

Association of Accounting Technicians response to HM Treasury Call for Evidence on rent a room relief

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Call for Evidence on rent a room relief, published on 1 December 2017.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit.
- 1.3. AAT is not able to provide statistical data or specific evidence to add to the information HMRC currently receives via tax returns but has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. Furthermore, the comments reflect the potential impact that the proposed changes would have on AAT's 90,000 strong student base as well as AAT's 4,250 licensed accountants who provide accountancy services and advice to thousands of landlords.

2. Executive summary

- 2.1. **Government needs to be clear what the justifications are for seeking additional data in this area.** If the Treasury decides not to restrict rent a room relief to only long term residential lets, as AAT and others suggest, then there does not appear to be any real justification for the collection of data distinguishing between the two.
- 2.2. **Digital platforms have certainly had a significant impact on this market but this must not be used as a justification for restricting rent a room relief.** In recent years, holiday room letting has attracted more attention than the increase in residential room letting by virtue of the fact it is a relatively new concept. This does not justify punitive action.
- 2.3. **Restrictions on short-term letting are likely to add complexity to the tax system.** The simplicity of rent a room relief is one of its main attractions and one of the main reasons for its success since being introduced in 1992.
- 2.4. **Imposing restrictions will also reduce accommodation availability and choice.** This is because many "landlords" will simply choose not to rent out their spare rooms. Restrictions will also reduce the incomes of many people who find this one of the few ways in which they can supplement their annual earnings in a relatively simple and tax efficient manner.
- 2.5. **There are various economic and social benefits to the landlord, renter and wider economy which the Treasury must take into account before making any decision to amend the current system.** It is not simply the landlord who benefits from the £7,500 relief but the individual renting a room (whether short term or long term) or benefitting from a holiday let, as they may not otherwise have had such opportunities. This is both because of the expense of alternatives but ultimately the impact on demand given the fact that many would not offer a room to rent at all if the relief did not exist in its current format.
- 2.6. **Government should carefully examine the tax arrangements of digital platforms.** If there is genuine concern about the costs of this relief then rather than concentrating on individuals who are merely seeking to supplement their income by renting out a spare room for a few nights a year, Government would be better advised to direct its attention to the questionable tax arrangements of some digital platforms (see 16.2 below).

3. AAT response to the Call for Evidence

3.1. The following paragraphs outline AAT's response to the proposals outlined in the Call for Evidence. Only the questions where AAT has a comment to make have been listed.

4. 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?

4.1. HM Treasury acknowledges in this Call for Evidence that it has little reliable information in this area. AAT is unable to add specific evidence to the knowledge base. However, it is widely accepted that as home ownership and social renting continues to decline in the UK, the number of those renting privately has risen considerably, amounting to over 20% of all households¹. This will inevitably involve many who are utilising rent a room relief.

4.2. Given evidence is currently limited to tax returns and that most will not have to provide any such information by virtue of the fact their room rental income is below £7,500, the best means of estimating the number of individuals benefitting from rent a room relief would be to request such information from large platforms like spareroom.co.uk (7m registered users) and Airbnb (175,000+ listings) and for such data to include information relating to length of stays etc. where available.

4.3. That said, the question must be asked as to whether it really matters how many people are benefitting or whether they are carrying out holiday lets, short stay residential lets or long term lets if the Treasury is genuinely considering respondents views to question 14 below as to whether, "*...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?*"

4.4. If respondents do not think such restrictions should be imposed then there appears to be little reason to distinguish between the two and therefore little justification for the collection of such data.

4.5. Rent a room relief has operated successfully for over 25 years without such data so it seems reasonable to question whether it is really needed and for what purposes. If concerns about the increasing cost of this relief are behind the desire for such data, then as highlighted in more detail at 16.3, addressing the tax arrangements of some digital platforms would probably be a more appropriate course of action.

5. 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?

5.1. As housing costs rise inexorably there has undoubtedly been an increase in the number of people letting out rooms in their main home, especially in London and the South East².

5.2. It would appear that much of this has related to holiday lets with considerable attention paid to new platforms such as Airbnb, this has also been mirrored by an increase in residential lets which have perhaps gained less attention given the practice has existed for many decades. Whether one is greater than the other is difficult to gauge but holiday letting has attracted more attention simply because it is a relatively new concept.

6. 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?

6.1. Without adequate data, it is impossible to provide a definitive response. However, it is clear from the mere existence and increasing prominence of the likes of mondaytofriday.com, spareroom.co.uk, flatshare.com and others that residential lettings and therefore use of the room relief in this context has increased.

¹ Knight Frank Research 2017: <https://www.theguardian.com/money/2017/jun/12/one-in-four-households-in-britain-will-rent-privately-by-end-of-2021-says-report>

² <http://www.dailymail.co.uk/news/article-3625675/The-60s-forced-flat-sharing-Soaring-numbers-middle-aged-elderly-renting-increasing-property-prices.html>

6.2. At the same time, Airbnb and other online holiday letting platforms have led to an increase in the number of holiday lets too. For example, [Eurostat data released in December 2017](#) highlighted the popularity of online peer-to-peer accommodation services with 1 in 6 EU citizens now arranging accommodation in this way during the preceding 12 months. The UK leads in this area with 34% of the population having done so compared to an EU average of 17%.

6.3. It is therefore reasonable to assume that this relief is being used for both holiday and residential letting purposes.

7. 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?

7.1. There are many factors that will help determine the decisions of “landlords” in whether or not to seek residential lets rather than holiday lets and vice versa. Without undertaking extensive surveys of such individuals, it is difficult to offer precise information. Nevertheless, AAT believes the following are a reasonable set of assumptions to make:

7.2. From the landlord’s perspective, those seeking to secure a steady, reliable supplement to their income are most likely to utilise residential letting platforms and in some cases agencies. The certainty of a longer term let will drive their decision.

7.3. From the tenant’s perspective, those seeking the stability of a longer term let are usually doing so because they are unable to afford the cost of renting a whole property themselves and so renting a room provides an affordable alternative. In a minority of cases this will not be the reason, instead there could be other considerations such as wanting to share with a friend or relative or because of a short term need such as being between house purchases, a short-term job contract or a period of unemployment.

7.4. It is not unreasonable to assume that landlords who may want to rent their home out for very short periods of time, for example whilst they are on holiday themselves or away for the weekend will obviously utilise a holiday letting platform such as Airbnb.

7.5. Similarly, it is possible that some homeowners simply enjoy meeting a wide variety of new people and short-term holiday lets provide a means of doing so.

7.6. It is feasible that in some cases, for example a first time “landlord” or someone who likes to build a relationship of trust with their residential tenant before committing to a long term let, a platform such as Airbnb may be used initially, with a view to permitting the short-term user to subsequently become a longer term residential tenant.

7.7. From the tenant/holidaymaker’s perspective, those using short term letting sites such as Airbnb may also include the newly employed who may be uncertain if a job will turn out as expected or reluctant to commit themselves to a 6-month let when tied to a 3-month probationary period or similar. They may also require a short-term let whilst seeking longer term accommodation.

7.8. A major consideration for many landlords who utilise sites such as Airbnb is the fact it is one of the few ways in which homeowners can supplement their annual earnings in a simple, tax efficient manner. In many cases it can also be a quicker way of receiving an income of up to £7,500 and avoids the complications associated with asking a longer-term tenant to leave.

7.9. For example, a room rented out for £750 a month would not only require 10 months of letting but also, to ensure the relief was not exceeded, the removal of the lodger after a 10-month period. The same property could be rented out to a variety of different people at £250 for a weekend in just 30 weekends.

7.10. Likewise, one of the key attractions for users is the fact it will often represent a cheaper alternative to an expensive hotel room.

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

8.1. For some this will be a significant issue, for others it will not be a consideration at all. As highlighted at 7.8 this will very much depend on the cost.

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

9.1. Common sense dictates this will be the case given it is not unusual to find rooms to rent in [London for £1,000](#) compared to places like [Bradford](#) or [Newcastle](#) where few rooms are priced above £400. This means that landlords in certain parts of the country can easily rent their rooms out for a whole year whilst remaining under the exemption threshold whereas those in London and the South East cannot.

9.2. Online platforms are likely to be able to provide considerable insight here given their abundance of data on the subject.

10. 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?

10.1. The relief provides a clear incentive as £7,500 is sufficient to enable many to rent out a room for an entire year without paying tax. Clearly, scrapping this and only having the £1,000 property allowance would mean almost everyone currently renting out a room would have to pay tax – drastically reducing the number of people who would rent a room.

10.2. It is also worth noting that whilst the £7,500 threshold is a key feature of the success of rent a room relief, it is also the simplicity of the scheme which makes it so attractive:

- 1) those who are not already required to submit a self-assessment tax return, do not have to notify HMRC of this income or that they are benefitting from the relief
- 2) There are no specifications for any particular length of let which means relief could be given on income from 365 one-day lettings to different people or from one 365 day letting to the same person
- 3) Likewise, there is no specification as to the purpose of the let as long as the individual is providing furnished accommodation. This means relief would be available on the let of a room to someone who is staying on holiday or someone who is working or studying

10.3. The Call for Evidence implies that some of these benefits are somehow negative. Given AAT's long-term focus on achieving greater simplicity in the tax system and a recognition that this relief appears to have worked reasonably well for decades, AAT does not see the above as necessarily being problematical.

11. 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?

11.1. The impact of the relief is significant. In high cost areas such as London, the South East and other major towns and cities where individuals are unable to buy a home or afford to rent a whole house or flat, the availability of rooms to rent is vital as the only realistic housing option. Without the threshold, far fewer people would consider renting a room out.

11.2. A reasonable degree of workforce mobility is required for a successful economy and this cannot be achieved without the availability of housing in reasonable proximity to the place of work. Room rentals play a key part in helping to achieve this, especially in high cost areas.

11.3. Of course, the benefit is not simply to the renter but to the landlord, many of whom will need the additional income, which in many cases is likely to have prompted their decision to make a room available to rent in the first place, whether for residential or holiday let purposes.

11.4. Holiday lets that take the form of renting a room in someone else's house may represent the only affordable means of enjoying the social benefit of a break for some. For example, the average cost of a hotel room in London during 2016 exceeded [£150 per night](#) according to BDO whereas rooms can be found for as little as [£25 a night on Airbnb](#) today.

11.5. For those who are better off but decide to rent out spare capacity, this generates additional money that will largely re-enter the economy in the form of consumer spending – the main driver of the UK's economic growth during the past year, despite increased inflation.

12. 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?

12.1. Yes. Ending the relief for Airbnb type lettings would likely add complexity to the tax system, reduce accommodation availability and choice (as many “landlords” would simply choose not to rent out their spare rooms) and reduce the incomes of many people who find this one of the few ways in which they can supplement their annual earnings in a relatively simple and tax efficient manner.

13. 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?

13.1. Applying a ‘residential’ test as in France and some other countries will add an unnecessary level of bureaucracy to what is currently a very simple relief. Simple in terms of both understanding and administration. As a result, AAT would not encourage HM Treasury to pursue such a course of action but instead to maintain the current system which has worked well for more than 25 years.

14. 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?

14.1. No. As stated above at 5.1 the increase in holiday room letting has attracted more attention than the increase in residential room letting simply by virtue of the fact it is a relatively new concept. This does not justify punitive action. Likewise, for the reasons set out above in 12.1, this would add complexity to the tax system, reduce accommodation availability and choice (as many “landlords” would simply choose not to rent out their spare rooms) and reduce the incomes of many people who find this one of the few ways in which they can supplement their annual earnings in a relatively simple and tax efficient manner.

15. 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?

15.1. Again, this would introduce unnecessary complexity. It is also worth noting that the type of properties that are being utilised for rent a room are usually not the type of properties that would otherwise have been used for longer term lettings. This is one of the primary attractions of online sites like Airbnb – they enable people to rent out a room for a short period of time e.g. when they are on holiday, during the working week so that they have the house back to themselves at the weekend, or at the weekend if that's when they are away or present depending on what works best for them.

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

16.1. The explanatory notes to the Call for Evidence state, “*The government has not yet formed a view on whether or how the relief should be reformed*” before going on to state Government wants, “... to explore the case for making the relief more targeted to support longer-term lettings”, which very much suggests that a view has already been formed.

16.2. If Government is genuinely concerned about the potential loss of tax revenue in this area, then rather than concentrating on individuals who are merely seeking to supplement their income by renting out a spare room for a few nights a year, Government would be better advised to direct its attention to the fact the leading company in this area (Airbnb) is making hundreds of millions of pounds in commission here in the UK and across the rest of Europe but by using a company in Ireland it is avoiding paying its fair share of tax in the UK and the rest of Europe. In addition, with Airbnb's income being taxed in Ireland it then claims various reliefs in the UK. The fact that any company but especially one worth more than £30bn, is permitted to make profits in a way that further erodes the UK's tax base should be a much bigger cause for concern.

17. About AAT

- 17.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 17.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

1. Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy at:

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