



CALL FOR EVIDENCE – RENT A ROOM RELIEF

Issued 23 February 2018

ICAEW welcomes the opportunity to comment on the call for evidence [Rent a room relief](#) published by HM Treasury on 1 December 2017.

This response of 23 February 2018 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

On 7 February 2018 we attended a meeting with HM Treasury jointly with other professional bodies in which we were able to put forward some key comments and concerns and discuss aspects of the call for evidence.

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MAJOR POINTS

Key point summary

1. Rent a room relief was introduced in 1992 with the intention of increasing the supply of housing across the country, for example enabling people to rent somewhere permanent to live, allowing people to work away from home during the week and providing accommodation for students perhaps using the spare room created by the departure of the home owner's own child to university.
2. A big advantage of rent a room relief is its simplicity and the fact that there is no need to report other than for those already required to submit a tax return. Any changes to the relief will have to be measured against this simple model, any increase in complexity and cost of compliance will need to be deducted from any additional tax collected.
3. Due to the advent of the internet it is now very easy for landlords to match their property with potential renters. The days of a postcard in the local newsagent's window advertising accommodation are fast disappearing. It is now much easier to rent a property/room for a few days whereas previously the "matching" process was more difficult and time consuming, with the result that lets were for longer periods. In short, the traditional longer-term rental market is being disrupted by new entrants such as Airbnb, hence the concern of the government and this call for evidence. The particular areas of concern appear to be around rent a room relief being used for short-term letting such as holidays lets. Given these concerns, it seems surprising that the relief threshold was increased in 2016 from £4,250 pa to £7,500 pa, quite a few years after the rise in internet providers.
4. The relief was introduced as a response to a housing shortage by providing an incentive for people to make available spare capacity in their homes for rent. There is still a housing shortage so the underlying policy purpose of the relief (to make available spare rooms for rent) still appears to be valid.
5. A review of holiday accommodation websites indicates that a property could not be let for many weeks as holiday accommodation before the £7,500 threshold was breached.

General comments

6. The introduction of the £1,000 property and trading allowances will enable people with low income from these sources, for example renting out their drive for parking and trading on EBay to fall out of self-assessment and legitimise others who did not report their income. Adding restrictions or reducing the level of rent a room relief will add individuals into self-assessment.

RESPONSES TO SPECIFIC QUESTIONS

Current use of the relief

Q1: Do you have evidence that could help the government understand more about the number of individuals benefitting from Rent a Room relief, and the type of activity that they are carrying out?

7. We do not have any evidence regarding the number of individuals benefitting from the relief. Anecdotally we are aware from our members that home owners use their spare rooms for foreign students on short, often two weeks, language courses in the summer on the south coast, to provide accommodation for exhibitors at various centres around

the country for example the NEC in Birmingham, for employees of some large companies which require their employees to work at a different base for a month or so at a time and in connection with major sporting events.

Q2: Do you have any evidence that suggests that there are increasing numbers of people letting out rooms in their main home? If so, do you have any evidence that suggests this relates specifically to holiday or guest accommodation rather than residential? Has there been a move towards one or the other over time?

8. See 7 above.

Q3: Is the use of the relief generally by individuals letting out rooms for residential purposes, or as holiday/guest accommodation, or for a different purpose?

9. Based on the feedback from our members the relief is generally being used as residential accommodation, we did not have any members reporting they had clients using their accommodation for holiday accommodation.

Q4: To what extent do those using the relief choose whether to advertise to lodgers for certain purposes (e.g. residential versus holiday/guest accommodation), or are those using the relief responding to demand in the market? If it is a choice, what drives that decision?

10. Some homeowners are registered with particular organisations as being available for rent such as the language schools, the exhibition centres and the local businesses who need to use employees from other sites around the country as well as on internet sites such as Gumtree.

11. The location of the property may be more of a driver than anything as to whether it is advertised/booked as holiday accommodation or not. Many landlords prefer a steady stream of income throughout the year rather than just the holiday season.

Q5: To what extent is the length of tenancy for lodgers a consideration for those using the relief, when advertising a room for rent?

12. This is a personal choice and depends on why the room is being rented, is it for company, help with the rent/mortgage, a supplementary income etc. Some landlords prefer to rent for just weekdays, others for the full seven days and others for ad hoc nights on a bed and breakfast basis.

Q6: Do you have any evidence that there are regional differences in whether rooms are being rented out for different purposes or tenancy lengths?

13. We have no evidence but as noted above there are specific areas such as language schools and exhibitions centres where there could be a preponderance of people taking advantage of rent a room relief.

Is the relief working as the Government intends?

Q1: To what extent do you think the existence of Rent a Room relief provides an incentive for those using the relief to let out rooms in their home / take on a lodger? If Rent a Room relief did not exist, and only the £1,000 property allowance were available to use against this income, would current users of the relief still take in a lodger?

14. This depends on why the room is being rented, if it is for financial reasons then probably yes but with a potentially higher rent to cover the tax but if for social reasons possibly not due to the administrative burden.

15. The £1,000 property allowance would not provide sufficient incentive to rent a room or take in a lodger if on exceeding that amount the full administrative burden of renting falls on the landlord.

Q2: How significant is the role of Rent a Room relief in supporting the government's wider objective to have a diverse supply of housing options? What impact, if any, do you feel the relief is having on the supply of housing? Are there any other economic or social benefits from the relief?

16. We have anecdotal evidence that in the London market at least the relief is an incentive and enhances the supply of accommodation for individuals working in London. The cost of property either to buy or rent in London is prohibitive for many and without being able to rent a room working in London would not be a viable proposition.

Q3: Do you think that all types of letting activity, regardless of the purpose or length, should be able to benefit equally from Rent a Room relief?

17. In our opinion the relief should be available for letting activity where the landlord's property is shared and not where the entire property is used by the renter regardless of the length of the rental agreement.

Evidence/options for reform

Q1: Do you have experience or knowledge of a system for taxing Rent a Room income that is simpler, fairer or more effective than that in the UK?

18. In the US if the total rental period in the tax year is 15 days or less then there is no need to report the income. If it exceeds 15 days the income less pro rata expenses has to be reported. There is a danger that if the system is too complex it will not be possible to police it and individuals are less likely to comply if it is overly complex either by deliberate omission or by lack of understanding, knowledge and awareness.

Q2: One example the government is aware of is in Ireland and France, where there is a 'residential' test applied to the equivalent tax relief. Do you think the UK should look to restrict access to Rent a Room relief only to those homeowners letting out their rooms for residential purposes? What would be the pros and cons of such an approach?

19. The problem is defining residential. How is renting a room for two weeks to a language student on the south coast different to renting a room for two weeks to somebody who wants to sit on the beach for two weeks? In our view the first should definitely be allowed but can see an argument for disallowing the second.

Q3: Do you think that there should be differences in eligibility for Rent a Room relief according to type of letting activity, purpose or length? Do you think homeowners should only be eligible to claim Rent a Room relief where they are offering a room for let on a longer-term basis (e.g. 31 days or more)? What would be the pros and cons of such an approach?

20. No, that would be far too complex and potentially unenforceable. There are many cases where the original policy intent of the relief is fulfilled where the room is let for less than 31 days. The relief should be available where there is a lodger, so the renter does not have sole occupation of the property regardless of the length of the let.

Q4: Do you have any further ideas or evidence about how the UK might reform rent a room relief?

21. If it is to be altered it should be just to remove pure holiday lets where the landlord is not present during the let, that is, it is not shared occupation of the property, not a lodger but rental of a house/flat etc. Perhaps the relief should only be available on the

main residence of the individual. The definition used of main residence for capital gains tax may be useful but if it is a tenant subletting a room that definition may not work.

APPENDIX 1

ICAEW Tax Faculty's ten tenets for a better tax system

The tax system should be:

- Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
- Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
- Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
- Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
- Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
- Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
- Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
- Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
- Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
- Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).