propertymark

Office of Tax Simplification Property Income Review

Response from Propertymark

August 2022

Background

1. Propertymark is the UK's leading professional body for estate and letting agents, inventory providers, commercial agents, auctioneers and valuers, comprising nearly 18,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development. Our members range from small independent agents to large corporates with multiple branches.

2. The Office of Tax Simplification (OTS) has existed since 2010, with the goal of seeking where tax could be simplified. One of the previous OTS recommendations that was taken forward by the UK Government for the cash basis for landlords. The consultation is one of several reviews that the OTS is producing as an independent advisor to the UK Government.

Summary

3. Propertymark welcomes the opportunity to respond to the Office for Tax Simplification's review into how taxation on property income can be simplified. In response to the Office for Tax Simplification's review into the simplification and taxation of property income, Propertymark organised a roundtable between the Office and Propertymark's Regional Executives on 7 June 2022. The following is a summary of key concerns our members have shared over the current taxation system.

4. What we are currently seeing in the Private Rented Sector is that more landlords are selling homes due to regulation and current high prices, with many of these homes leaving the private rented sector (PRS). Increased regulation, along with the effects on higher taxes on returns are reducing incentives to be a landlord. As a consequence, many landlords are expressing their intent to reduce their portfolios within the next few years. In order to reverse

this trend, the UK Government will need to develop a taxation system that encourages growth within the PRS, as demand for homes to rent increases.

Key Considerations

Recent legislative changes

5. There have been five key changes to UK property tax since 2015 which continue to disincentivise landlords to invest in the sector. These include increasing the rate of property tax on those buying property to let, the withdrawal of tax relief on mortgage interest at the landlord's marginal rate, maintaining capital gains tax for rented property at 28%, the rise in corporation tax from 19% to 25% from 2023 which will affect company landlords and reform of the wear and tear allowance. A Propertymark survey of 142 letting agent members in January 2022 found that 81% reported the additional rates of property tax for buy-to-let property had been the most significant recent tax change for the PRS. This is unsurprising as under SDLT an inspiring buy-to-let landlord purchasing an additional property for £300,000 can expect to pay £14,000 in stamp duty. This has resulted in a system where landlords are unable to offset finance costs against tax liabilities, reducing opportunities for small investors to enter the market. The current system also discourages landlords from being able to actively improve their properties as repairs and maintenance are tax deductible but not improvements.

Incentives

6. As part of a tax simplification process, the UK Government should consider providing additional tax breaks to incentivise landlords to expand their portfolios and invest in improving the properties that they own. This is especially important in light of the shrinking size of the PRS and new requirements for landlords to meet housing and energy efficiency standards. Research conducted by Propertymark amongst sales and letting agents between March and April 2022 shows that the number of landlords leaving the PRS has increased over the past three years (80 per cent). 84 per cent said that they believed the number of new landlords entering the market fell over the same period. This is reflected in the view that the number of buy-to-let properties has increased (74 per cent) Landlords and letting agents have been the subject of extreme legislation changes as the UK Government tries to improve the sector. However, without incentives, these changes are proving detrimental to those they are supposed to protect.[1]

[1] https://www.propertymark.co.uk/resource/a-shrinking-private-renter-sector.html

Complex procedures

7. The UK Government should also be aware that the experience of our members informs us that the current way in which income and taxation is recorded and paid is overly complicated and time consuming. Clients require substantial support to understand the full amount and types of taxes they have to pay, including requirements to pay overseas landlord tax. Landlords are advised to hire an accountant as agents do not often have the capacity to offer qualified financial or legal advice, only support. Many landlords however do not have in-house accountants.

Non-resident landlords

8. Members also expressed concerns around overseas tax, which is one of the most complicated reoccurring issues within the property tax system. Letting agents have struggled to communicate with HMRC, especially as most communication is conducted through physical letters rather than electronically. There have been instances where landlords do not know where and how to pay the taxes they owe. Additionally, landlords in self-manged properties and tenants who have to deduct tax from their rent do not always declare their income. This puts significant pressure on agents to ensure that tenants and landlords are compliant.

Improved procedures

9. One way to reduce this complexity, in a way that helps agents to support their landlords and tenants in paying their taxes, is to develop an online system of recording and paying tax. This could include comprehensive guidance with automated processes to calculate exactly how much tax is owed, with explanations provided to the taxpayer as to how that amount was calculated.

Reducing data collection requirements

10. Agents are concerned that HMRC requires a substantial amount of data, requiring an agent's entire database every year which landlords need to provide. Landlords do not view this arrangement positively, with many landlords exiting the sector or opting to not use an agent due to the requirements from agents and large numbers of tax regulations. It is often felt

across property agents that they are being asked to act as tax collectors, while needing to comply with almost 168 pieces of legislation that affect private landlords.[2]

Future reforms

11. Propertymark members have asked that any additional tax legislation should not be the responsibility of landlords or agents, but accountants. If further responsibilities are required by agents, the time and staff required to ensure compliance will result in additional costs for the agent which will have to be passed onto the landlord. This risks the cost being passed from the landlord to the tenant in the form of rent increases or the landlord foregoing the services of an agent all together. Ultimately, the sector needs a tax regime that promotes an environment for good landlords to invest in property. This would generate more income for the UK Government in the long run and reduce costs for the sector.

12. Additional points raised by our members include the requirement for bespoke software if the tax system digitised. This would require a specialist at each agency to use. Landlords also find the tax registration process confusing because, to them, it looks like they're registering as a sole contractor. This, along with the HMRC's language is why landlords need accountants.

[2] https://www.propertymark.co.uk/resource/future-of-renting.html