommodation**
Tax due before Section 24 is in force	£9,200	£7,950	£9,200
Tax due when Section 24 is fully operational	**£33,600**	£7,950	£9,200
Tax rate before Section 24 is in force	18%	16%	18%
Tax rate when Section 24 is fully operational	**67%**	16%	18%
Net income before 2017/18	£40,800	£42,050	£40,800
Net income after 2019/20	**£16,400**	£42,050	£40,800

* This assumes that the incorporated landlord takes enough salary to leave a profit after corporation tax of £5,000 which he or she takes as a tax-free dividend of £5,000 that leaves no profit/cash in the company. It ignores the reduction in corporation tax to 18% in 2020/21 which will only increase net income slightly - as PAYE would go up. It also ignores NI contributions.

20. The Positive Contribution of 'private' landlords to the economy:

20.1. In the context of the Government attacks on the PRS and also several years of anti-landlord coverage in the media, it would be natural to think that landlords are a blight on the landscape which should be eliminated (or to paraphrase the Treasury minister, pigs which should be made to squeal). Indeed, landlords have been blamed for a wide variety of problems in housing. For example, they have also been blamed for the increase in house prices.

A detailed analysis was published in 2008, however, which measured the effect of BTL on house price growth between 1996 and 2007. It was found that only 7% out of the 150% rise in property prices between 1996 and 2007 was due to increased lending to landlords; another way of putting it is that 143/150ths of those price rises were not associated with landlords' activities at all. This was according to a report published in 2007 by the National Housing and Planning Unit.

20.2. The rise in prices was presumably caused by increased demand for housing of all kinds coupled with a chronic under-supply of new dwellings, which would have been greater without BTL.

What would prices and rents have be now if landlords had not contributed greatly to the housing stock?

Despite this independent evidence, landlords are still often blamed for the rise in house prices.

20.3. There is also evidence that buy-to-let has promoted increased housing supply by, in effect**, forward-funding** housing development:

'High-density development often requires significant amounts of advance funding to pay for the necessary infrastructure involved.'

The viability of these cash-intensive developments has been improved through off-plan sales to 'private' landlords. This is because owner-occupiers generally purchase much later. Without the necessary capital being supplied by 'private' landlords even before one brick has been laid, hundreds of thousands, maybe millions of homes would not have been built – many of which were then sold for owner-occupation.

20.4. In addition:

'The confidence that is brought to a scheme by investor sales has led to a higher number of housing starts in less established residential areas, particularly in town centres that are undergoing large-scale urban regeneration, which generally costs more and is viewed as higher-risk.'[lxviii]

Such a positive contribution towards solving what would otherwise be a far greater housing shortage seems to be wholly unacknowledged in the context of the recent attacks on the sector.

20.5. Landlords: business versus investment?

Behind the former Chancellor's statements about landlords in relation to s24, he seemed to confuse whether landlords were the same as owner-occupiers (and should be treated the same), were running businesses (on which they should be taxed) or had merely invested money in property, in a hands-off sort of way. In fact, as it has been observed:

'In my eyes, renters and homeowners fail to appreciate that buy-to-let is a not an investment but a micro business. A landlord, however big or small, gives up a lot to get a buy-to-let property up and running - the potential of investing their money in alternative investments, the fun of spending hard earned money as well as a putting themselves at considerable exposure to financial risk. Will they get tenants? How will these tenants (customers) perform? There are financing risks in terms of the costs of any loan, as well as the risk of capital loss. There is also considerable work involved in maintaining and letting out property. Managing a BTL property is not a passive investment.'[lxix]

The impartial 'Money Advice Service' has put it another way:

'Buy-to-let investment is very different from owning your own home. When you become a landlord, you're effectively running a small business – one with important legal responsibilities.'[lxx]

Naturally, for portfolio landlords this can often constitute a full-time job. When the Chancellor compared landlords with owner-occupiers, therefore, he seemed to ignore this fact, as well as the fact that landlords are subject to over 50 Acts of Parliament and more than 70 sets of regulations in the running of their businesses. Owner-occupiers don't have to check the immigration status of their tenants and get the annual gas safety certificate for example, because they don't have tenants (in the case of them having lodgers they are not subject to these regulations or the new punitive tax regime). An example of the kinds of work involved in running a rental business can be seen in Appendix 5. When a lettings agency performs only

one part of the landlords' role (the letting agency doesn't raise the finance and take the financial risk, source the property, renovate the property, fund the maintenance and repairs and so on), it is not accused of not running a business, but rather resembling an owner-occupier. Councils and Housing Associations are also not accused of having simple hands-off investment. Many portfolio landlords who operate in the lower-rent sector also assist tenants with jobs more associated with what a housing worker or social worker might do.

20.6. The Smith Institute also referred to the slim profit margins already being experienced by landlords, going on to say:

'A stimulus is needed, even if short-term, to protect the contribution from buy-to-let landlords to the whole UK economy, which has been estimated at around £30 billion.[lxxi]

The same source made the obvious, yet increasingly unrecognised point that:

'**The private rented sector provides flexible accommodation. This plays a key role in promoting labour mobility and supports national economic growth. The sector also provides housing to those who cannot afford to buy, but are not eligible for social housing.'**[lxxii]

21. S24 constitutes very bad tax law:

As the Institute of Chartered Accountants of England and Wales stated in their submission to the Finance Bill Committee (which was quite probably not read by most if any of the members of the Committee):

'Owners of a large portfolio, say 100 properties which is run as a full time business by the owner are included in the measure in the same way as say an investor buying one property to supplement their pension.'

They detailed other reasons why they oppose s24. In their words:

'We have compared the proposed legislation changes to our ten tenets… and found them to fail on several counts, notably:

- The calculated relief will not be certain, there will be scope for disagreement over the relief allowed
- It will not be simple to understand
- It will not be easy to calculate
- The changes have not been subject to proper consultation
- The measure is not fair and reasonable as the way the restriction is applied causes other reliefs to be lost and the resultant tax charge is far in excess of the restriction on the relief for the interest paid…
- **Denying a business tax relief on expenses wholly and exclusively for the purpose of the business is not fair and reasonable.**

As accountants are likely to benefit greatly from the measure because of the complexities involved, they can hardly be accused of not presenting an independent and impartial point of view.

It must be added that it also sets a very dangerous precedent. Other businesses should be aware that if the Government is able to do this to one business sector it will be able to do it to others.

22. The international context:

22.1. Other advanced countries acknowledge the essential role landlords play in providing accommodation for the population, and have tax policies which reflect this.

Even before the introduction of s24, UK landlords faced significant disadvantages compared to their counterparts in other countries. A report by Scanlon and Whitehead, published in June 2015 explains this discrepancy.[lxxiii] They made the following points about the tax regime pre-s24, many of which set the UK apart from other countries:

- **Compared to several countries the income tax system in the UK is already substantially less favourable to landlords,** especially in its treatment of depreciation and negative gearing.

- Many countries permit landlords to depreciate their rental properties (either the entire value or the cost of the building only). This means that part of the cost of the dwelling is deducted every year from rents received before the tax is calculated. Countries which allow depreciation to be offset include: Australia, Austria, Germany, Ireland, Sweden, Switzerland and the USA. This is not permitted in the UK.

- UK private landlords cannot offset rental losses against income from other sources (negative gearing); they can only carry them forward. Countries that allow rental losses to be set off against a landlord's other types of income include Australia, Denmark, Finland, France, Germany, Norway, Spain, Switzerland and the USA (with limits).

- UK private landlords receive no special subsidies.

- Some countries have lower taxes on rental income than on other business income.

The report ended with the warning:

'Finally, all changes in regulation which negatively impact on rents and yields and on risk and confidence can be expected to reduce supply and make it more difficult for new tenants to find the accommodation they want.'

22.2. A report from the Department for Communities and Local Government in 2010, entitled 'Promoting investment in private rented housing supply,' compared

both income tax and CGT in England with Australia, France, Germany and the USA.[lxxiv]

The report pointed out that CGT is higher in the UK than in the other countries and there are no concessions for holding property for several years. In the USA the rate of capital gains tax falls after one year of ownership and in Australia there is a 50 per cent reduction after one year. Deductions begin after five years of ownership in France and liability is zero after 15 years. In Germany no capital gains tax is due after 10 years of ownership.

It also stated that in the large private rented sector countries, generous depreciation allowances have been very important in encouraging investment in the sector and promoting new building for private renting.

The authors recommended an increase in tax incentives for individual landlords in order to increase investment in the private rented sector in England. However, this suggestion was never implemented.

22.3. In the UK there has been a housing shortage for many years. BTL landlords have done much to alleviate this as we have seen. Indeed in July 2015 the government's English Housing Survey credited the private rented sector with 83% of the increase that steadily occurred in the number of dwellings between 1996 and 2013 in England alone (2.5m of the 3m increase).[lxxv]

If tax incentives had been available, landlords would have increased the supply even more.

22.4. Individual landlords in the UK do not benefit from any tax incentives, and in future they will be penalised for borrowing. Everybody except the Treasury admits that disallowing finance costs will not only stop the increase in supply, but will also affect tenants through an increase in rents and a rise in the number of evictions, with a resulting increase in the cost to the public purse of housing the homeless.

If the Government wants to solve the housing shortage in the UK, they should not penalise landlords, but rather grant them the same tax incentives that are given to their counterparts in Australia, the USA, France, Germany and other high-income European countries.

22.5. The former Chancellor's argument about creating a level playing field makes no sense in the international context and runs counter to the Government's aim to harmonise financial policies with other countries in the G7, an aim which George Osborne referred to in the more general observations in his Budget speech. As these other countries allow landlords to offset the finance costs of running their businesses, this decision will only serve to 'de-harmonise' the policies. It will set the UK apart as a country with an anti-landlord, anti-business ethos.

23. The Irish experience:

23.1. The lessons of history point to the fact that for the economy, s24, if it goes ahead unchanged, will be disastrous. In Ireland in 1998 the Government disallowed the offsetting of landlords' finance costs to discourage new investment in private rented accommodation, after similar 'landlord-blaming' had been taking place in Irish society. This change was reversed in 2001. The main impact of the policy was that rents went up by 50% over the three-year period; it did not improve owner-occupation levels.

23.2. **The most incredible feature of the comparison between the Irish and UK incarnations of this policy, is that the Irish Government made it a policy for new purchases only.**

It did not therefore apply to properties already owned. This meant that it was a deterrent, as though BTL was 'a bad thing', but it did not have as an 'unintended' consequence the bankrupting of extant 'private' landlords and the selling off of thousands of portfolios of properties (one may say 'unintended,' but the venom with which the former Chancellor made his fiscal assaults on landlords, would suggest it was quite possible he wanted to bankrupt landlords, force them into evicting their tenants and selling up in order that his preferred group – potential owner-occupiers – could snap up the properties sold in a distressed market).

23.3. The Irish Government then repeated its error in 2009, by disallowing 25% of finance costs. This has made the homeless situation so acut e in Ireland that the Government recently exempted some landlords to encourage them to accept benefit recipients.

23.4. In October 2016 it was announced that the Irish Government will now scrap this measure, restoring the so-called 'tax relief' from 75% to 100% (in incremental stages of 5% per year).

23.5. **The UK Government should now learn from the mistakes made in Ireland. The Irish experiment has been so disastrous that it is now being reversed, but not before significant damage has been done to the Irish PRS. The UK Government needs to study this example and learn from it, rather than go down the road of making an even bigger error themselves; a bigger error because the UK incarnation of the measure is so extreme. It is not far-fetched to assume that the UK Treasury is not even aware of what happened and is happening in Ireland.**

Fact: The Treasury has not made one comment, as far as we are aware of about what happened in Ireland.

Fact: In Ireland, the policy was to disallow all finance costs for new purchases only (the first time around) and later to disallow 25% of finance costs (the second time

around). The effect of both experiments would therefore have been far milder than the effects of s24 in the UK by 2020/21. For example, if the second version of the Irish policy were applied in the UK, Caroline's tax would be £31,450 (48%) instead of, under s 24, £54,100 (83%) (see page 13).

Fact: The Irish Government has recognised its more recent tax change has caused a dearth of housing for tenants on benefits and a dramatic increase in homelessness in Dublin in particular.

It recently therefore initially allowed landlords who cater for this category of tenant to once more offset all finance costs as an incentive, has been considering further 'incentives' to encourage landlords to return to a market which the Government's interference pushed them out of in the first place.[lxxvi] It has of course also now made the dramatic decision to completely reverse it.

Fact: It is clear that s24 will have the same effect of leading to a crisis in housing for the low paid and those on benefits in the UK as it did in Ireland - and to increased levels of homelessness and the high costs of temporary accommodation, as landlords are already evicting this category of tenant to house tenants with greater means.[lxxvii]

23.6. **Section 24 will cause rents to rise. Indeed rents are already rising before it is even introduced as landlords prepare to fight a tax which raises the spectre of bankruptcy for many.**

23.7. When unfair and even draconian costs are imposed on a business which might send the business into bankruptcy, the most immediate recourse is to increase the price of the product or service. It is amazing that the Treasury, HMRC and the OBR have not taken account of this in their forecasts of the impact.

23.8. Thus, it is not a case of the UK stumbling into the unknown with this policy and having to rely on tentative and perhaps meaningless forecasts as it is FACT that rents increased and levels of homelessness rose and that the worst hit were the poorer members of society when this was tried, albeit in a less extreme fashion, in Ireland. The only thing one can be certain of is that a more extreme measure will result in more significant damage.

24. A Manifesto for Change:

There needs to be a sea-change in the Government's attitude towards 'private' landlords; in the name of justice but also to avoid a catastrophe of rent rises, evictions and a shrinking of the PRS. 'Build to Rent' will not deliver the quantity and type of housing needed and the preferential treatment it receives is unjustified and wrong. Penalising one group of landlords and incentivising another also makes no sense.

We therefore demand on behalf of all 'private' landlords in the PRS:

1. The immediate scrapping of Section 24.
2. The immediate removal of the 3% SDLT levy on second homes and BTL.
3. The immediate scrapping of the 8% CGT levy on landlords.
4. The immediate scrapping of licensing schemes.
5. An urgent review and re-evaluation of the Government's approach to the PRS with a view to treating the PRS as an ally and not a foe. This should look at how landlords can be incentivised to play a crucial role in solving the housing shortage in the UK. This may go some way towards repairing the damage caused by the negative policies of the last year in particular.

In addition, some laws and practices of recent years which have damaged the morale of British landlords need to be amended, abolished or otherwise dealt with. Notably:

1. The Deposit legislation which penalises landlords three times the monthly rent for simple errors like submitting the deposit one day late (there are no similar penalties when tenants make administrative errors).
2. The increased court fees must be reversed. These costs are invariably borne by landlords who have done nothing wrong and are rarely recouped from 'rogue tenants,' exacerbating landlords' losses. There must also be greater investment in courts to minimise the huge costs landlords face – justice delayed is justice denied.
3. The police must be instructed to treat criminal damage against landlords' property and theft of landlords' property in the same way as they deal with it for everyone else, that is as a criminal matter.
4. Councils must be forced by legal means to stop advising tenants to stay in properties when their tenancies have come to an end. Councils collude in this way with tenants staying rent-free until bailiffs are instructed and landlords lose on average thousands of pounds each time this occurs. Landlords need help and protection from 'rogue tenants.'
5. Mortgage lenders should be prevented from reneging on contracts.
6. Landlords should not be responsible and liable to huge fines if one of their tenants turns out to be 'illegal.' This is the job of border control, not landlords.

7. The Local Housing Allowance part of Universal Credit should be paid directly to the person who is supplying the accommodation and often paying a mortgage on it (the landlord) and not to the tenant in the hope that the tenant will pass it on to the landlord (often they do not and landlords face the consequences of the Government giving tenants this 'freedom').
8. The whole remit and activities of 'Shelter' should be examined and if it is found that they do not help the homeless and do not make effective use of the public money they are granted, their charitable status should be removed.

To conclude, this report has shown how unfortunately, Section 24, on top of all the other attacks against landlords has already caused damage to the private rental sector. It creates no new housing and it makes buy-to-let so unattractive that future investment from private landlords dependent on finance will be significantly reduced at a time when demand for private rented sector housing is growing.

If the Government continues on this destructive path, it will lead to financial ruin for many landlords and also a range of nefarious knock-on effects for other groups and individuals and the economy as a whole. We call upon the Government to reverse this war on landlords immediately and put in its place a constructive plan for the PRS which incentivises landlords to continue to assist massively with the provision of essential housing in the UK.

Appendix 1:

What landlords need to know: the technical detail:

If your normally taxed income plus the loan interest and other finance costs on your buy to let properties exceeds £43,000, you will pay more tax. The extra tax may exceed 25% of these finance costs.

This is because HMRC will no longer deduct your finance costs from the rent in calculating the taxable profit. They will add this inflated profit to your other income, and then calculate your tax on the total. Finally they will deduct a "relief" of 20% of these finance costs from the tax they calculated in order to find the amount of tax you have to pay. 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.

S24 means that most landlords will (effectively) be paying tax on the interest they paid to their lenders as if the money was also still somehow in their bank accounts.

S24 contravenes the Generally Accepted Accounting Principles (GAAP) that HMRC will continue to use for every other enterprise in the country.

Appendix 2:

‘The one that got away!’

The story of a landlord had to go into exile to not be ruined by Section 24:

Portfolio landlord, Mark Alexander, was shocked when he realised how s24 would ruin his business unless he took evasive action. After considering all possible ways out of the predicament this sudden tax change put him in, and consulting with many professionals, he realised the only solution was to become a tax exile and live in Malta.

Was this the intention of the Government: to send legitimate providers of essential accommodation into exile? Ironically, Mark will now pay far less tax to the Exchequer as he is exempt from CGT on the gain accrued on his properties prior to 2015 and will be liable to reduced levels of tax on dividend income when he incorporates his property business. This kind of outcome makes a mockery of the Treasury’s estimates of the extra tax take that will ensue from s24. In Mark’s words:

‘I didn’t want to get out of paying CGT, I simply never intended to sell any of my properties but the new tax rules left me with no choice! There was only one way out, I had to sell some properties in order to be able to afford to restructure my portfolio. Moving to Malta meant that I would only pay tax on capital gains made on my property portfolio since April 2015. The move will also enable me to sell the rest of my property portfolio to my limited company with virtually no tax. If I hadn’t done all of these things the new tax legislation would have wiped out over 50% of my retirement income every year. I’d like to ask the Conservative Government, as a person who has voted Conservative all my life: Why should I have to go and live abroad to retain my retirement provisions?’

Appendix 3:

This is an extract from an article by Professor Philip Booth, from February 2015 regarding the Green Party's (uncosted) proposal to abolish "tax relief" on interest for private landlords.

'Private landlords generally take out loans, add some of their own equity capital, buy houses and let them out – that is how any small business works. They receive income (rent) and they deduct costs (wear and tear, alterations, depreciation and the interest on the loans they take out). On income less costs they pay tax (corporation tax if they incorporate; income tax if they do not). Being able to deduct interest from the rental income is not a "relief", it is recognition of a cost of doing business... This is absolutely the correct way to tax returns for buy-to-let landlords, though believing that the tax deductibility of interest is a "concession" is an easy mistake to make – George Osborne flirted with abolishing it for corporations before the 2010 general election.

'What will be the result of the Green Party policy? Any combination of the following could occur:

· There might be a replacement of debt capital by equity capital to fund buy-to-let properties. But this can only be a partial replacement because few will have access to sufficient equity capital. Institutions may take over some of the slack in this market but this is unlikely given that it is still regarded as a political football (it was repeated political interventions that led to the wholesale withdrawal of institutions from this market in the first place). There will be no gain to the Exchequer because the gain from the Green policy comes from the fact that interest is taxed twice (both the landlord who will pay the interest and whoever funds the loan will have to pay tax). If buy-to-let is only financed by equity capital, the returns will only be taxed once.

· Houses for let will be sold and we will see a decline of the rental market again. Here, there will be no gain to the Exchequer because owner-occupied property is not taxed at all (indeed, there will be a loss to the Exchequer).

· Rents will rise to restore the investors' return on equity – in this case by nearly 15 per cent.

5. It should be borne in mind that the response to various forms of double taxation that are imposed on investors is normally the development of complex tax avoidance mechanisms. In fact, the most likely outcome of the Green policy is that there will be no new revenue for socialised housebuilding and a lot of revenue for bankers designing tax efficient funding products.'

(http://www.iea.org.uk/blog/the-green-interview-%E2%80%93-failed-on-style-what-about-the-substance)

Appendix 4:

This is an abridged version of a submission to the Finance Bill Committee written by Dr Rosalind Beck, September 2015:

1. Summary: This submission focuses on the HMRC assessment of the impacts of the measure to 'restrict finance cost relief for individual landlords.' There is significant evidence that the impacts have not been considered in any depth and some of the key assumptions made in the HMRC policy document are inaccurate. Below are the key assumptions (in italics), followed by evidence which contradicts these assumptions.

2.1 'Economic impact: This measure could marginally reduce demand for housing but it is not expected to have a significant impact on either house prices or rent levels due to the small overall proportion of the housing market affected and the offsetting impact of wider budget measures. The costing includes a behavioural response from the impacted population having relief for finance costs restricted to the basic rate of Income Tax.'

2.2 Evidence which contradicts this statement:

There is no explanation for the statement that it could marginally reduce demand for housing; it is rather demographic factors and household formation rates that determine the demand for housing. It is an acknowledged fact that there is a critical housing shortage in the UK and that between 200,000 to 250,000 new homes need to be built each year to keep up with demand. (The ONS has stated that the UK population is projected to increase by 4.3 million from an estimated 63.7 million in mid-2012 to 68.0 million by mid-2022 and to 73.3 million over the 25 year period to mid-2037.) It is not clear how the measure would reduce this demand.

In addition, the statement that only a small proportion of the housing market will be affected is incorrect, as will be seen below. There are some arguments suggesting that the lack of supply of housing at the moment is feeding house price inflation; and as many portfolio landlords' business models become obsolete as a result of the measure and a mass exodus of landlords from the market occurs, house price inflation is likely to be counteracted by this. Portfolio landlords' model, based on high-gearing - a model that has been sustainable for decades - will be rendered unviable.

However, the picture is more complicated and also highly regionalised. There is likely to be a glut of empty houses in certain areas, where there is neither first time buyer interest and affordability nor the interest of corporations. The logical consequence will be homelessness coupled with empty houses. In such areas, there could be severe house price drops. This could lead to negative equity for owner-occupiers as well as landlords in these areas.

There have also been at least three surveys since the Summer Budget all showing that a majority of landlords will increase rents as a direct consequence of the measure, so the impact statement above is also incorrect in this regard (according to the survey by the Residential Landlords Association, 65% of landlords will increase rents; according to the survey by Rentify , 56% will increase rents; and the National Landlord Association has estimated £70 per month will be added to rents). In terms of the behavioural response of those affected, the primary affected persons are landlords and tenants. The costings should include the impact of distressed and/or forced selling up of rental properties and bankruptcies. In addition the concept of the 'impacted population' needs to be broadened to include other affected parties (see 10.2 -10.6 below for a more comprehensive list).

3.1. Impact on individuals, households and families. It is expected that 1 in 5 individual landlords will receive less relief as a result of this measure. Administratively this measure will affect individuals (including partners in partnerships) with income from residential property that incur finance costs. It is also expected that both the one-off and on-going administrative burdens for these individuals will be negligible as the majority will still only need to complete one box for finance costs on the self-assessment return and the new tax calculation will be automated for those filing online. For those filing a paper return, we expect a tax calculator to be available. There will be an additional administrative burden for individuals with rental income from both commercial and residential properties as they will need to complete an additional box as a result of the measure.

3.2. The assessment that 20% (1 in 5) of individual landlords will be affected is an underestimate. Estimates of the number of private landlords in the UK range from 1.5 million to 2 million and recent research by the National Landlords Association suggests 66% of these landlords own mortgaged properties and that an average of 28% of their rental income goes on mortgage payments at the moment (set to rise massively if the decision is not reversed).

A Freedom of Information question has been asked about how many properties (as opposed to landlords) would be affected; no answer has yet been received. Perhaps the Government has not yet established the actual figures. If this is the case, the decision has been made based on guesswork of properties likely to be affected.

For the reasons given, we would suggest that the majority of landlords will be affected as the majority rely on finance. The impact will be greater than this suggests however as the moot point is the number of houses and households it will affect, not the number of landlords; the evidence is that portfolio landlords will be the most affected, so the number of homes (and tenants) will be huge. To use words such as 'negligible' and mention administrative burdens is an irrelevance for landlords facing financial ruin and tenants facing displacement and possible homelessness as a consequence of the measure.

4.1. The measure is not expected to impact on family formation, stability or breakdown. Equalities impacts: It is likely that this measure will impact on those with above average incomes. It is not anticipated that the measure will adversely impact on any particular protected characteristic group.

4.2. The measure will redefine many lower-rate tax payers as higher-rate tax payers through no longer allowing landlords to offset the finance costs of their business. For landlords running a business, the term 'tax relief' is a misnomer. This is based on comparing landlords who rent out property to tenants, providing them with an essential service, with owner-occupiers who simply reside in their own home. As many thousands of homes will have to be sold because of the measure, there will be massive social impacts, including on family formation, stability and breakdown. It will impact on the majority of landlords and not o n a few wealthy landlords. Indeed the wealthiest landlords, who own their houses outright and are not reliant on finance, will be unaffected. Evidence of this is in the separate submission to the Public Committee of case studies. It will also have severe impacts on tenants who are given their notice and/or evicted; likely to include some of the poorest people in the UK.

5.1. There are no other expected impacts on the equality of groups sharing protected characteristics.

5.2. It will not impact on groups on the grounds of gender, race, age etc. It is likely, however, to impact on many of the poorer members of society who rent and are not in a position to buy. They will be adversely affected by increased rents, which will lead to a deterioration in their standard of living (adding to the effects of the cuts in tax credits and counteracting the effects of the 'living wage'), and arrears, evictions and homelessness will be inevitable.

6.1. Impact on business including civil society organisations. The impact on individuals is explained above. There is no additional impact on business.

6.2. On the contrary, many businesses are likely to suffer, including letting and management agencies, plumbers and electricians who do work specifically related to industry compliance (such as issuing gas and electrical safety certificates). The knock-on effects for the wider economy are not yet known. Suppliers of furniture, decorating suppliers, carpet suppliers and fitters, DIY stores and so on will all be hit, as furnished rented housing has to be more regularly maintained than owner-occupied homes.

7.1. This measure is expected to have no impact on civil society organisations.

7.2. Organisations such as local councils, charities such as Shelter and Crisis, will all find a massive increase in demand for housing services. Councils will face increased Bed and Breakfast bills, as tenants in certain areas are evicted and no homes are available for them to rent.

8.1. Operational impact (£m) (HM Revenue and Customs (HMRC) or other). The additional costs for HMRC for implementing this change are estimated to be in the region of £420,000 for the IT changes and £150,000 for customer information and support. Compliance will be carried out in accordance with HMRC's compliance strategy, with an indicative cost of around £500,000 - £1 million for resource, training and guidance.

8.2. These operational costs will be avoided if the measure is scrapped.

9.1. Other impacts: Other impacts have been considered and none have been identified.

9.2. Landlords.

Some landlords will incorporate their businesses. This will do nothing to improve rented housing, and will be very expensive because of costs such as CGT and SDLT and other fees; it will mean these landlords have less money to invest in repairs, improvements and property development. For some, incorporation will not be an option as it is such an expensive procedure (which does nothing for landlords or tenants). So, housing stock will suffer in terms of quality and quantity.

Landlords who have understood the measure have been stunned by it and have lost trust in the Government as a consequence. Many, who could afford to incorporate will therefore not do so as there is now no guarantee that limited companies won't be targeted next to no longer be allowed to offset the costs of their businesses (indeed this notion has previously been mooted by the Chancellor). Many will exit the market via selling and/or bankruptcy. Large-scale bankruptcies will unsettle the economy. This may mean some currently tenanted houses end up in the hands of owner-occupiers. Where will the dispossessed tenants live?

Some portfolio landlords will emigrate. This is the only option for large landlords facing certain bankruptcy. For example, for a landlord who currently pays out £500,000 in mortgage interest each year, it would be worth emigrating as then no CGT will be payable. This is a drastic yet highly cost-effective alternative to bankruptcy. It will lead to unspecified lost revenue for the Government.

9.3. Tenants.

HMRC's impact assessment assumes no effect for tenants; in fact, tenants are almost invisible in the impact assessment. This is an incredibly regrettable oversight. Initial surveys on landlord intentions (see above) show that one of the first remedies landlords will use will be to increase rents. This will result in lower standards of living for renters, arrears, court cases and evictions. Tenants will also be given their notice because landlords will want to have vacant possession to prepare their houses for sale. An increase in homelessness is an inevitable consequence. If the Government objective of increasing the rates of owner-occupiers is successful this merely means that tenants not in a position to buy - the

unemployed, the low-paid and so on - will lose their homes. A redistribution of current homes adds nothing to the housing stock. The housing crisis needs to be addressed holistically and in a way that also protects the most vulnerable in society, who will disproportionately be tenants. David Gauke MP in response to a Parliamentary question stated that Private Rented Housing "supports the economy through improved labour market flexibility."

9.4. The construction industry.

Private landlords often purchase new builds, which helps to make developments viable for house-builders. As mortgage interest will now be effectively transformed into 'profit' to be taxed (when it is clearly an outgoing), private landlords dependent on finance are unlikely to purchase new builds. This will slow down the rate of new house building. It is important to realise the importance of private landlords to investment in new builds; 57% of new builds between 1986 and 2012 were for private rented housing. The larger house builders are not in a position to take on the mammoth task of building that is needed. Bovis , for example, has a target of building 6,000 new houses a year. This will not put much of a dent in the 200,000 - 250,000 new houses needed each year. The Government needs to incentivise private landlords to build new homes and also to renovate old ones (something landlords have considerable expertise in), rather than drive private landlords out of business.

9.5. The BTL mortgage industry.

Mortgage companies will lose business. There will also be bad debts as highly-geared landlords forced to sell may not have sufficient funds to repay the mortgage debt (or CGT). BTL mortgages already in progress will be aborted once the measure is fully understood.

9.6. Owner-occupiers or potential owner-occupiers:

No new housing will appear as a result of the decision. There will also be an obstacle for second time buyers who wish to purchase a new build as private landlords dependent on finance will not purchase these 'movers'' homes. It is of course possible that some potential owner-occupiers may get a foot on the ladder as more houses are freed up. However, if there is a large fall in house prices, the lenders will withdraw products and demand bigger deposits as they don’t like lending in a falling market.

In any case the policy does not miraculously furnish these potential buyers with large enough deposits and/or the increasingly strict credentials demanded by mortgage lenders. For some existing owner-occupiers, in areas where landlords sell up, the drop in the local market may lead to an increase in negative equity.

10. Conclusion:

The impacts suggested by HMRC are therefore speculative and unfounded. Whole groups who will be adversely affected, such as tenants, have been ignored in the statement. False

assumptions about landlords not increasing rents, for example, have been contradicted by subsequent surveys and, are indeed, counter-intuitive and illogical. Most importantly, the philosophical premises on which the proposal is based are erroneous and ill-thought out. I urge the Public Committee to take on board these observations and do their utmost to have this dangerous policy reversed.

Appendix 5:

What landlords do, from the perspective of one landlord:

We often invest in old, sometimes decrepit housing and we restore it and bring it back into use. When we do this, it is a financial gamble as property values can go up or down.

If private landlords were not willing to take these business risks there would be a massive shortage of housing in this country, as the Government relies on private individuals to take these risks (having sold off council houses for example and then not replaced them).

We provide comfortable, safe housing for millions of people. This housing is safer than ordinary owner-occupied housing, as we have the gas safety checked every year and also ensure electrics and so on are safe. We then provide 24-hour help to our tenants, so any problem they experience at the house (a burst pipe, a leak etc.) becomes our problem and we sort it out. These tenants have complete mobility as they only need to give us one month's notice and they can leave if they want to move away for a new job or whatever reason. This flexibility of the workforce also supports the economy.

We employ builders, plumbers, electricians, carpenters, painters and decorators…. the list goes on, including also buying supplies from DIY stores, furniture suppliers, locksmiths – we support all manner of businesses, who then pay taxes and keep the economy moving. We invest massive amounts of money in this way every month of every year. We also pay a considerable amount of tax ourselves.

We support estate agents, the financial services, through the massive amount of interest we pay to mortgage companies and banks over the years, brokers, and also through insurance policies, conveyancing lawyers and so on. We employ and pay large amounts to letting agencies also. This also keeps a substantial number of people in permanent employment.

Of late, through unnecessary and pointless licencing by councils and the massive fees that they charge, with a monopoly on this (they effectively write their own cheques and we sign them), we even prop up the finances of local councils.

We run the risk of getting tenants from hell – this can happen despite us taking all kinds of precautions, and the law gives us very few rights to recover the money owed to us. Sometimes we

even take on tenants known to have alcohol or drug dependencies as we can be a bit soft. Often then, we get our houses wrecked in return for our charitable attitude. Councils and the Citizens Advice Bureaux then advise these tenants to stick it out for as long as possible whilst paying no rent, meaning we as landlords are even more out of pocket.

We get the finger pointed at us when we let to groups of students or professionals. For example, we may convert a Victorian house into a 6-bed, 2 bathroom house. This enables individuals to pay a low rent for a room plus communal facilities. This is often seen as some money-grabbing, cynical move by landlords. In fact, it is profitable for the landlord, great for the tenant (who only spends a small part of their disposable income on housing), and is a great use of space. How can it be seen as preferable for one person (an owner-occupier) to have use of a whole house for themselves? Heating and lighting a house for 6 people is a great, environmentally friendly use of housing and tenants often prefer it as they have ready-made friends and company. And yet we get criticised for this instead of being praised and encouraged.

Yes, landlords aim to make a profit from all of this work, but so do all businesses and indeed all people who go out to work.

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