Rent-a-room relief: CIOT, ATT and LITRG respond to HMRC’s Call for Evidence

Personal tax

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Following a joint member survey, CIOT/ATT and LITRG responded to a call for evidence on rent-a-room relief.

Thank you very much to everyone who contributed to the joint CIOT and ATT rent-a-room survey in February. Almost 700 people took part in the survey. This was a great result and helped to ensure that our responses reflected members’ views.

The survey was launched to gather evidence to enable us to respond to the call for evidence on rent-a-room relief (the call) published by HM Treasury (HMT) in December 2017. The purpose of the call was to provide evidence to explore whether the design of the relief, which was introduced in 1992, provides the right incentives for the rental market as it exists today. HMT has limited information on the use of the relief as the vast majority of users are not in the self-assessment system.

In our survey we invited responses from anyone with experience of rent-a-room relief. The objectives of the survey were to:

- Find out more about the current use of the relief.
- Find out whether the relief is working.
- Find out what potential reforms could be made to the relief.

In addition to the survey, further evidence was provided by the CIOT and LITRG in a roundtable event, while the ATT had a separate meeting with HMT.

The responses to the three main areas of the call can be summarised as follows.

Current use of the relief

Most respondents had between one and nine clients using the relief and reported that the majority of claims they saw were for letting a spare room for longer term lodgers. The survey did not produce any significant evidence that respondents were seeing increasing numbers of claims for the relief, nor did it show a move towards short-term lettings, which is a potential concern for HMT.

As might be expected, the main factor driving the decision to let a room was the need for additional income.

Is the relief working as the government intends?

Most respondents agreed that the relief provided an incentive to let rooms, but were more divided over whether or not such letting would continue if the relief was removed and only the £1,000 property allowance was available.

There were a range of views expressed over what type of letting (long or short term) and types of accommodation (for example spare rooms, annexes) should be eligible for the relief.

A number of respondents highlighted the benefit of the administrative simplification that the relief provided.

Evidence/options for reform

The call asked whether respondents were aware of other systems available outside the UK. In general, respondents to our survey had little experience of similar relief schemes abroad. The ATT included in their response some details of the Irish rent-a-room system after speaking to the Irish Tax Institute. In Ireland, the relief is only available to residential lets and, in general, a claim must be made for the relief.

Given the increasing use of online sharing platforms such as Airbnb, the crucial question in terms of reform was of course whether or not rent-a-room relief should continue to be available to those letting rooms out for holiday accommodation, or if it should be restricted to purely residential lets.

The survey results showed that respondents were very much divided on this point, with 52.6% agreeing that the relief should remain available for holiday

accommodation, and 47.4% feeling it should be restricted to residential lets only.

Other observations

The survey also included questions about the current limit of £7,500 for the relief, and current guidance. Most respondents felt that the current limit was reasonable and covered the majority of circumstances.

Respondents highlighted a variety of areas where it was felt guidance would be improved, particularly in respect of allowing the relief where a property has been temporarily divided.

LITRG

LITRG's submission was based on anecdotal evidence drawn from their experience of rent-a-room relief and other research undertaken.

In it they say they are not convinced that any changes to rent-a-room relief are needed under the banner of making it more targeted to support longer-term lettings. While there is a premium that an 'Airbnb type' let can command, 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. It is therefore LITRG's view that most landlords who have historically had lodgers would still opt for long-term over 'Airbnb type' lets.

Furthermore, they point out that rent-a-room relief is a useful and beneficial relief for low-income taxpayers – who may take a long-term lodger to help them with mortgage costs or to provide companionship, if they are elderly or recently bereaved for example. Complicating the scheme for them, by adding requirements or conditions, is risky, as they may simply choose not to let to lodgers in the first place – with all manner of knock-on effects and implications.

The full text of the responses can be found on the respective websites:

CIOT response

ATT response

LITRG's response