



HM Treasury

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Mr Ian Broughton

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Our reference: TO2016/22674

Dear Mr Broughton,

Thank you for your email dated 24 October regarding the change to income tax relief for finance costs for individual landlords. As it is not practical for Ministers to respond to all the letters they receive, I have been asked to reply on their behalf.

In your email you explain the impact on the prices of rent as a result of the income tax changes that the Irish Government made in 1998. However, those changes are not comparable with the change being introduced in the UK. Originally, the Irish Government abolished tax relief for finance costs altogether, which is more radical than the changes that are being introduced in the UK. The Irish Government since reintroduced the relief but placed a flat 75% cap on the amount of finance costs that attract tax relief. By comparison, in the UK the Government have retained tax relief for finance costs at the basic rate of income tax and all individual landlords will receive tax relief at the same rate, regardless of their level of income. This is to meet our policy objective of levelling the playing field.

As well as the above, a variety of factors, other than taxation, can cause average rent prices to fluctuate. For these reasons, we do not feel that a comparison with the Irish tax changes is a suitable reflection of these changes.

The Government stands by our conclusion that the wealthiest landlords will no longer benefit from higher rates of relief on their finance costs. Corporate landlords will continue to receive tax relief at the corporation tax rate; this is currently 20%, which is the same as the basic rate relief individual landlords will receive. Cash buyers will not receive any tax relief for their finance costs as they do not have finance costs. Therefore, the wealthiest landlords will no longer benefit from higher rates of tax relief. It is important to note that this is different from your statement that the change will affect the wealthiest landlords.

Whilst your concern about the impact the change may have on UK tenants is appreciated, I would question some of the assumptions underpinning your figures. The first assumption is that all of the 1 in 5 landlords who are affected will be forced into either increasing rents or selling their properties. The Government understands that some of the minority of landlords affected may have to make difficult decisions. However, many of the 1 in 5 landlords

affected will not see a significant rise in their tax liability and therefore will not be forced to do anything at all. Moreover, the case studies used in the report you attached are very rare cases and are not representative of the circumstances of the majority of landlords.

I would also suggest that the 400,000 landlords (19%) you highlight are not necessarily the landlords with the largest portfolios. There may well be situations where an individual with a large property portfolio is not affected by the change; for example, cash buyers and those with several properties whose tax liability does not change.

A third assumption is that the landlords who will be affected by the change will automatically pass through the additional cost to their tenants. This isn't necessarily the case, with most of the costs usually being absorbed by the landlord due to rent prices largely being set by supply and demand.

I understand that you may still be disappointed by this response. I also appreciate the time and effort that you have put into your email. It is certainly helpful to have seen the arguments and concerns that you have raised. However, the Government is committed to this policy and stands by the reasoning behind the change. The Government will keep this policy under review, as it does with all tax policy.

Yours sincerely,

Nicholas Irvin
Personal Taxation
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