NLA
NATIONAL LANDLORDS ASSOCIATION

Finance Bill 2015-16:

- Impact of clause 24 on private landlords

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About the NLA:

The National Landlords Association (NLA) is the UK's leading organisation for private-residential landlords. It works with almost 60,000 landlords, of which over 27,700 are paying members, ranging from full-time landlords with large property portfolios to those with just a single letting.

NLA membership helps landlords make a success of their lettings business by providing a wide range of information, advice and services.

The NLA campaigns for the legitimate interests of landlords by seeking to influence decision-makers at all levels of government and by making landlords' collective voice heard in the media. It seeks to raise standards in the private-rented sector while aiming to ensure that landlords are aware of their statutory rights and responsibilities.

Background:

The private-rented sector (PRS) is the UK's second largest tenure, serving 19 per cent (4.4 million)[1] of households and comprising of property valued at close to £1 trillion[2] owned by an estimated 1.5 million private landlords.

The sector is subject to relatively low gearing, with approximately £188 billion[3] of outstanding buy-to let finance and an indeterminate amount of commercial lending. Buy-to-let (BTL) mortgages, those specifically intended for the purchase, or re-financing, of residential property for the purpose of running a lettings business, account for approximately 14.4 per cent of all mortgage lending in the UK[4].

Clause 24 of the Finance Bill aims to remove landlords' ability to deduct from taxable income their finance costs related to residential property, replacing this relief with a tax 'reduction' equivalent to the basic rate of Income Tax. In practice this will result in those landlords with an income exceeding the upper threshold of the basic rate will be taxed on a significant portion of their turnover, rather than profit.

The NLA estimates that there are currently 301,283 landlords with BTL mortgages, providing homes for 828,526 rented households. Of those landlords relying on BTL finance approximately 135,089 operate their lettings businesses on a non-incorporated basis and have an income exceeding the threshold for higher rate Income Tax.

Additionally, around 69,878 unincorporated landlords with earnings in excess of the threshold opt for alternative financial products.

Assuming typical house prices, gearing and interest rates, this amounts to a loss of post-tax income in excess of **£858,199,985.28** per year from 2020 across the PRS.

In the context of a typical rental property, this equates to a loss of around £840 per year or 8 per cent of the national average annual rent in the PRS.

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[1] English Housing Survey Headline Report 2013-14, DCLG, February 2015
[2] Savills, January 2014
[3] Council of Mortgage Lenders, December 2014
[4] Council of Mortgage Lenders, April 2015

Objections:

The NLA objects to this policy on two distinct grounds:

(a) Characterization of landlords. Section 1.190 of the Red Book states

“*The current tax system supports landlords over and above ordinary homeowners. Landlords can deduct costs they incur when calculating the tax they pay on their rental income. A large portion of those costs are interest payments on the mortgage. Mortgage Interest Relief was withdrawn from homeowners 15 years ago. However, landlords still receive the relief. The ability to deduct these costs puts investing in a rental property at an advantage”*

This relates landlords, and their investment in property, to owner-occupiers and in doing so claims that the ability of landlords to deduct costs is an advantage over domestic purchasers. This strikes the NLA as odd, given the respective nature of the two activities i.e. meeting housing costs and acquiring an asset with which to conduct business.

(b) Financial detriment. Private landlords operating lettings businesses pay tax on profits after the deduction of legitimate revenue expenses. Currently this includes interest on loans used to buy land or property which is used in the rental business, or on loans to fund repairs, improvements or alterations.

Capping the relief available to private landlords at 20 per cent will have a significant detrimental impact on landlords’ margins and in many cases ability to invest adequately in the material of their portfolios.

The NLA estimates that in 2020, the year that transitional protections end, the cost to landlords will be in the region of £858,199,985.28 with almost 205,000 landlords affected.

This is broadly equivalent to a typical loss of benefit of £1,497 pa per mortgaged property let by a landlord paying higher rate (40 per cent) tax, or £1,872 in respect of those in the additional band.

The NLA believes that the removal of almost £900million from the PRS will endanger the viability of a great many landlords, reduce investment in both housing supply and maintenance while also increasing the likelihood of substantial rent increases as landlords seek to maintain their margins.

Financial Impact:

Combining information obtained by means of the NLA Quarterly Surveys of landlords and tenants, the annual Mintel BTL Mortgages (UK) report and ONS data on household incomes we have been able to identify the extent to which private landlords are likely to be effected by this policy.

Excluding approximately 10 per cent of landlords, who hold their lettings portfolio in a limited company, and acknowledging that 1 in 6 higher rate tax payers are private landlords, we estimate that:

- 126,087 (not-incorporated) private landlords with BTL mortgages are currently higher rate tax payers; and
- 9,002 (not-incorporated) private landlords with BTL mortgages are currently additional rate tax payers.

Additionally, 12 per cent of landlords without BTL finance, have other commercial or authorized residential products in place to finance their portfolios. Of those:

- A further 65,222 (not incorporated) private landlords with non-BTL finance are higher rate tax payers; and
- 4,657 (not incorporated) private landlords with non-BTL finance are additional rate tax payers.

In total the NLA estimates that 204,967 landlords will be effected by this change to the aggregated cost of £858,199,985.28 per year post-2020.

Landlords of residential property report average yields of 5.93[5]. In simple terms this equates to an investment in a property values at £162,000 and an income of £800 per calendar month (pcm).

Using this property as an example, and assuming a typical 75 per cent LTV mortgage at 3.5 per cent interest we can calculate the impact of this policy – illustrated in the following table.

Using this typical property investment, we can see that throughout the transition period the landlord would become increasingly disadvantaged, tax liability increases and ability to make a net return diminishes.

Assuming all other factors remain constant, this will eventually result in an additional cost to the landlord of £850.50 per year in relation to this single property.

In order to maintain roughly the same post-tax income[6] in relation this property the landlord would need to increase the rent £1,415.04 per year or £117.92 per calendar month.

In this case, this would equate to an annual rent increase of 14.72 per cent which is significantly higher than the current GB average of 2.5 per cent.[7]

[5] NLA Quarterly Landlords Survey, BDRC Continental Ltd, Q2 2015
[6] Pre-change income of £48,058 versus. £48,056.50 following an increase of £1,415.04.
[7] Index of Private Housing rental Prices, Office for National Statistics, June 2015

	BASELINE (2015/16)		**2015/16**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
INCOME							
Earned Income (Salary etc.)	**£50,000.00**		£50,000.00	£50,000.00	£50,000.00	£50,000.00	£50,000.00
Rental Income	**£9,600.00**		£9,600.00	£9,600.00	£9,600.00	£9,600.00	£9,600.00
COSTS							
Revenue Expenses (excl. finance costs)	**£500.00**		£500.00	£500.00	£500.00	£500.00	£500.00
Loan Interest	**£4,252.50**		£4,252.50	£4,252.50	£4,252.50	£4,252.50	£4,252.50
Other Deductible Expenses	**£500.00**		£500.00	£500.00	£500.00	£500.00	£500.00
ALLOWANCES & RELIEFS							
Personal Allowance	£10,600.00		£10,600.00	£10,600.00	£10,600.00	£10,600.00	£10,600.00
Deductible Loan Interest	£4,252.50		£4,252.50	£3,189.38	£2,126.25	£1,063.13	£0.00
Loan Interest 'Reduction' (post-2020)	N/A		£0.00	£212.63	£425.25	£637.88	£850.50
INCOME TAX							
Taxable Income	£44,747.50		£44,747.50	£45,810.63	£46,873.75	£47,936.88	£49,000.00
Basic Rate - *Due*	£6,357.00		£6,357.00	£6,357.00	£6,357.00	£6,357.00	£6,357.00
Higher Rate - *Due*	£5,185.00		£5,185.00	£5,610.25	£6,035.50	£6,460.75	£6,886.00
Additional Rate - *Due*	£0.00		£0.00	£0.00	£0.00	£0.00	£0.00
Total Tax Bill	**£11,542.00**		**£11,542.00**	**£11,754.63**	**£11,967.25**	**£12,179.88**	**£12,392.50**
Effect of Budget	**N/A**		**£0.00**	**-£212.63**	**-£425.25**	**-£637.88**	**-£850.50**
TAX BANDS (2015/16)							
Personal Allowance	*£10,600.00*		*£10,600.00*	*£10,600.00*	*£10,600.00*	*£10,600.00*	*£10,600.00*
Basic Rate Limit	*£31,785.00*		*£31,785.00*	*£31,785.00*	*£31,785.00*	*£31,785.00*	*£31,785.00*
Higher Rate Threshold	*£42,385.00*		*£42,385.00*	*£42,385.00*	*£42,385.00*	*£42,385.00*	*£42,385.00*
Additional Rate Threshold	*£150,000.00*		*£150,000.00*	*£150,000.00*	*£150,000.00*	*£150,000.00*	*£150,000.00*

Recommendations:

(i) Remove clause 24 of the Finance Bill 2015-16 on the basis that it will lead to increased housing costs during an affordability crisis.

Mortgage interest, and associated costs, are legitimate revenue expenses which should be deducted from income prior to calculating tax liability. This is the case in other areas of business and there is no credible justification for removing the ability from private landlords.

To remove tax relief from private-landlords in this manner will jeopardize landlords' businesses and put the affordability of housing at risk in many parts of the UK.

(ii) Amend clause 24 to ensure that only consumer landlords are effected.

The Chancellor's Budget Statement, and the subsequent wording of clause 24 characterizes landlords as consumers, on a par with homeowners. The NLA believes this is inconsistent with HM Treasury's recent implementation of the EU Mortgage Credit Directive by means of the Mortgage Credit Directive Order 2015[8], which states:

> *(4) For the purposes of this Part, a borrower is to be regarded as entering into an agreement for the purposes of a business carried on, or intended to be carried on, by the borrower if the agreement is a buy-to-let mortgage contract and—*
>
> *(a)*
>
> *(i) the borrower previously purchased, or is entering into the contract in order to finance the purchase by the borrower of, the land to which the agreement relates;*
>
> *(ii) at the time of the purchase the borrower intended that the land would be occupied as a dwelling on the basis of a rental agreement and would not at any time be occupied as a dwelling by the borrower or by a related person, or where the borrower has not yet purchased the land the borrower has such an intention at the time of entering into the contract; and*
>
> *(iii) where the borrower has purchased the land, since the time of the purchase the land has not at any time been occupied as a dwelling by the borrower or by a related person; or*
>
> *(b) the borrower is the owner of land, other than the land to which the agreement relates, which is—*
>
> *(i) occupied as a dwelling on the basis of a rental agreement and is not occupied as a dwelling by the borrower or by a related person; or*
>
> *(ii) subject to a mortgage under a buy-to-let mortgage contract.*

[8] The Mortgage Credit Directive Order 2015, made 25 March 2015

The same legislation introduces the concept of 'Consumer Buy-to-Let' (CBTL) for those individuals for whom the financing of residential property is not a business decision.

It appears eminently logical that it is these 'consumer' borrowers who may be legitimately characterised as comparable to owner-occupiers while those borrowers "*entering into an agreement for the purposes of a business carried on, or intended to be carried on"* are clearly businesses and should be subject to the same opportunities to deduct revenue expenses.

The relevant FCA lending standards[9] are expected to come into force on 21 March 2016, ahead of the transition detailed in the Red Book, reinforcing the distinction between 'consumer' and 'business' buy-to-let.

(iii) Amend clause 24 to encompass only finance written after April 2016, therefore allowing landlords to plan their investments accordingly.

Landlords, and financial institutions with a financial interest in let property, plan their involvement in the PRS based on an informed assessment of the likely returns. Clause 24 will significantly alter the possible returns available to landlords reliant on secured finance.

Likewise lenders assess the viability of applications for finance (primarily BTL mortgages) on the basis of minimum rental cover. Typically a landlord will be required to demonstrate that the achievable rent will exceed 125 per cent of a nominal interest rate applied to the principle. Arguably this could appear to retroactively breach the terms of lending associated with certain lending products approved before the announcement.

It is very likely that the reaction of the majority of lenders in this marketplace will be to increase the minimum rental cover requirements considerably – thereby restricting lending in lower yield areas and those where rent levels are less robust.

Restricting the scope of this policy to new finance, applied for after its implementation, would allow the Government to achieve its objective of reducing alleged competition between owner-occupiers and landlords in the future, without causing financial detriment to landlords or lenders already committed to particular investments or assets.

(iv) Mitigate the impact of clause 24 by providing a tax efficient means for landlords to restructure their portfolios; thereby reducing the effect the policy is likely to have on housing costs.

If landlords' ability to deduct from taxable income their finance costs related to residential property is restricted in the manner described by clause 24 of the Finance Bill 2015-16, it is likely that:

(a) A small, but significant, proportion of landlords will find their business plans are no longer viable, precipitating a need to dispose of some or all of their portfolio.

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[9] PS15/11: Buy-to-let mortgages – implementing the Mortgage Credit Directive Order 2015, feedback on CP15/3 and final rules, FCA, 2015

(b) A larger proportion of landlords will need to restructure their portfolios to account for the reduced tax efficiency of private residential property in relation to lettings.
(c) Previously unincorporated, but committed landlords will seek to professionalize their business by transferring assets into a limited company.

However, it is quite likely that some landlords will find themselves unable to dispose of property efficiently, or in manner which is sufficiently cost-effective to enable their business to remain viable.

Consequently the NLA proposes three measures which, if implemented, would facilitate the restructuring of private portfolios, ease the transfer of stock between tenures and not substantially reduce the Exchequer's income.

(1) Introducing a Capital Gains Tax (CGT) taper to facilitate disposal of poorly performing property.

When surveyed about this issue, 10 per cent of NLA members suggested they would sell their properties and leave the PRS. However, in a subsequent survey of 977 private landlords 35 per cent declared that they had 'delayed' selling property because of the implications of CGT and 29 per cent added that they feel unable to retire because of the CGT they will have to pay.

The NLA believes that this situation benefits no-one as property is retained by landlords who would prefer to release the equity they have built up, preventing them from contributing to the wider economy in the form of spending. Further, as the effect of this proposals becomes apparent those landlords who would otherwise prefer to sell will have less available funds to invest in existing property; thereby increasing the risk of cumulative disrepair and falling standards in the PRS.

During the last 25 years of investment in the PRS, during which time the sector has grown from around 8 to 19 per cent of households, there has been significant house price growth resulting in some landlords experiencing substantial gains.

Using the figures collated by the Nationwide Building Society[10] *(appendix 1)* it is evident that landlords who have held residential property for a number of years are likely to have a significant CGT liability.

Of those with finance, whose incomes currently exceed the basic rate threshold we estimate that approximately 20,497 landlords will seek to dispose of their portfolios directly as a result of this policy.

Assuming a typical portfolio, containing 5.2 mortgaged properties, we estimate that

- A typical portfolio will contain gains of approximately £239,292.20; resulting in
- A CGT bill of £63,893.82 (After deduction of the annual tax free allowance and assuming a 28 per cent rate of CGT)
- Across all 20,497 landlords seeking disposal this equals £1,309,631,628

The manner in which CGT is applied fails to recognize the difference between landlords' long-term holding of property as a business asset and short-term speculative trading.

[10] Nationwide House Price Index, Nationwide Building Society, Q1 2015

Throughout the lifetime of a property investment landlords will contribute significantly to the Exchequer, and to an increasing extent following the restriction of this relief. This differentiates their activity from that of short-term trading.

Consequently the NLA believes that it would be appropriate to introduce a taper, proportionate to the time a property has been held, and in so doing, avert the potential issues related to landlords unable to sell.

Property held for a period of less than 5 years would not qualify, however longer term holdings would be subject to an increasingly generous taper – reducing CGT liability to a maximum of 50 per cent for property held for more than 10 years.

Time Property held	**Proposed Taper**
Held for >10 years	50%
9 years	40%
8 years	30%
7 years	20%
6 years	10%
5 years	5%
<5 years	0%

For example a landlord selling a property bought 3 years ago would pay CGT on 100% of any gains made (after deductions), where as a landlord selling a similar property after 9 years would pay 60 per cent of the relevant gain.

Additionally, when the increased revenue derived from restriction of finance costs relief and the SDLT income from purchasers, such a taper would not represent a significant shortfall for the Exchequer.

Assuming typical property values and portfolio holdings, were these 20,497 landlords motivated to sell, around 106,583 properties would be released to the market, valued at approximately £17,053,266,432. Approximating the split of newly acquired and those held for a longer period (see appendix 2 for breakdown) this would release an estimated gain of £4,904,772,274.64 resulting in a post-taper tax revenue in the region of £765,698,968.71.

These properties would be free to be purchased by other landlords, looking to expand their portfolios and taking into account the new fiscal environment or owner-occupiers purchasing a new home – consequently generating upwards of £74,608,041 of SDLT revenue.

From 2020, the NLA estimates that the restriction of finance cost relief will generate an additional £858,199,985.28 per year in Income Tax revenue.

Motivating 10 per cent of landlords to sell, would reduce this by a potential £85,819,995.53 to £772,379,986.75. However even after the reduction created by introducing a taper is taken into account the Exchequer will stand to increase revenue by £765,698,968.71.

A CGT Taper in Numbers:

- £765,698,968.71 CGT Revenue
- £74,608,041.00 SDLT Revenue
- £85,819,995.53 ***Reduction*** in Income Tax from exiting landlords

- £754,487,014.18 Stimulated revenue, excluding the added benefits of increases economic activity.

(2) Extending business asset roll-over relief to allow restructuring of portfolios.

A landlord whose portfolio is leveraged is likely to maintain relatively high gearing in order to maximize his or her Income Tax efficiency. However, the changes encapsulated in clause 24 greatly reduce this efficiency and may necessitate the restructuring of their portfolio to reduce its size, re-investing equity in remaining stock. This will reduce the landlord's gearing and subsequently their exposure to this change.

Unfortunately, landlords are currently discouraged from selling property in order to reinvest by virtue of the existing CGT mechanism. Unlike many other businesses, landlords are unable to take advantage of the business asset roll-over.

Roll-over Relief is explained by the Taxation of Chargeable Gains Act 1992 as applying:

If the consideration which a person carrying on a trade obtains for the disposal of, or of his interest in, assets ("the old assets") used, and used only, for the purposes of the trade throughout the period of ownership is applied by him in acquiring other assets, or an interest in other assets ("the new assets") which on the acquisition are taken into use, and used only, for the purposes of the trade, and the old assets and new assets are within the classes of assets listed in section 155, then the person carrying on the trade shall, on making a claim as respects the consideration which has been so applied, be treated for the purposes of this Act—

> *(a)as if the consideration for the disposal of, or of the interest in, the old assets were (if otherwise of a greater amount or value) of such amount as would secure that on the disposal neither a gain nor a loss accrues to him, and*
>
> *(b)as if the amount or value of the consideration for the acquisition of, or of the interest in, the new assets were reduced by the excess of the amount or value of the actual consideration for the disposal of, or of the interest in, the old assets over the amount of the consideration which he is treated as receiving under paragraph (a) above,*

but neither paragraph (a) nor paragraph (b) above shall affect the treatment for the purposes of this Act of the other party to the transaction involving the old assets, or of the other party to the transaction involving the new assets[11]*.*

As rental income is considered to be unearned, and consequently not by means of trading activity (defined by the Income Tax Act 2007), landlords may not defer their CGT liability when disposing of assets to invest in new or existing rental property.

The NLA believes that extending Business Asset Roll-over Relief to the sale of residential property, used exclusively for the purposes of a lettings business would:

[11] Taxation of Chargeable Gains Act 1992, s152

(a) Facilitate the sale of property, and subsequently greater mobility between tenures.
(b) Allow landlords to reduce the gearing of their portfolios, therefore protecting against market shocks and improving stability.
(c) Mitigate the impact of the policies outlines in clause 24 of the Finance Bill 2015-16, thereby reducing the inflationary impact on rent levels.

(3) Removing barriers to incorporation.

Some private landlords operate their lettings in a fashion closely aligned to investment activity, delegating management responsibility to a professional third party and spending little time actively managing their lettings portfolios.

However, a significant proportion of private landlords activity run lettings business as either their sole or secondary occupation. It is therefore inappropriate that the income derived from this activity be considered 'unearned' and thereby excluded from various provisions aimed at facilitating business stability and growth.

Until recently, a large proportion of portfolio landlords have opted not to incorporate their businesses for tax efficiency purposes. It is likely that clause 24 will alter the balance of costs and benefits for many landlords, incentivizing the incorporation of their businesses.

The incorporation of a larger volume of lettings businesses would appear beneficial to the Government's objective of improving the professionalism and visibility of private landlords and well as fuelling the growth of small business. However, the transition of a portfolio from privately held to enveloped in a limited company has many financial barriers and a distinct lack of statutory certainty.

In order to remove the financial barriers to incorporation, for those individuals with a pre-existing portfolio, statute should provide certainty for landlords that incorporation relief will be available provided certain appropriate trading criteria are met.

As the contradictory tribunal cases of Ramsay vs. HMRC (2012) and (2013) demonstrate there is little clarity concerning this matter, primarily because no statutory definition of business exists for CGT purposes.

The NLA believes that by defining what level of activity constitutes a 'business' for this purpose uncertainty could be removed from the market, a clear distinction could be made between investment and letting by way of business and landlords would be better motivated to assume appropriate tax structures.

Appendix 1:

PURCHASE YEAR	TYPICAL PURCHASE PRICE	ASSUMED 2015 VALUE	GAIN
1990	£58,982.00	£188,566.00	£129,584.00
1991	£55,418.00	£188,566.00	£133,148.00
1992	£52,663.00	£188,566.00	£135,903.00
1993	£51,918.00	£188,566.00	£136,648.00
1994	£51,362.00	£188,566.00	£137,204.00
1995	£51,633.00	£188,566.00	£136,933.00
1996	£53,032.00	£188,566.00	£135,534.00
1997	£58,403.00	£188,566.00	£130,163.00
1998	£65,221.00	£188,566.00	£123,345.00
1999	£70,010.00	£188,566.00	£118,556.00
2000	£81,202.00	£188,566.00	£107,364.00
2001	£87,638.00	£188,566.00	£100,928.00
2002	£103,501.00	£188,566.00	£85,065.00
2003	£125,382.00	£188,566.00	£63,184.00
2004	£148,462.00	£188,566.00	£40,104.00
2005	£157,494.00	£188,566.00	£31,072.00
2006	£165,035.00	£188,566.00	£23,531.00
2007	£181,810.00	£188,566.00	£6,756.00
2008	£174,514.00	£188,566.00	£14,052.00
2009	£154,066.00	£188,566.00	£34,500.00
2010	£168,719.00	£188,566.00	£19,847.00
2011	£166,764.00	£188,566.00	£21,802.00
2012	£164,955.00	£188,566.00	£23,611.00
2013	£167,294.00	£188,566.00	£21,272.00
2014	£186,544.00	£188,566.00	£2,022.00

Appendix 2; Calculations & Assumptions

Time Property held	**Proposed Taper**	**Proportion of Property (Assumption)**	**Typical Gain**	**Post Taper Liability**	**Number of Sales**	**Value of Gain (no taper)**	**Value of Gain (with taper)**	**Difference**
Held for >10 years	50%	30%	£109,045.94	£54,522.97	27127.548	£2,958,148,903.74	£1,479,074,451.87	-£1,479,074,451.87
9 years	40%	10%	£23,531.00	£14,118.60	9042.516	£212,779,444.00	£127,667,666.40	-£85,111,777.60
8 years	30%	10%	£6,756.00	£4,729.20	9042.516	£61,091,238.10	£42,763,866.67	-£18,327,371.43
7 years	20%	10%	£14,052.00	£11,241.60	9042.516	£127,065,434.83	£101,652,347.87	-£25,413,086.97
6 years	10%	10%	£34,500.00	£31,050.00	9042.516	£311,966,802.00	£280,770,121.80	-£31,196,680.20
5 years	5%	10%	£19,847.00	£18,854.65	9042.516	£179,466,815.05	£170,493,474.30	-£8,973,340.75
<5 years	0%	20%	£17,176.75	£17,176.75	18085.032	£310,642,073.41	£310,642,073.41	£0.00
Total	**N/A**	**N/A**	**N/A**	**N/A**	**90425.16**	**£4,161,160,711.12**	**£2,513,064,002.30**	**N/A**

COMPOSITION OF NOMINAL PORTFOLIO					
Time Property held	**Proportion of Property (Assumption)**	**Typical portfolio size**	**Proportion within typical portfolio**	**Value of component Gain**	**Value of component gain (with taper)**
Held for >10 years	30%	5.2	1.56	£170,111.66	£85,055.83
9 years	10%	5.2	0.52	£12,236.12	£7,341.67
8 years	10%	5.2	0.52	£3,513.12	£2,459.18
7 years	10%	5.2	0.52	£7,307.04	£5,845.63
6 years	10%	5.2	0.52	£17,940.00	£16,146.00
5 years	10%	5.2	0.52	£10,320.44	£9,804.42
<5 years	20%	5.2	1.04	£17,863.82	£17,863.82

TYPICAL PORTFOLIO GAIN	£239,292.20				
TYPICAL PORTFOLIO GAIN (WITH TAPER)	£144,516.56				
	Value of Potential Gain	**CGT (@28% - free allowance)**	**Value of Potential gain (with taper)**	**CGT (@28% - free allowance)**	**Potential Difference (Exchequer)**
Typical Portfolio	£239,292.20	£63,893.82	£144,516.56	£37,356.64	**-£26,537.18**
Across 17,389.45 landlords	£4,161,159,790.76	£1,111,078,330.81	£2,513,063,446.47	£649,611,354.41	-£461,466,976.40
Across 20,497 landlords	£4,904,772,274.64	£1,309,631,560.90	£2,962,155,873.95	£765,698,968.71	-£543,932,592.19
	BTL	**BTL & Commercial**			
Proportion of landlords who claim they will exit	0.10	0.10			
Number of exiting landlords	17,389.45	20,496.71			
Mortgages Redeemed by exit	90,425.16	106,582.92			
Value of Sold Property (assuming one BTL per property)	£14,468,025,600.00	£17,053,266,432.00			
Estimated SDLT on re-purchases	**£63,297,612.00**	**£74,608,040.64**			

Motivating sale (property value) = £4,904,772,274.64
Reduction in Take from Taper = -£543,932,592.19
Gain from SDLT on purchases = £74,608,040.64
Reduction in Income Tax Revenue = £85,819,995.53
Remaining Additional Revenue = £754,487,014,.18

Background Sources & Assumptions			
		Source	
PRS Size (Households)	4,400,000.00	*English Housing Survey*	
Market size (landlords):	1,600,000.00	*DCLG*	
Households per landlord	2.75	*Extrapolation*	
Proportion paying income tax on rental income:	0.90	*NLA Survey*	
Number of BTL Mortgages:	1,566,666.67	*Extrapolation*	
Value of Mortgages:	188,000,000,000.00	*CML 12/14*	
Number of higher rate tax payers:	4,650,000.00	*Survey of Personal Incomes - ONS*	
Number of Additional rate tax payers:	332,000.00		
Proportion of higher (+) rate tax payers who are landlords:	0.160	*Mintel BTL March 2015*	
Average Property Value:	160,000.00	*NLA Survey*	
Typical LTV:	0.75	*Assumption*	
Typical product rate:	0.033	*NLA Survey*	
Average Rent (PCM):	648.000	*NLA Tenant Survey*	
Average Rent (Annual):	7,776.00	*NLA Tenant Survey*	
Average Mortgage Principal:	120,000.00	*Assumption*	
Base Rate	0.20	*HMRC*	
Higher Rate	0.40	*HMRC*	
Top Rate	0.45	*HMRC*	
Mortgages per landlord	5.20	*NLA Survey*	
Proportion landlords with BTL	0.19	*Extrapolation*	
Time as landlord	14 years	*NLA survey*	
Avg. House Price Q2 2001	103,501.00	*Nationwide*	
Avg. Capital Gain	56,499.00		
Proportion of landlords without BTL but with other finance	0.12	*NLA Survey*	

Underlying Assumptions							
	No. Landlords	**Households**	**BTL Finance**	**Annual Interest**	**Disbenefit post-2020**	**Disbenefit per h'hold**	**Monthly Disbenefit per h'hold**
Landlords with BTL mortgages	301,282.05	828,525.64	£188,000,000,000.00	£6,204,000,000.00	N/A	N/A	N/A
landlords in higher tax band (Not incorporated)	669,600.00	1,841,400.00	N/A	N/A	N/A	N/A	N/A
landlords in additional tax band (Not incorporated)	47,808.00	131,472.00	N/A	N/A	N/A	N/A	N/A
Landlords in higher band with BTL mortgages (Not incorporated)	126,086.54	346,737.98	£78,678,000,000.00	£2,596,374,000.00	£519,274,800.00	£1,497.60	£124.80
Landlords in additional band with BTL mortgages (Not incorporated)	9,002.31	24,756.35	£5,617,440,000.00	£185,375,520.00	£46,343,880.00	£1,872.00	£156.00
Landlords in higher band with other finance (Not incorporated)	65,221.62	179,359.44	£40,698,288,000.00	£1,343,043,504.00	£268,608,700.80	£1,497.60	£124.80
Landlords in additional band with other finance (Not incorporated)	4,656.68	12,805.88	£2,905,770,240.00	£95,890,417.92	£23,972,604.48	£1,872.00	£156.00
Total Affected	204,967.14	563,659.65	£127,899,498,240.00	£4,220,683,441.92	£858,199,985.28		