

HM Treasury: Call for evidence – rent a room relief
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

- 1.1 We welcome the opportunity to respond to this call for evidence and commend HM Treasury (HMT) for consulting at a very early stage. We offer HMT this response which is based on anecdotal evidence drawn from our experience of rent a room relief and some internet research we have carried out, so we hope that our thoughts and comments will be useful in developing policy in this area and provide some further questions and ideas to consider.
- 1.2 Many low-income taxpayers use rent a room relief. Whether this is by accident or design, it is clear that rent a room relief is a practical and important relief to those we represent.
- 1.3 Low-income taxpayers may take a lodger to help them with mortgage costs or to provide companionship, if they are elderly or recently bereaved for example (although these are not official policy objectives of rent a room, it seems to us that there is a principled case for making them so, which dovetail with other policy aims). The fact they can do this in a simple and tax efficient way is no doubt a huge incentive for many.
- 1.4 Complicating the scheme for them, by adding conditions, etc. is risky, particularly given the current housing crisis, as they may simply choose not let to lodgers in the first place.
- 1.5 We do not think that holiday room lets are significantly impacting on the availability of residential room lets in the private rental market. While there is a premium that an 'Airbnb type' let can command, it seems to us that it could soon be cancelled out by the extra risk and work involved in managing holiday guests, not to mention loss of income during the empty periods. So, we would suppose that most landlords who have historically had lodgers, would still opt for long-term over Airbnb type lets.

- 1.6 It seems to us that Airbnb type lets are likely to mainly be by 'new blood' coming into the market and are self-regulating to some extent. Thus, we are not convinced that cutting them out of rent a room relief is justified under the banner of making it more targeted to support longer-term lettings. Imposing limitations would also increase administrative burdens all round, which in view of the relatively small amounts likely to be received overall may be counterproductive.
- 1.7 If the rising cost of the relief is of concern of HMT, perhaps one option would be for HM Revenue & Customs (HMRC) to check current rent a room compliance. Certainly, from some quick internet research we undertook, it is apparent that rent a room relief is likely being used when an entire property is let out (as opposed to just a room in a property), even though this may not have been the original intention behind rent a room relief.
- 1.8 Tightening guidance around the question of relief for 'entire house' lets could help limit the cost of rent a room relief and curtail what seems to us to be particularly questionable use of the relief – by people who want to take advantage of a few weeks 'super income' by renting out their houses around events such as Wimbledon while they themselves go on holiday.
- 1.9 It also seems that 'entire house' lettings are also the ones that have the highest impact on the local communities and the housing market – so there could be a desirable knock on effect here too in time (although it has to be said that the tax system is probably not the most effective way of influencing behaviour in this area).
- 1.10 Counter intuitively perhaps, one way to support more longer-term lettings, particularly in London and the South East, would be to put the rent a room threshold up again – the new £7,500 threshold already appears to have fallen out of step with rising rental costs in these areas. For most ordinary people, self-assessment is a headache to be avoided at all costs and we think more people would be tempted to let out a spare room to a lodger if rent a room relief was available up to a higher threshold.

2 About Us

- 2.1 The 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 HMRC 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 Introduction

- 3.1 We believe that tax policy is best formulated as a result of thorough and ongoing dialogue rather than last minute consultations which can often result in hastily drafted and ill-considered legislation with unintended consequences. We therefore commend HMT for their approach here in terms of holding roundtables, issuing a call for evidence, etc. before coming up with any firm proposals.
- 3.2 Very broadly, we think it is a good thing that the sharing economy has opened up the holiday lettings market by making it much easier for individuals to offer their homes to tourists who are looking for a more comfortable and personal experience than staying in a hotel can offer them.
- 3.3 We are not convinced that cutting Airbnb type lets out of the scope of the relief is justified under the banner of making it more targeted to support longer term lettings. We do not think that the supply to the original target group is reduced by allowing those offering their room out for shorter term holiday lets (hitherto referred to as ‘Airbnb type’ arrangements as this is the best known of the sharing economy platforms) to benefit in the same way as those offering accommodation for people to live in on a permanent or semi-permanent basis.
- 3.4 While the evidence we have to offer HMT is mainly anecdotal drawn from our own experience and research, we provide some broad comments and thoughts to support our view under the following question headings in the call for evidence:
- Current use of the relief for example, who uses the relief, what kinds of activity are they carrying out, why they might choose to let a spare room, etc.
 - Is the relief working as the Government intends – i.e. to increase the supply and variety of low cost residential housing
 - Evidence/options for reform – for example, should rent a room relief be restricted to letting of over 31 days?

4 Current use of the relief

- 4.1 We know that low-income taxpayers use rent a room relief because of the queries we receive into our website¹ such as the following (both received before the increase to the limit to £7,500):

¹ We have a contact us facility here: <https://www.litrg.org.uk/contact-us>

'I currently earn very little from employment and self-employment therefore receiving tax credits of approx £50/week. Will they be affected if I join the Rent a Room scheme but earn less than £4250/year? Thanks.'

'I totally agree that it is time the Rent a Room scheme threshold were raised, as it is the only way to make ends meet. I suggest that a people's petition be raised to enable this to be aired properly in parliament.'

- 4.2 Interestingly we receive very few technical queries around the availability or operation of the relief from a tax perspective. This leads us to suppose that either people just do not think about tax at all when they let a room in their house, meaning that rent a room is useful in that it helps prevent unintentional non-compliance or that the rules are regarded as so easy to understand and apply that people just do not have any questions. In our experience people on low incomes are far more likely to consider the potential impacts on their tax credits and benefits of letting a room and whether it may affect their council tax charge (if they are claiming the single person discount).
- 4.3 The evidence we have behind the reasons that the low-paid take lodgers is largely anecdotal. We note that Shelter¹ suggest that renting out a room in your home could help you deal with mortgage arrears (similarly, it might also help with costs of the so called 'bedroom tax'²) and that Caroline Abrahams, director of charity Age UK, said in a newspaper interview: 'We know rising costs and loneliness and isolation are major issues for many older people, and this helps to explain why there has been such a big increase in older people wanting to rent out rooms in their homes.'³
- 4.4 Indeed, the financial crisis/'age of austerity' and our ageing population could all help explain the Liverpool Victoria data quoted by HMT in the call for evidence, that the number of people letting out spare rooms has almost doubled between 2009 and 2014, increasing from 1.4% to 2.7% of homeowners.
- 4.5 We have also heard of schemes supported by charities which encourage people to rent out a room to someone otherwise homeless, using the tax benefits of rent-a-room relief amongst the incentives for doing so. Rent a room is also likely to be a factor behind some social care arrangements – those 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.

¹https://england.shelter.org.uk/housing_advice/repossession/taking_in_a_lodger_if_you_have_a_mortgage

² See <https://www.citizensadvice.org.uk/housing/renting-a-home/subletting-and-lodging/lodging/taking-in-a-lodger-what-you-need-to-think-about-first/> – the example of Rupa.

³ <http://www.dailymail.co.uk/news/article-2616372/The-fiftysomethings-beat-loneliness-taking-lodgers-Number-advertising-rooms-increases-40-two-years.html#ixzz56WV5x88D>

- 4.6 We would also like to share the following comment with you (made by a LITRG staff member):

'My daughter took in a lodger under rent a room when she returned to Uni. This was constructive for both parties: as a mature student she needed to be able to pay her mortgage – and this helped. Incidentally it was also helpful to her lodger – a postgraduate student who didn't want to stay in student accommodation (too noisy and too expensive). So rent a room helped train both a primary school teacher and a health professional.'

- 4.7 The emergence of peer-to-peer online room sharing platforms will have made it easier for people to arrange residential lettings. Websites such as easyroommate¹ and spareroom.com² are no doubt fuelling the numbers of people letting out spare rooms, although perhaps are not getting as much attention as the platforms that broker Airbnb type arrangements.
- 4.8 Clearly Airbnb type platforms have also increased the numbers of people letting their rooms to tourists, but we think that (as well as existing businesses taking an innovative approach to advertising) it will be 'fresh blood' into the market – people who are flexible and do not mind having to be sociable with strangers, seizing the opportunity to make a little bit of extra money because they live in an interesting area or have a nice house, rather than 'turncoat' landlords who have historically taken lodgers.
- 4.9 Further, while short term lets can seem lucrative, we think any premium is largely illusory, once you factor in the additional effort and risk involved in renting out properties to tourists, e.g. managing bookings, lumpy income, extra work, for example cleaning, check ins and outs, breakfasts, replacing sheets and pillow cases, writing reviews, etc.
- 4.10 We conclude that most landlords who have historically had lodgers would still opt for long-term over short-term lets. It also does not follow that those who rent their room out to tourists for a few nights a year would be interested in taking a lodger as an alternative.
- 4.11 We therefore think there are largely two mutually exclusive populations of rent-a-room users – those who take a lodger and those who open their home to tourists. We do not have any real insight into figures around each group, but the fact that you can let a room in your house in a simple and tax efficient way will be acting as an incentive to many in both groups.
- 4.12 Cutting short term lets out of rent a room will therefore have a huge impact on many Airbnb 'hosts' but it will also complicate the scheme for those that remain entitled. Given what we have said at the beginning of this section about those currently using the relief against the current backdrop of a housing crisis, particularly in London and the South East where many

¹ <https://uk.easyroommate.com/>

² <https://www.spareroom.co.uk/>

people cannot afford to rent a whole house or flat, let alone buy one, we think anything that disincentives people from taking a lodger should be avoided.

5 Is the relief working as the Government intends?

- 5.1 We understand that increasing the quantity of low-cost rented housing, giving more choice to tenants and making it easier for people to move around the country for work are key objectives of rent a room. But as explained above, we think the ‘problem’ of Airbnb type arrangements taking affordable housing out of the hands of tenants and workers is overstated.
- 5.2 For some in the Airbnb type sector, money worries may be driving their decision to become ‘hosts’. According to a recent Airbnb report,¹ 4% of the listings on their hosts are using Airbnb income to stop their houses being repossessed. This is surely something the Government would want to support and leads us to ask: is the original intended purpose of the relief still the right purpose? One might argue that helping keep people in their own homes is as valid a purpose of the relief as housing supply, particularly with an interest rate rise on the horizon.² If HMT agree with this, there seems little justification for changing the rules to cut these people out of the relief.
- 5.3 Even if there is no such driving factor behind becoming a host, we understand that average rents from Airbnb are not huge – around £3,000 per year.³ If rent a room relief were not available and these people had to pay tax and complete a tax return each year (and considering the knock-on effect on their tax credits award if they are on a low income⁴), we wonder whether they would bother becoming hosts in the first place.
- 5.4 This then has wider implications. For example, it risks giving out mixed messages about the benefits of the sharing economy (as Airbnb say: ‘responsible home sharing is much more resource efficient and environmentally friendly than traditional accommodation...’⁵) and

¹ https://www.airbnbcitizen.com/wp-content/uploads/sites/48/2017/09/Airbnb-UK-Insights-Report_Final_Digital_v3.pdf

² <http://www.bbc.co.uk/news/business-42986729>

³ https://www.airbnbcitizen.com/wp-content/uploads/sites/48/2017/09/Airbnb-UK-Insights-Report_Final_Digital_v3.pdf

⁴ Income covered by rent a room relief is not currently reckoned as income for tax credits (tax credits treatment tends to follow the tax treatment). Cutting rent a room relief would mean that this income would become taxable and would probably be counted for tax credits – meaning a potentially lower tax credits award.

⁵ https://www.airbnbcitizen.com/wp-content/uploads/sites/48/2017/09/Airbnb-UK-Insights-Report_Final_Digital_v3.pdf

does not take into account the fact that having more diversity and variety of low cost holiday accommodation means people staying more within UK, visiting new places and spending money locally.

- 5.5 Even if hosts were not put off by the idea of having to pay tax and self-assessment, given the introduction of the £1,000 property allowance, the tax due would in many cases not be significant and could potentially cost HMRC more to collect than it was worth. Some hosts might even find themselves in a 'loss' situation if they use the standard basis for calculating their profits given the number of expenses that can be deducted from such income. (More generally on the property allowance, we think it would be wise to see what the take up of the allowance is, before making any decisions on rent a room relief.)

6 Evidence/options for reform

- 6.1 Rent a room relief provides a meaningful tax benefit and/or an administrative simplification to those who let rooms and as such, we think the Government should think carefully before changing or removing it.
- 6.2 For a start, we would worry about introducing a 31-day minimum letting period. This would catch arrangements that were intended as longer term lets but for whatever reason did not work out.
- 6.3 Demand for short term lets also comes from a far broader spectrum than just tourists looking to live the life of a local. Corporate and business clients use Airbnb type arrangements¹ and a 31-day minimum would no doubt impact on the number of 'business travel ready' houses available which surely defeats the labour mobility point. There would therefore need to be various 'exemptions' which add complexity and potential loopholes.
- 6.4 As to the question of whether an Irish or French 'purpose of stay' approach should be adopted: introducing a 'residential' (or even 'work' condition) for rent a room relief does not seem workable – or capable of being enforced – in practice and again adds a degree of complexity to what is a fairly understandable policy currently.
- 6.5 However, given there is no doubt a cost consideration behind HMT's call for evidence (even though this is not expressly stated), we think that, as a first step, HMRC could do more to make sure that rent a room relief was being used properly within the current framework. Is rent a room being used for commercial properties, separate annexes, against ground rent for freeholders? Are people factoring in income from extras, such as meals, cleaning, laundry? Are joint owners splitting the relief correctly?
- 6.6 We also think a distinction could be drawn between people making tax-free income from Airbnb type arrangements by letting a room in their house (while they themselves are in

¹ <https://www.airbnb.co.uk/work>

occupation) and those who make tax-free income over a very short period by renting out their entire property.

- 6.7 According to the recent Airbnb report,¹ 55% of the listings on their site are for entire houses – this may be a host’s primary residence which they rent while they themselves go on holiday or it may be a second or holiday home. We wonder how many of these ‘entire house’ hosts are using rent a room relief – either knowingly (but thinking that there is little chance of HMRC catching up with them) or under the mistaken belief their situation is covered?
- 6.8 Rent a room is defined in s786 ITTOIA 2005² as being available when income is received from ‘the use of furnished accommodation in a residence in the United Kingdom... and for some or all of that period the residence is the individual’s only or main residence’.
- 6.9 However, one interpretation of the current legislation (in particular the phrase ‘main residence’) holds that rent a room relief is permitted for entire house rentals.³ People seem to be looking at the guidance in HMRC’s property manual at PIM4015⁴ and claiming relief on the grounds that because they are travelling and staying in temporary accommodation, they have no other main residence throughout the period of the letting and therefore, by definition, the property must be their only or main residence.
- 6.10 We do not think that rent a room relief was intended for use in such situations and thus it should be made clearer by the authorities that rent a room relief should only be used where there is shared occupation of the residence in question.
- 6.11 Provided HMRC also then enforced this position it could help reduce the amount of rent a room relief being paid out. In particular it could cut down on people making £7,500 tax-free ‘super income’ over a very short period by letting a house out for Wimbledon, etc.
- 6.12 These entire house type rentals also seem to be thought of as more problematic for local communities than rental of private rooms in homes, in terms of practical problems such as noise, extra rubbish, parties and because it distorts house prices and displaces locals.⁵ While making changes to other areas of policy, e.g. planning, is probably the best way of dealing

¹ https://www.airbnbcitizen.com/wp-content/uploads/sites/48/2017/09/Airbnb-UK-Insights-Report_Final_Digital_v3.pdf

² <https://www.legislation.gov.uk/ukpga/2005/5/section/786>

³ See discussion here: <https://www.accountingweb.co.uk/any-answers/airbnb-mix-of-rent-a-room-and-whole-property>

⁴ <https://www.gov.uk/hmrc-internal-manuals/property-income-manual/pim4015>

⁵ See this article: <https://theferret.scot/airbnb-growth-tourism-scotland/>

with this issue, ensuring that rent a room relief was not available to be used could also help over time.

- 6.13 Finally, if HMT's aim overall is to promote longer term lettings, then, although counter intuitive, it may actually pay to raise the rent a room allowance.
- 6.14 While LITRG welcomed the increase in the rent a room relief limit to £7,500 per year from £4,250 from 6 April 2016, ideally we would have liked to have seen a one-off increase in the limit to £10,000 per annum, and a commitment to up-rate the limit year on year thereafter.¹
- 6.15 Neither of these things happened, and the upshot is that the amount of the relief (even if it does cover the *average* annual rental price in every area of the UK) is not covering *all* room rates – particularly in London. Per easyroommate's Spare Room Rental Index, renting a room in London can cost as much as £900 pcm,² amounting to over £7,500 a year. High rents in certain parts of the country against the relatively low rent a room level (both current and historic), might help explain the fact that 'HMRC data shows that the number of individuals benefitting from Rent a Room relief and needing to complete a self-assessment tax return has risen by 38% from 2007-08 to 2014-15'.
- 6.16 We think an increase in the rent-a-room relief limit could certainly help incentivise people to let their spare room in London – particularly those individuals who fear being put in self-assessment, if they only need to complete a tax return because of income above the current rent-a-room relief limit. We recognise that this could have other consequences (e.g. for the housing market, etc.), but we think it is an idea that deserves further exploration and analysis.

LITRG

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¹ As set out in our representations here:

https://www.litrg.org.uk/sites/default/files/130220_LITRG_FB13_reps.pdf

² <http://uk.easyroommate.com/s/flatshare-index/>