propertymark

HM Treasury Spring Budget 2024 representation from Propertymark
January 2024

Background

1. Propertymark is the UK's leading professional body of property agents, with over 17,800 members representing over 12,800 branches. 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.[1]

Context

2. The UK Government has announced that the Chancellor of the Exchequer will deliver his Spring Budget on the 3 March 2024. Propertymark has prepared a pro-growth solution to tackle some of the primary challenges that the housing sector is experiencing. Our measures will increase supply in the Private Rented Sector, increase homeownership and keep the house market moving for the benefit of the wider economy. Our proposals include:

    - Increasing support for homeownership by expanding the First Homes scheme to the second hand housing market.
    - Introduce a 12 month holiday on additional rates of Stamp Duty Land Tax for private rented sector use only.
    - Support for last-time buyers by reforming Stamp Duty Land Tax.
    - A review of property taxes for private landlords with a view to reversing Section 24 of the Finance Act to support growth in the private rented sector.

Increasing support for homeownership by expanding the First Homes scheme to the Second-hand housing market

3. The UK Government provides support for first time buyers through the First Homes Scheme. The scheme supports first time buyers to buy a property at 30% to 50% less than its market value providing the property is a new build purchased through the developer or a home bought through an estate agent, which someone else bought before through the scheme. We propose that this scheme should be expanded to include the second-hand homes market.

Likely effectiveness and value for money

4. The current scheme cost the government £150m[2] We recognise that expanding the scheme would be expensive at a time when there are limitations on the resources of the Treasury. We would therefore recommend that if the government agrees that the scheme should be expanded to the second-hand homes, then the government should pilot the scheme

[1] https://www.propertymark.co.uk/
[2] First Homes for first-time buyers (England) (parliament.uk)

expansion in areas where the government are looking to encourage growth and level up with more prosperous areas of England. If the scheme is successful, the government could then look towards a national roll out scheme across England.

How it supports growth

5. By expanding the scheme through a pilot scheme in areas where the government are looking to level up, the UK Government could work at scale, test the value for money and effectiveness of the expansion and encourage growth through home ownership. The dream of owning a home has grown more challenging, especially for first-time buyers, as house prices have risen faster than wages. In England, the median house price in 2019 was approximately 7.8 times greater than the median yearly salary of a full-time employee. Since 2002, the ratio has increased from roughly 5.1. In London, the ratio was 12.8 in 2019, which has significantly increased over the years. For first-time buyers, the effects of the financial crisis and the subsequent decline in home values after the end of 2007 were minimal. Mortgage approval standards have become more stringent, with lenders requiring sizeable deposits from prospective borrowers. The cost of borrowing a mortgage has decreased recently due to historically low interest rates, but deposit affordability is still a concern. The proposed expansion of the scheme would reduce the main barrier to first time buyers, increase housing transactions and encourage growth throughout the sector and industries that support the home buying and selling process.

Distributional impacts

6. The scheme would chiefly support first time buyers looking to enter the housing market. However, there could be flexibility for local authorities to target certain groups who face significant buyers to home ownership. This could include former armed forces veteran or other key workers that support local economies.

<u>Introduce a 12 month holiday on additional rates of Stamp Duty Land Tax for private rented sector use only</u>

7. Under current rules, anyone buying a second home, which includes buy-to-let properties are required to pay an extra three per cent on existing Stamp Duty Land Tax rates. There is ongoing high demand for property to rent, but there remains a significant shortage of stock. In November, on average, there were almost nine new applicants registered per member branch for each available property alongside applicants already registered and seeking to rent within the PRS. Alongside rising tax costs for landlords the three per cent surcharge is stifling investment in this important part of the housing market and economy as well as not providing the homes that people need to rent.

Likely effectiveness and value for money

8. Under SDLT an aspiring buy-to-let landlord purchasing an additional property for £290,000 (average UK house price) can expect to pay £10,700 in stamp duty. A purchaser buying as main

resident only would pay £2,000 in stamp duty.[3] By temporarily removing the three per cent surcharge this would incentivise more aspiring buy-to-let landlords to purchase an additional property that can help meet the high demand for rented property across the country.

Revenue implications for the Exchequer

9. Through temporarily exempting buyers of a second home from paying additional Stamp Duty Land Tax when purchasing a property to let in the private rented sector, the UK Government will be ensuring that there is enough property available for prospective tenants and the cost of renting is reduced. The UK Government will still retain additional tax income from anyone buying a second home not for let and from overseas buyers.

How it supports growth

10. The main reason why private rents have risen so much is that UK Government decision have substantially increased tax payable by private landlords. Currently, landlords pay tax on rental income received, with now only limited tax relief on mortgage payments. By helping to reduce landlord's tax burden when they purchase property this will lower rents and support growth across the economy.

Wider macroeconomic implications

11. The cost of being a landlord means that tenants are finding it harder and harder to get the accommodation they want at a price they can afford. By temporarily removing the additional Stamp Duty Land Tax on buy to lets this will allow more landlords and existing landlords to invest in buy to let property, increase the supply of homes to rent and tackle the serious shortage of properties in many areas reducing choice and driving up rents.

Distributional impacts

12. A huge element of the lack of growth in available properties in the private rented sector across the country are the financial implications and barriers that come with purchasing a buy to let property. Through temporarily removing the cost of purchasing a property to rent out, caution amongst buy to let investors will be reduced as a result of lower transaction costs. More landlords will come into the market, there will be more choice for tenants and rents will reduce.

Support for last time buyers by reforming Stamp Duty Land Tax (SDLT)

13. We are calling for HM Treasury to abolish Stamp Duty Land Tax (SDLT) on all purchases made by buyers over the age of 55 years old in England. The UK Government and their predecessor administrations have concentrated reform of Stamp Duty Land Tax (SDLT) on first time buyers.

[3] https://www.propertymark.co.uk/resource/impact-of-tax-changes-on-the-private-rented-sector.html

Current rates for first time buyers are set at a zero rate for property values up to £425,000 with five per cent levy charged for property value between £425,001 and £925,000.

Likely effectiveness and value for money

14. We are proposing tax incentives to downsize for the over 55's looking to live in a smaller house as they approach or start retirement. Currently, if a homeowner wishes to downsize, they have to pay SDLT at a 5% rate on all properties between £250,001 and to £925,000, a 10% rate at all properties above this value up to the value of £1.5 million with a higher rate of 12% for properties above £1.5 million. These current rates of SDLT would apply to any older people wishing to downsize and act as a major barrier. Giving older people the opportunity and incentive to downsize by removing SDLT for householders over the age of 55 years old, would allow them to have the opportunity to live in property that they could manage, find easier to heat and access easier. This would also free up larger housing for families where the supply of larger housing is well below demand. This is key as the English Housing Survey 2020-21 found that an increasingly large proportion of households containing someone aged 65 own their own home outright which increased by 4% from 2010 to 75% in 2020. The English Housing Survey 2020-21 also found that older people live on average in property that is large. On average older people's homes span 110 sq. metres, yet a large proportion live on their own or are under occupying.[4]

Revenue implications for the Exchequer

15. We except that SDLT has become an increasingly important source of revenue for HM Treasury with revenue from SDLT and other property taxes collected between April 1, 2023, and September 30, 2023, totalled £7.7 billion.[5] Although it is £3 billion less than it was during the same period last year, the overall yearly SDLT revenues are still greater than they were ten years ago at £6.9 billion. Many policy makers have called for the full scrapping of SDLT. However, by abolishing it for older people only, HM Treasury could still raise revenue from working age home sellers many of whom have to move due to changing circumstances such as increasing the size of their household or moving for new employment. The factors for moving home are less defined for older people, while many would like to move to a property that is more manageable, incentives are needed due to the sense of attachment to the property.

How it supports growth

16. The home buying and selling process contributes significantly towards the UK economy. The latest data from 2022 reveals that the real estate sector contributed more than any other sector towards Gross Value Added (GVA.) Real estate contributes towards £270,093m in GVA with wholesale and retail in second at £238,068m.[6] This could be maximised by opening up

[4] English Housing Survey 2020 to 2021: headline report - GOV.UK (www.gov.uk)
[5] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-monthly-bulletin
[6] UK GVA by sector 2022 | Statista

the potential for more older people to be able to move should they wish to. Currently, home sellers aged over 55 years old account for less than 25% of housing transactions.[7]

Wider macroeconomic implications

17. The wider macroeconomic impact of increasing home buying and selling for older people can be illustrated in a variety of datasets. Data from the Home Builders Federation and Knight Frank reveals that for every home sale transaction, the economy benefits by £9,559. To put this into proportion, 100,000 sales transactions would generate £1m towards the economy.[8] There would also be significant benefit to jobs in terms of removal services, estate agency services, conveyancing, and home improvements.

Distributional impacts

18. In the fiscal year ending on March 31, 2022, residential property generated £10.2 billion in SDLT revenues. These revenues were not distributed equally across regions in England. London was the region with the highest amount of SDLT receipts in financial year 2022 to 2023, £5,600 million or 36% of total SDLT receipts. This was an increase of 10% compared to 2021 to 2022. [9]By abolishing SDLT, the opportunity to increase house sales volumes in other regions could be presented especially in regions where the demographic profiles are particularly aged.

A review of property taxes for private landlords with a view to reversing Section 24 of the Finance Act to support growth in the private rented sector

19. We are calling for the UK Government to look as landlords as a small business and to allow them to claim 100 percent of their mortgage interest when filling their tax returns. The phasing out of Mortgage Interest Relief (MIR) and other tax-deductible costs such as arrangement fees has significantly increased costs for landlords and disincentivised others from joining the market. Propertymark gave evidence to the government and drew caution to the possible impact of phasing out tax deductible savings if interest rates were to increase. Propertymark has also completed research on the level of supply in the private rented sector. 53% of buy-to let properties sold in March 2022 left the PRS. 84% of respondents told us that the number of new investors in the PRS has decreased over the past three years and there was a 49% reduction in properties available to rent per branch in March 2022 compared to March 2019.[10] Furthermore, the number of new prospective tenants registered per member branch showed a further climb. August 2023 had an average of 197 prospective tenants registering compared to 149 in July 2022. Figures in August 2023 were up almost 32% year on year and demonstrate a trend that continues to spiral.[11] The decision to phase out costs such as Mortgage Interest Relief from deductible tax may have been the correct decision at the

[7] UK Stamp Tax statistics 2022 to 2023 - Commentary - GOV.UK (www.gov.uk)
[8] knight-frankhbf-economic-benefits-of-housing-market-activity-2020-7616.pdf (knightfrank.com)
[9] UK Stamp Tax statistics 2022 to 2023 - Commentary - GOV.UK (www.gov.uk)
[10] https://www.propertymark.co.uk/resource/a-shrinking-private-renter-sector.html
[11] https://www.propertymark.co.uk/resource/housing-insight-report-august-2023.html

time of implementation in 2016. However, the economic climate is remarkably different in the present day with record high interest rates. At the time of implementation, interests' rates were close to zero. Although the policy was reviewed in 2019, interest rates remained low.

Likely effectiveness and value for money

20. Supply of properties to rent is the main concern for property agents and is a major challenge facing the private rented sector. Currently, demand for rented housing is at its highest point since September 2022, with only 11 properties available per branch on average. Section 24 is often referred to as the 'Tenant Tax'. This is because higher tax on landlords will impact on their profit levels, increases their cost and results in higher rents for tenants. While many landlords have largely been able to keep rents down, the increased costs from current interest rates have led to many landlords being forced to increase rents simply to cover costs. This has resulted in rising rents across the country. When the UK Government introduced the phasing out of Mortgage Interest Relief through Section 24, the levels of interest for mortgages were low. According to the Bank of England, the level of interest on mortgage rates was largely static and unchanged at 2.1%. However, current rates have risen exponentially resulting in many landlords being forced to leave the sector.

21. At the time of the 2017 Spring Budget, it was estimated the implementation of Section 24 and the removal of Mortgage Interest Relief would raise £225m in 2018/19 rising to £940m by 2021/22. [12] Therefore, given that many landlords have left the sector and some of which are unlikely to return, a generous estimation of the cost of reintroducing Mortgage Interest Relief for buy to let landlords would be £1 billion. However, the cost-based savings of incentivising landlords to join the market and effectively increasing supply would reduce rents. This would be a medium-term commitment in reducing the £30 billion spent annually on housing benefit, which is between £8 and 10 billion more than the Office for Budget Responsibility forecast[13]. Additionally, the UK Government made £14.3billion in Capital Gains Tax (CGT) in the 2020/21 tax year, taking contributions from a total of 323,000 taxpayers with the current rate set at 28% for Buy to Let properties.[14] This is money the UK Government can no longer call upon and we believe the government must look to more sustainable and long-term ways of raising income. Accordingly, we recommend the UK Government further disincentives landlords from leaving the market and further reducing supply by increasing the rate of CGT on the sale of Buy to Let properties to 38%.

How it supports growth

22. Allowing landlords to claim 100 percent of their mortgage interest will reduce costs to landlords and attract more investors to the sector. This will increase the supply of rented properties available, helping to reduce the gap between the demand and supply of rented properties, reducing costs for tenants. Additionally, if landlords are able to claim

[12] Spring Budget 2017 (publishing.service.gov.uk)
[13] LATEST: Government's annual housing benefit bill rises to £30 billion – LandlordZONE
[14] Average buy-to-let landlord will lose £2,600 extra to Hunt's CGT hike | This is Money

improvements to their homes when filling their tax returns, they would be more able to afford measures to improve the standard of their rental properties. This is especially important given recent increases in the cost of living and mortgage rates and the proposed Decent Homes Standard. Without such measures to reduce costs of improvements, the introduction of the Decent Homes Standard could lead to the selling of more rental properties, further exacerbating supply issues facing the sector.

23. A well-functioning Private Rented Sector is important to support contract workers, students, those still unable to get on the property ladder and simply those who do not want to be tied down to mortgage payments. To stop the supply of PRS accommodation further contracting and on top of reintroducing tax relief for landlords, the UK Government must also reduce the 3 per cent levy on second home purchases or to make it payable on sale of a property to further disincentivise landlords exiting the market. This will increase the supply of properties, bring rents down and end any argument in favour of rent controls. Additionally, improving the affordability, quality and availability of rental accommodation will enable renters to move to higher quality accommodation in more suitable locations which will increase their productivity and enable them to move to better jobs more easily. Reversing the phasing out of tax-deductible savings will also make it easier to invest in long-term empty properties, helping to regenerate communities and further increase the supply of properties available to rent or buy.

Sectoral impacts

24. To reverse Section 24 of the Finance, Act the UK Government would essentially need to do three things. Firstly, reinstate the ability of landlords to set the total amount of mortgage interest against rental income before tax is calculated. Secondly, this would remove the basic rate reduction of 20% and allow landlords to claim the full interest on their mortgages which is one of the largest costings for landlords. Thirdly, landlords who rent out properties in their name are subject to the tax changes. However, landlords can set up a limited company and buy a property using that company, or transfer ownership of an existing property. Those who set up as a limited company can offset Mortgage Interest Relief as a business expense. By reintroducing Mortgage Interest Relief and other landlord tax deductible expenses, the UK Government can level the playing field between landlords who operate in name and as a business creating a fairer tax system.

25. The money reintroduced by reinstating Section 24 was traditionally used by landlords to maintain and improve standards. If landlords could make these tax-deductible savings, they would be in stronger position to improve standards or keep rents as low as possible. Tenants will have more disposable income which could be used to save up for a deposit to help renters become homeowners.