Low Incomes Tax Reform Group
A voice for the unrepresented

HM Treasury call for Budget/Finance Bill 2013 representations

Response from LITRG: General comments and proposed new clause – up-rating of 'rent-a-room' relief

1 General comments on Budget representations

1.1 This submission falls into two parts: first, some general comments on the HM Treasury call for Budget representations in close proximity to the Budget and Finance Bill 2013 publication; and second, a specific representation regarding income tax relief under the 'rent-a-room' scheme.

1.2 First, we entirely agree with the comments submitted separately by the Chartered Institute of Taxation and we welcome any opportunity to contribute to the development of tax policy. We believe that tax policy is best formulated as a result of thorough and on going consultation rather than last minute representations which can often result in hastily drafted and ill-considered legislation with unintended consequences.

1.3 Nevertheless, this opportunity is welcome to raise one particular key issue about which we have been commenting for some years, but which to date has not been receiving a fair hearing from HM Treasury or Parliament – that is, the inequitable freezing of the income limit for 'rent-a-room' relief. This is an important relief for low-income taxpayers and, having now been fixed for some 15 years, it is well overdue for review. We explain further in sections 3 and 4 below.

LITRG is an initiative of the
CHARTERED INSTITUTE OF TAXATION
1st Floor, Artillery House, 11-19 Artillery Row,
London, SW1P 1RT

REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
Fax: +44 (0)20 7340 0559
E-mail: litrg@ciot.org.uk
www.litrg.org.uk

CFE
UK REPRESENTATIVE BODY ON THE
CONFEDERATION FISCALE EUROPEENNE

2 About Us

2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

2.2 LITRG works extensively with HM Revenue &Customs and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Rent-a-room – the case for up-rating the relief

3.1 Rent-a-room relief[1] can exempt from income tax the first £4,250 a year (around £82 a week) of rents from lodgers in one's own home. It was introduced by F(2)A 1992, Schedule 10, effective from 1992/93 onwards. The relief was initially set at £3,250, which was increased to £4,250 from 1997/98[2]. Since 1997/98, the rate of relief has remained the same despite increased residential rents.

3.2 Raising the exempt limit could:

- help first-time buyers to generate a stream of tax-free income to support their mortgage application and cover the mortgage payments;
- provide a source of tax-free income for those struggling to pay their mortgage in the current financial climate[3];
- increase the availability of affordable housing;

---

[1] Chapter 1, Part 7, Income Tax (Trading and Other Income) Act 2005

[2] Income Tax (Furnished Accommodation) (Basic Amount) Order SI 1996/2953.

[3] The incidence of renting out a room to help pay mortgage costs has, per reports, increased in recent years – see for example *'One in ten homeowners take in a lodger':* http://www.mortgagesolutions.co.uk/mortgage-solutions/news/2081161/homeowners-lodger

- benefit those engaged in social care who perhaps continue to offer accommodation for a person after the age of 18 whom they used to foster but for whom they no longer receive official care allowances;

- allow more people who complete tax returns for the sole reason of declaring rental income above the current exempt limit to be taken out of self-assessment.

3.3 It is interesting to note that the Irish Government introduced a similar scheme in 2001 and in 2008 increased the limit from £6,000 (converted to €7,620) to €10,000[1]. Similarly, if the UK rent-a-room relief value had kept pace with rents since it was last revised, it is likely it would have more than doubled by now.

3.4 Whilst precise statistics are difficult to come by, particularly for private rents, we have found that average weekly rents in England for 'all private renters' in 2008/09 were £153 a week[2], compared to 'all private tenancies' being some £92 a week in 2000/01[3]. This equates to an increase of 66.3% over eight years. If the same increase applies for room rents and the same factor holds true over the full fifteen years from 6 April 1997 to 5 April 2013, we can easily see that the rent-a-room base of £4,250 from 1997/98 ought now to be at least £10,000.

3.5 The 'individual's limit' of £4,250 may be increased by Treasury order. However, we feel it would be preferable to make a one-off increase in the limit now, to £10,000 per annum, and then to up-rate the limit year on year thereafter. In the absence of a clear rental pricing index, we suggest this is done by reference to the Retail Prices Index, whilst retaining the power to adjust the limit by Treasury order should RPI appear to fall out of step with any other published data on residential rental costs.

4 Proposed new clause to be tabled

4.1 Clause X – Rent-a-room relief

(1) Section 789 of the Income Tax (Trading and Other Income) Act 2005 is amended as follows –

(a) In subsection (4), replace '£4,250' with '£10,000',

(b) Delete subsection (5).

---

[1] See for example http://www.revenue.ie/en/tax/it/leaflets/it70.html#section11 and part 7.1.32 of Irish Tax & Customs' 'Income Tax, Capital Gains Tax and Corporation Tax Manual'

[2] See Figure 9 of the DCLG's report 'Housing and Planning Statistics 2010' http://www.communities.gov.uk/documents/statistics/pdf/1785484.pdf

[3] See Chart 7b of the National Statistics report 'Housing Statistics 2002' http://www.communities.gov.uk/documents/housing/pdf/141782.pdf

(2) Insert a new Section 789A as follows—

"789A INDEXATION OF THE INDIVIDUAL'S LIMIT

(1) This section provides for increases in the amount specified in Section 789(4). It applies if the retail prices index (RPI) for the September before the start of a tax year is higher than it was for the previous September.

(2) For the tax year, the individual's limit is found as follows—

(a) *Step 1* Multiply the limit for the previous tax year by the same percentage as the percentage increase in the retail prices index.
(b) *Step 2* If the result of Step 1 is a multiple of £10, it is the increase for the tax year. If the result of Step 1 is not a multiple of £10, round it up to the nearest amount which is a multiple of £10. That amount is the increase for the tax year.
(c) *Step 3* Add the increase for the tax year to the limit for the previous tax year. The result is the limit for the tax year.

(3) Before the start of the tax year the Treasury must make an order replacing the individual's limit within Section 789(4) with the amount which, as a result of this section is the limit for the tax year. The Treasury has discretion to increase the individual's limit by more than the amount found by using the calculation in this section, particularly if average UK residential rental values have increased by more than RPI."

LITRG
20 February 2013