Private Landlords and Tax Changes

A report by LSE London
For the National Residential Landlords Association

November 2021
Kath Scanlon, Christine Whitehead and Fanny Blanc

LSE London

NRLA NATIONAL RESIDENTIAL LANDLORDS ASSOCIATION

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The research

The aim of this research is to draw out the implications of recent tax changes and of the Covid pandemic for the English private rented sector by analysing their impact, landlords' potential responses and how the system compares with comparable economies.

The research was sponsored by the National Residential Landlords Association. We are also grateful to the Tenancy Deposit Scheme for facilitating the empirical research.

The tax changes

The changes in taxation since 2015 include:

- keeping CGT for rented property at 28% when it was reduced to 18% for other assets;
- requiring landlords to pay this CGT within 30 days of the sale;
- introducing a 3% stamp duty tax on purchases on non-principal homes;
- for individual landlords replacing marginal rate mortgage tax relief by a 20% tax credit.

There have also been other more minor tax changes, as well as significantly increased regulation in some areas. Corporation tax for companies will go up from 19% to 25% from 2023.

What the landlords said

The main findings of our survey of some 1400 landlords currently active in England showed: that large proportions of landlords were concerned about the cumulative effect of **tax changes**.

Landlords saw the change from mortgage interest rates to 20% credit as the most important tax change with 33% seeing it as significant to the operation of the landlord business.

The 3% SDLT surcharge came second, with 27% of landlords seeing it as significant; followed by changes in the treatment of furniture and fittings - 26% - and in the capital expenditure allowance - at 24%.

Overall 11% of landlords thought that the tax changes had made a *decisive* impact on their own plans; a further 15% thought they had made a *major* impact; and another 26% thought there had been some impact. Only 30% said their plans had not been affected.

Those who identified the changes to mortgage tax relief (section 24) and to capital gains tax as significant were asked *how* each tax change had affected their landlord business:

- 39% said they were not proceeding with planned future purchases;
- 31% said they had put plans on hold;
- 28% said they were taking steps to leave the sector;
- 15% were restructuring their business.

Importantly **Covid** was seen as a much less important problem - only 3% thought it had made a decisive impact; 7% a major impact; and 23% some impact; while 49% had made no change of plan.

Former landlords: why they left

Some sixty former landlords responded to the questionnaire. They were a relatively experienced group many of whom had invested before 2005 and withdrawn since the tax changes.

Their main reasons for leaving the sector were rising costs, tax changes and potential regulatory change.

Potential restructuring

Under the new tax regime new entrants and those buying additional units have an incentive to make acquisitions through a company. But landlords with existing properties who transfer into a business must sell and pay the capital gains tax within 30 days. This makes restructuring unattractive.

But being an individual landlord has also become unattractive so on tax grounds alone investment among this group is likely to decline. Other facts, notably continuing increases in house prices, could offset this downward pressure.

Comparing tax regimes

The growth in the private rented sector in England is matched by many other comparable countries.

In almost all the countries in our survey landlords of all types are treated as investors and so able to claim a variety of costs – notably mortgage interest – against their revenues.

in most countries in our survey there are differences in taxation between individual and company landlords. Individual landlords generally pay income tax net of costs at progressive rates, while companies pay corporation tax often as a standard rate.

Mainly as a result of the changes since 2015, England's taxation system now lies at one end – the ungenerous one - of the spectrum in terms of landlord tax regimes.

England is also an exception in having experienced so many tax changes especially given they impact negatively on returns.

Comparing regulatory regimes

The regulatory regime in England he UK with respect to rent determination and security of tenure also lies at one end of the spectrum. It is one of the least regulated systems among the countries we surveyed.

In most European countries there are longer tenancies – often indefinite; and with some limitations on how much the rent may change within a tenancy. Overall there is a tendency to see increased regulation.

New Zealand’s experience is particularly relevant to England’s because their system mirrored our own but has now been changed to a system of periodic tenancies which can only be terminated by the landlord for good reason.

Conclusions

Individually and cumulatively, the recent tax changes have reduced the incentive to be a landlord in England. But predicting the timing and magnitude of the effects on landlord behaviour—and on the sector itself--is challenging, as is assessing them in retrospect.

Equally other factors such as changes in regulation or the rate of inflation or house prices may enhance or offset some of these pressures. Differentiating the various incentives cannot be done easily and we lack the detailed data required to build formal statistical models.

1. Introduction

This research addresses the first strand of a three-strand NRLA research programme launched in 2021 which is looking to address: (i) the impact of tax policy on landlords (ii) understanding the motivations and goals of different groups of landlords and (iii) the economic contribution of the PRS to the wider economy. The RLA and NLA, the two predecessor organisations of the NRLA, have a strong history of commissioning research into the private rented sector[1].

The views expressed in this report are those of the authors and do not necessarily reflect those of the NRLA.

The core objectives of this research are first to understand how changes since 2015 in the taxation of transactions, income and capital gains from private rented property have affected landlords' business models and incentive structures and how landlords might respond to those changed incentives; and second to examine how landlord taxation in England compares to systems in other comparable economies. A third objective, particularly given the timing of this research, which was from April to October 2021, has been to clarify landlord views on the relative importance of recent tax changes as compared to the impact of Covid on their business decisions.

Background: Changes in the taxation of landlords

There have been a number of changes in the taxation of landlords in the last five years. Broadly the changes resulted in landlords paying higher taxes. The main changes are listed below. The first set affect all private landlords, whether they own as companies or individuals/couples.

- Maintaining the capital gains tax (CGT) for rented property at 28%, when it was reduced to 18% for other assets 'to provide an incentive for individuals to invest in companies over property' (HMRC 2016)
- Introduction of a 3% Stamp Duty Land Tax on purchases of residential property other than principal homes (2016) 'to try and redress the balance between those who are struggling to buy their first property and those who are able to invest in additional properties' (HM Treasury 2016)
- Requirement to pay CGT on residential property sales within 30 days of sale (previously payable by those submitting self-assessment tax returns [that is, non-company landlords] up to 22 months post-sale) (in the Finance Act 2019; introduced 2020).

Other changes affect only those who own their rental properties outside a company framework. The majority of UK private landlords are in this category. These include

- withdrawal of tax relief on mortgage interest at the landlord's marginal rate, and replacement with a 20% tax credit (phased in over four years from 2017)

[1] See for example Prof Michael Ball's research for the RLA including *The impact of regulation on the private rented sector* (2014) and *Investing in private renting* (2011).

- Rise in corporation tax from 19% to 25% from 2023, which will affect company landlords only (announced March 2021).

There are some longstanding differences in the tax treatment of landlords versus other types of business. In some cases, these reflect the assumption that rental returns are passive income. For example, rollover reliefs on capital gains tax are available for businesses in many sectors and indeed for furnished holiday lets, but not for residential landlords.

Taxation changes have been introduced piecemeal over a period of several years and do not seem to represent a coherent policy approach to the sector. The aim of the SDLT surcharge was to promote owner-occupation by reducing landlords' competitive position with (especially) first-time buyers, and retaining CGT at 28% was intended to dis-incentivise investment in residential property. Some changes were introduced without explicit expression of goals and seem to be mainly about revenue raising. Others are not specific to private renting but impact on incentives to invest and on potential returns.

Methodology

The study had a two-part research process. The first part consisted of an online survey of English landlords, focusing on the effects of tax changes and Covid on their businesses. The second consisted of a desk-based review and analysis of taxation in western economies plus a short survey. The overall intention is to provide evidence on the likely effect of tax and policy changes on the supply of privately rented housing in England.

The detailed research questions and a full discussion of methodology appear in Annex A.

2. Evidence about the effects of tax changes on landlords

To meet our objectives of understanding of how landlords have responded to the evolving changes in taxation since 2015 and other pressures that they have experienced notably as a result of the Covid pandemic we undertook an online survey of private landlords with properties in England. The goal of the survey was to collect robust evidence about how these recent tax changes and other factors that had affected the business models of private landlords, and whether and how their future intentions had changed as a result. We also collected information from *former* landlords about what had conditioned their decision to leave the sector.

The survey was administered between 26 July and 15 August 2021. We worked with the National Residential Landlords Association (NRLA) and the Tenancy Deposit Scheme, who sent emails to current members/customers inviting them to take part in the online survey. The NRLA also sent invitations to previous members who had left the organisation, as this group was likely to include some former landlords[2].

The survey was open from 18 July to 15 August 2021. There were 1384 responses from current landlords and 61 from former landlords. It was not possible to determine precisely how many responded respectively to the NRLA and TDS approaches, but based on the timing of the survey responses it appears that most were from the TDS.

There were 1564 answers in total, of which 1476 were complete enough to use. By comparison the most recent large-scale government survey of landlords and agents had 7823 responses, of which 6196 were from landlords (MHCLG 2019).

The survey was aimed not just at active but also at former landlords, as we wanted to explore the reasons behind former landlords' decisions to leave the sector. Some 94% of respondents were currently active as landlords, with one or more units in England (Table 2.1).

Table 2.1 Current status of landlord business in England

Current landlord w/unit(s) in England	1384	94%
Former landlord of unit(s) in England	61	4%
Current landlord w/unit(s) outside England	31	2%

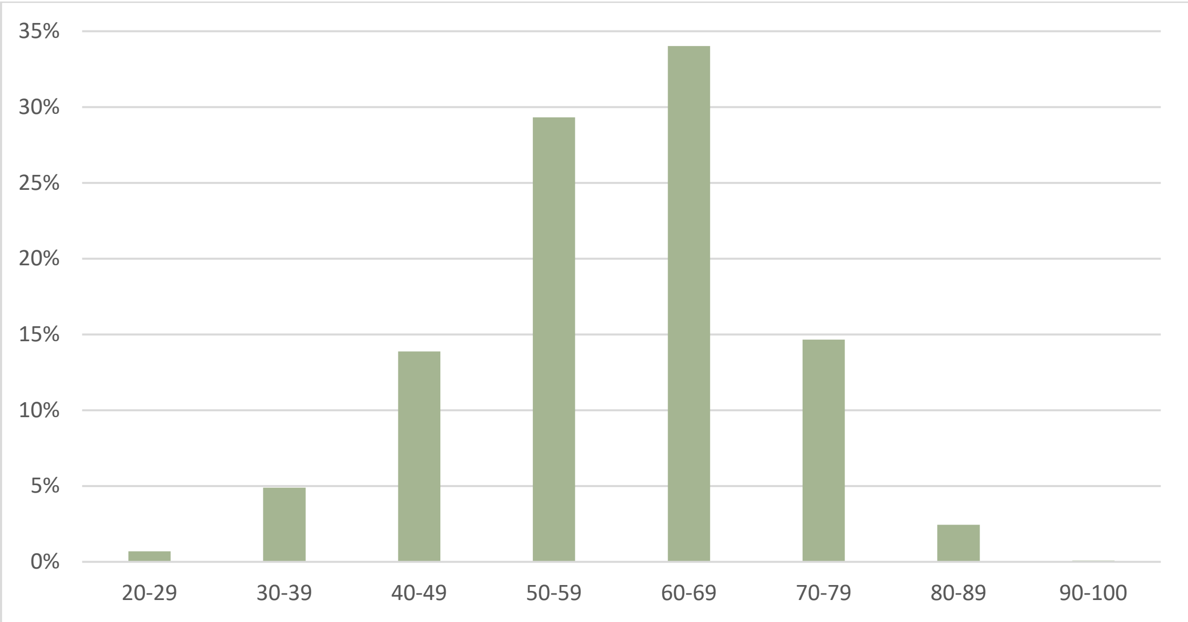
Profile of active landlords and their portfolios

Respondents to our survey were on average nearing or over retirement age, with 51% aged 60 or over and 80% over 50 (Figure 2.1).

[2] A full description of the research methodology, including the survey methodology, can be found in Annex A. We are very grateful to the TDS and the NRLA for their help in administering the survey.

Figure 2.1 Landlord age

(n=1146)



Half of landlords said their lettings business accounted for 30% or less of their household income. Other major sources of income were employment (42%) and pensions (39%).

Most respondents operated at a small scale, with 51% owning only one or two units. At the other end of the spectrum, 14 respondents (1%) had more than 50 units. This distribution follows the pattern seen in the Private Landlords Survey and other surveys of landlords: the largest group is made up of those owning a single property, and as the number of properties rises the number of landlords falls.

Table 2.2 Number of units owned by active landlords

(n=1355)

Number of units	%
1	32%
2	19%
3	13%
4-10	25%
11-25	6%
26-50	2%
More than 50	1%
Would rather not say	1%

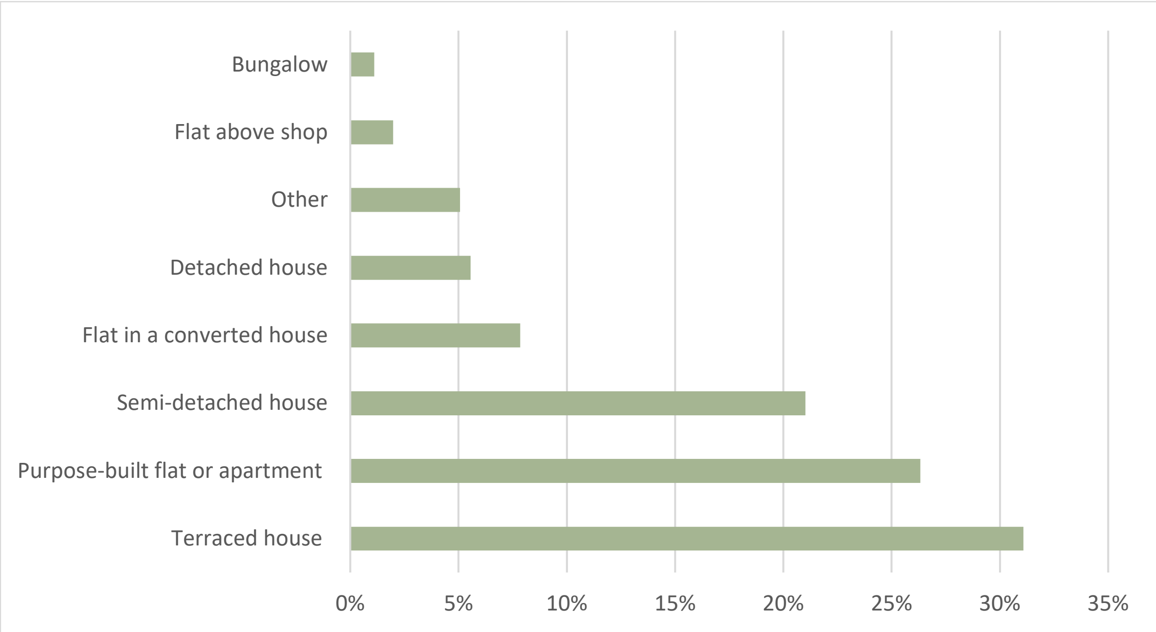
Many of the survey questions related to single dwellings. Respondents who owned more than one property were asked about their most recent acquisition[3]. Terraced houses were the most

[3] In the rest of this report, the names of tables indicate whether they relate to landlords' entire portfolios or to their most recent acquisitions.

commonly owned type of dwelling, followed by purpose-built flats. Overall, 59% of the units were houses and 36% were flats. Some multi-unit landlords owned property types that did not fit standard classifications, including flats in converted banks, pubs, chapels, offices and schools, as well as a former commune.

Figure 2.2 Dwelling types (most recent acquisition, if landlord owns more than one property)

(n=1261)



Of the single-property respondents to the survey, about half (53%) owned their properties outright—that is, they did not have a mortgage (Table 2.3).   Most of the remainder had a buy-to-let mortgage, with only a few using commercial loans or portfolio lending facilities. The pattern for multi-unit owners was very similar, with 53% saying they owned all or almost all their units outright and 33% saying all or most were financed with a residential mortgage. Multi-unit landlords were more likely than single-unit landlords to finance their purchases through a portfolio lending facility (5% vs 1%).

Table 2.3 Financing of property ownership (> 90% of portfolio, for multi-unit)

(n=416 single unit, 497 multi-unit)

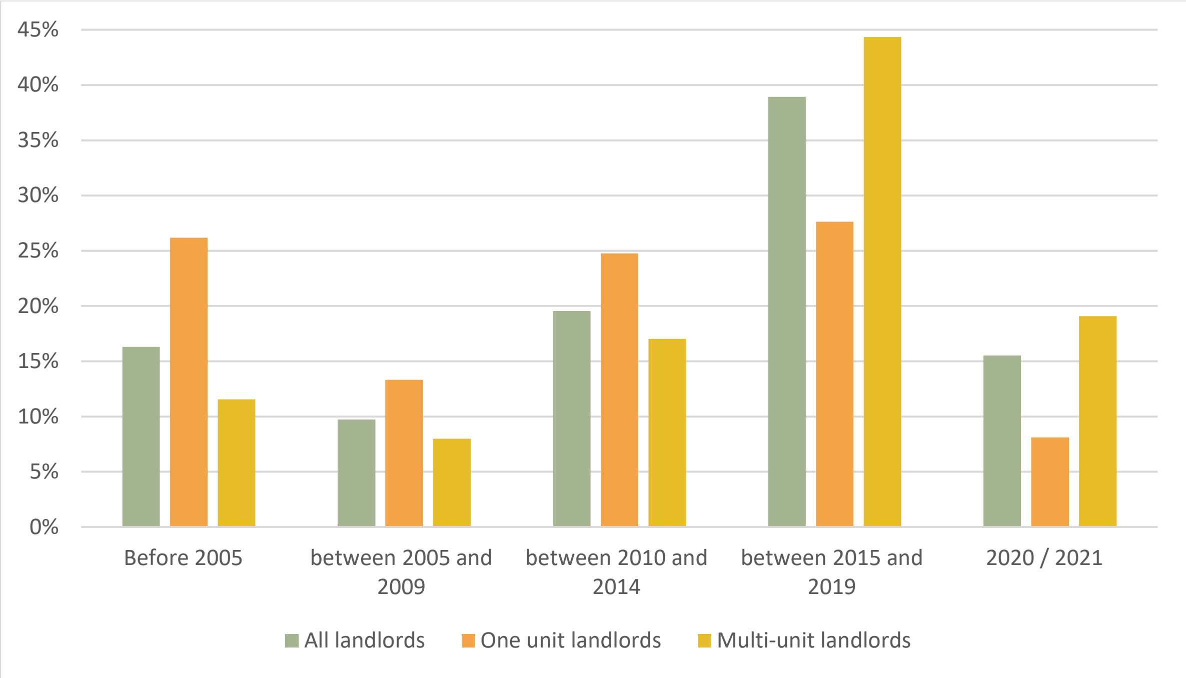
	Single unit	Multi-unit
Own outright	53%	53%
Financed with a residential / Buy to Let mortgage	40%	33%
Financed with a commercial loan	2%	4%
Other	2%	4%
Financed through a portfolio lending facility	1%	5%

Figure 2.3 shows when the rental units were acquired. 54% of landlords with a single property had acquired the unit in the last six years, while 26% had owned it since before 2005. Of multi-

unit landlords, 63% had made their most recent acquisition since 2015. Multi-unit landlords were far more likely than single-unit landlords to have acquired a new unit in the last two years (19% vs 8%).

Figure 2.3 Date of acquisition of unit (most recent acquisition, if landlord owns more than one property)

(n=1295)



At the time of the survey, the average house price in England is £284,000, according to the Office for National Statistics (ONS 2021). The value of rental properties was broadly in line with this: respondents most commonly reported market values of between £200,000 and £499,999 (Figure 2.4). Values were higher in London and the South East than in the rest of the country (Figure 2.5, Figure 2.6).

Figure 2.4 Current market value of unit (most recent acquisition, if landlord more than one property)

(n=1283)

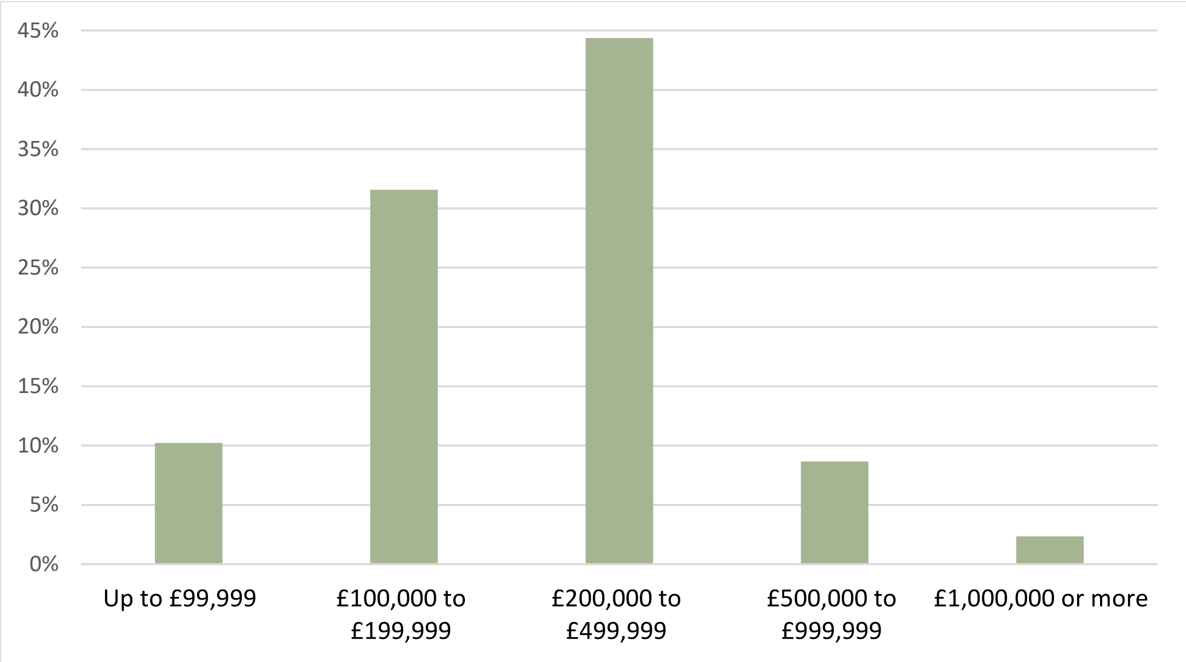


Figure 2.5 Values of rental units owned by surveyed landlords, England (most recent acquisition, if landlord owns more than one property)

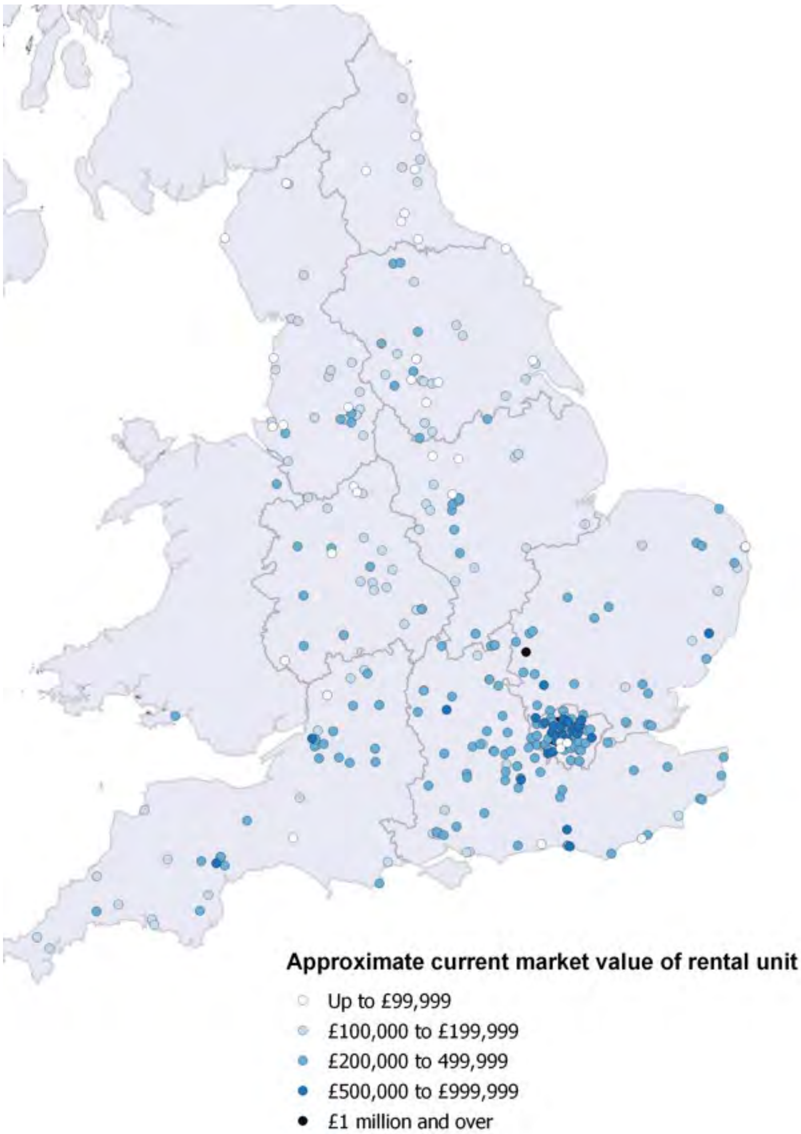
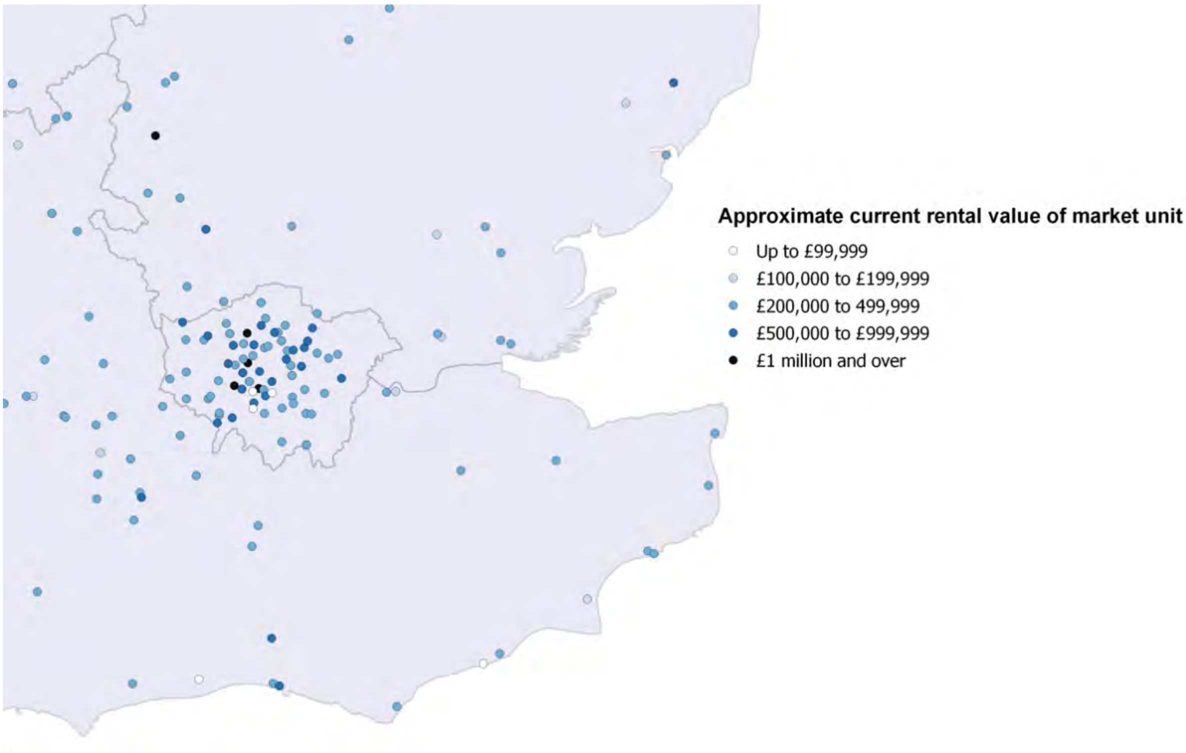


Figure 2.6 Values and locations of rental units owned by surveyed landlords, London and SE England (most recent acquisition, if landlord owns >1)



Average rents per unit were between £501 and £1000/month, with more units renting for above that level (35%) than below.

Table 2.4 Monthly rent per unit (most recent acquisition, if landlord owns more than one property)

		(N=1237)
less than £500	123	10%
£501 - 1000	652	53%
£1001-1500	240	19%
more than £1500	192	16%

The units were most commonly acquired in order to let out (75%). 18% were properties that the landlord had originally lived in themselves, and 4% were inherited.

We asked a series of questions about landlords' plans for their properties. Those landlords with more than one unit were asked to respond with regard to the property they had acquired most recently. Most landlords said they planned to keep their unit unchanged over the next 12 months. Multi-unit landlords were slightly more likely to say they planned to improve the unit or to sell or otherwise dispose of it—suggesting that they were more actively managing their portfolios.

Table 2.5 Plans for rental unit (for most recent acquisition, if landlord owns more than one property)

(n=1330)

Plans over next 12 months	Single unit landlords	Multi-unit landlords
Keep unit unchanged	63%	60%
Improve the unit	16%	18%
Not sure	12%	15%
Sell it or otherwise dispose of it	9%	7%

In terms of tenancy and rents, there was a strong preference for retaining existing tenants (Table 2.1).

Table 2.6 Plans for tenancy (most recent acquisition, if landlord owns more than one property)

(n=1145)

Retain existing tenants	83%
Get new tenants	12%
Don't know	3%
Self/child(ren) will move into it	2%
Rent it to the local authority as temporary accommodation for homeless households	1%

Most landlords also expected to keep the rent unchanged over the next year, although about 30% said they planned to increase the rent. Very few—only 1%--said they planned to reduce the rent. This seems at odds with reports of falling rents for new lets in urban centres (especially London) since the advent of the Covid pandemic. This partly reflects the fact that most landlords hoped to retain their existing tenants rather than find new ones, and existing tenants are unlikely to see rent reductions. In addition, the properties owned by surveyed landlords were spatially dispersed with relatively few in central London.

Table 2.7 Plans for rent level (most recently acquired unit, for landlords with more than one property)

(n=1139)

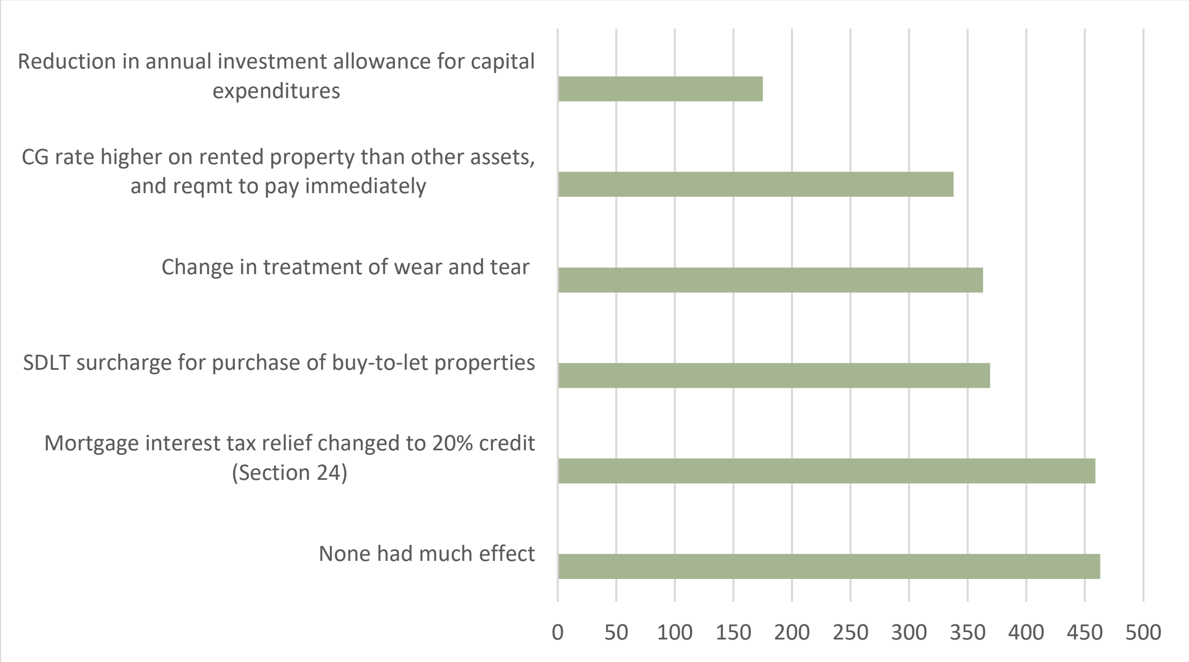
Keep rent unchanged	60%
Increase the rent	30%
Not sure	8%
Reduce the rent	1%

Effects of tax changes

We asked respondents which recent tax changes had ‘a significant impact’ on their landlord business. About a third identified the change in the treatment of mortgage interest payments as most important—that is, the move from full deductibility of interest payments at the landlord’s marginal tax rate to a 20% tax credit (sometimes known as 'S24' - the relevant section of the Finance Act 2015). The SDLT surcharge, the change in treatment of wear and tear, and the changes to capital gains tax were each identified as important by about a quarter of respondents (Figure 2.7). About a third said none had had much effect.

Figure 2.7 Recent tax changes that have had 'significant impact' on operation of landlord business

(n=1384)



Those who identified the tax changes as a significant issue were asked *how* each tax change had affected their landlord business.

Table 2.8 Effects of Section 24 and changes in CGT on operation of landlord businesses

(those who said S24 and/or changes in CGT had significant impact, n=459)

Not proceeding with planned future purchases	39%
Set rent(s) higher than otherwise would have	37%
Postponed planned future purchases	31%
Taken steps to leave the landlord business	28%
Refinanced or restructured financing	16%
Restructured within my/our rental portfolio	15%
Other	14%

Almost across the board, the biggest effects were on future acquisitions. As a result of S24 (the change in tax treatment of mortgage interest), 39% of respondents said they would no longer proceed with planned purchases, and 31% said they had postponed such purchases. 37% said they had already increased rents, and more than a quarter said they had taken steps to leave the business.

Several respondents said they had considered turning their landlord businesses into companies, as it was a more tax-efficient structure, but had been deterred by the tax cost of making the transfer. Moving properties out of individual ownership into a company structure requires that they be sold and re-purchased, which triggers capital gains tax and SDLT (including the 3% surcharge for non-principal residences). Some had made recent purchases through a company, but kept existing stock in their own names.

Implications of tax changes for business structure

Increased tax and regulation will make me sell personally owned properties eventually. I set up a limited company for new properties and intending to buy personally owned properties from me, but of course it didn't work out because of CGT and SDLT. It only works for new properties but borrowing/accountancy is more expensive. So I'm screwed however I try to make it work. I have established tenants and will have to price them out of the market or, more likely, sell up on them.[4]

Ltd landlords have an unfair advantage over private landlords as they do not lose the mortgage interest offset against tax. I pay the mortgages for my business as a sole trader with no relief at all. This pushes private landlords to incorporate if they wish to expand their property portfolios. I have seen great landlords suffer and leave the profession.

The section 24 tax has stopped me expanding the business in my own name and all purchases now go into a limited company. Unfortunately, limited companies are also quite expensive resulting in having to charge more rent and a lot slower expanding the business.

Many predicted that in the longer term, tax changes could be expected to lead to rent increases.

Effects of tax changes on rent levels and improvements

I wanted to offer good value secure homes to my tenants but the tax relief on interest payments for the property means I cannot invest in the major improvements as I used to. Furthermore, it is always the end user that pays and all these government actions are forcing rent to high and unmanageable amounts for tenants.

The tax changes target private landlords unfairly and are inconsistent with tax laws for any other type of business. If landlord accountability and housing standards were the issue, there are many other ways to tackle this (such as licensing schemes, new quality standards, CRB checks, etc) but the recent changes are all aimed at taking money from landlords. The result can only be higher rent to cover these costs or landlords leaving the sector. The demise of private landlords will leave a void to be filled by corporate landlords, which can only mean higher costs and less flexibility and options for renters in the UK.

[4] All quotes are verbatim from free-text responses to questions in the LSE survey.

No other business operates under such regulations, of not being able to offset business expenses such as buy-to-let mortgages against tax, thereby effectively paying tax on losses. These changes will ultimately make renting far more difficult and expensive for tenants, as the supply of private rented property decreases.

As a landlord I have to keep my business financially viable, otherwise I may sell it all and retire. The tax changes put more pressure on us but unfortunately some of this pressure has to be passed on to the tenants. Not sure this is what the government had in mind.

The S24 changes in the tax treatment of mortgage interest meant some landlords were taken into a higher income-tax bracket, which could have knock-on effects on benefits such as student loans, child benefit and free childcare. Some respondents said they had given up salaried work or self-employment so as not to become higher-rate taxpayers.

Effects of S24 (changes in tax treatment of mortgage interest)

I can no longer deduct finance payments which I incur increasing tax that I pay. This has reduced the planned improvements I was wanting to make.

Due to section 24 and holding my properties in my name it is pointless to expand as I'm simply penalised by the taxation

I had planned to at least double the size of my existing portfolio using loan finance, but the mortgage interest tax changes caused me to cancel those plans.

As I have a high employment salary (above 100k), my rental profits (for properties in my own name) are in effect taxed at MORE THAN 100% (*emphasis in the original)*

I am a basic rate tax payer so the 20% tax relief hasn't directly impacted my tax situation, however, by not allowing landlords to deduct the mortgage interest payments before tax is calculated - this has had the effect of making my income appear to be greater than it actually is. This has had an effect on other things such as claiming for Student Loans for our children.

Due to the tax credit of 20% I gave up full time employment to avoid paying higher rate tax. I would have been paying tax at 40% on my gross rental income instead of tax on a net figure.

Knock-on effect on child benefit and childcare subsidies have become more painful

Some 363 landlords said the change in the treatment of wear and tear had significantly affected their landlord business. Of these, 53% said they had invested less in furnishing and equipment than they otherwise would have, and 39% said they had switched to letting their units unfurnished. This effectively shifts the expense of furnishing the unit on to the tenant. Meeting furnishing costs could be especially difficult for low-income tenants, as such expenses would not be covered by the housing benefit element of Universal Credit.

The SDLT surcharge was an important change for 369 landlords. As a result of the surcharge, 63% said they had not gone through with a planned purchase or had bought fewer properties than they otherwise would have, while 11% said they had purchase in different (presumably cheaper) areas.

The reduction in the annual investment allowance for capital expenditures, identified as a significant factor by 175 landlords, resulted in less investment in the property/ies (64%) and higher rents (30%). About a third of respondents said they had postponed or cancelled planned expenditure on items such as kitchen and bathroom replacements, white goods and energy-efficiency upgrades.

Eventual disposal of portfolio: Non-tax motivations

Asked about their eventual intentions for their rental portfolios, respondents were about equally likely to say they would sell or dispose of it, or leave it to their heir(s)—underlining the essentially family nature of many rental businesses.

Table 2.9 Plans for eventual disposal of property/ies

	(n=1167)
Will sell or dispose of it	32%
Leave it for my heir(s)	30%
Will leave some for heirs/dispose of some	24%
Hadn't considered it	10%
Would rather not say	4%

Many of those who intended to sell said their plans were conditioned by recent tax changes.

Impact of tax changes on plans to sell

I started letting as ‘accidental’ landlord (when I married, I rented out my flat as I had negative equity and couldn’t sell). I subsequently invested in other flats when the value rose. I liked the idea that my investments were benefitting others, as I was able to provide decent homes at very reasonable rents. The tax changes have penalised individual landlords like me, and I am gradually selling my properties.

Reduced profit and likelihood of being a higher rate taxpayer is forcing me to reconsider my investment strategy. Immediately selling my largest property in this financial year to reinvest outside the PRS

Selling properties as I feel the heyday has gone, reached their peak and tax changes coming down the line make it a less attractive business to be in

Tax changes make renting profit margins unsustainable and for me along with COVID it is the catalyst to sell up and invest elsewhere with less hassle.

The questionnaire also asked about *non-tax-related* motivations for eventual property sale. Of those who said they would eventually sell some or all of their portfolios, about two-thirds said one of the reasons was to pay later-life care bills (Table 2.10). Other considerations were that it would make it easier to divide up the landlord's estate, and to be able to give cash gifts during the respondent's lifetime.

Table 2.10 Relative importance of reasons for eventual portfolio sale

(those who plan to sell some/all of portfolio, n=593)

	Major consideration	Some impact	Not important
To pay later-life care bills	26%	39%	36%
Will make it easier to divide up estate	24%	29%	47%
To give cash gifts during lifetime	22%	35%	43%
To put cash in a trust	11%	19%	70%

Several landlords said that more demanding regulation—rather than or in addition to tax changes--had contributed to their decision to sell.

Impact of regulatory changes on plans to sell

Far too many layers of regulatory and tax changes over the last few years which has been the trigger for us carrying out a full financial review and selling all our four residential rental flats - such a shame as we enjoyed it for so many years. No incentive for us to continue and I can now make more money on the stock markets sitting in front of a computer screen. However, this does not help provide homes to those that can only rent.

Tax changes plus EPC plus Electrical Checks it is no longer viable to rent out therefore making it harder for people to find a decent rental.
Too many costs from regulations for the good landlords but the rogue landlords won't do them anyway. Selling up.

Selling up all my properties over the next few years as the Government impact on my business is beginning to take its toll. Fed up of all the new legislation being introduced. EPC is the latest noose hanging over the heads of landlords - obtaining a 'C' in the PRS when the average in the UK is a 'D' seems very harsh.

Perceptions of government attitudes to landlords

Although the questionnaire did not ask specifically about landlords' perceptions of government policy towards landlords, many respondents addressed this is in their answers to the survey's open-ended questions. Respondents wrote of feeling vilified and under attack. The emotive tenor of many comments and the near unanimity of views were striking.

Perceptions of government attitudes to landlords

Government is hell bent on bashing landlords. Hence selling everything.

Have felt undervalued for the service I provide, especially as a landlord who meets every obligation and goes beyond to be a good landlord.

I invested going on the terms of what was available. The government moved the goalposts and now I am not looking to invest any more in the private rental sector. The government are discouraging private landlords when they have no solution to solve the housing crisis

The tax changes, along with regulations that have been brought in and the proposed abolition of section 21 Notices, are clear indications of the government's attitude towards the private rental sector, and are reasons not to invest further, or indeed consider leaving it altogether.

It is evident this government wishes to drive private landlords out and only leave the big boys in.

Seems that taxation assumes we are all grasping unscrupulous types rather than providing a vital service.

3. Evidence about the effects of Covid on landlords

This section examines the effects of the coronavirus pandemic and related restrictions on landlords' businesses and on their future plans, it also compares landlord understanding of the impact of Covid to that of recent tax changes.

Covid restrictions and regulations affecting landlords

Because of the accelerating spread of coronavirus the UK government closed down pubs, gyms and restaurants on 20 March 2020. Three days later, prime minister Boris Johnson announced a UK-wide lockdown, introducing the slogan 'Stay at home/Protect the NHS/Save lives'. People were only allowed out of their homes to buy food or medicine, to exercise (alone or with another member of the household, for a maximum of one hour) or to travel to work if absolutely necessary (Cabinet Office 2020). Non-essential shops were closed, as were facilities where people were likely to mix including playgrounds and libraries. Schools remained open for the children of 'critical workers' but most other pupils began remote learning. People were only permitted to meet with one other person from another household, including family members; these meetings had to take place outdoors with social distancing. Those with serious health conditions were advised to 'shield' in their homes.

These regulations brought an abrupt stop to most of the country's public life, but government guidance stressed the need for work to carry on—from home where possible. Public transport services continued to operate on a reduced schedule, but the government recommended people avoid using buses and tubes and to travel by car, bike or walking. Office employers drastically reduced the number of staff required to work from the office, and many offices and other workplaces closed down completely. Popular expectation in March 2020 was that the restrictions might last for a few weeks, but relatively strict lockdown conditions continued until June 2020 with further lockdown episodes in the following year. Some restrictions remained in place 19 months later.

The restrictions on movement and required closures rendered many businesses unviable. To avoid massive job losses, the government instituted a furlough programme. The Coronavirus Job Retention Scheme (HMRC 2020) paid 80% of the wages of employees unable to work because of Covid restrictions, up to a maximum of £2,500/month. This scheme remained in place for the following year, and was gradually phased out from July 2021.

There was concern that tenants unable to pay their rent would be evicted, which would affect not only the households concerned—including making some of them homeless--but in addition could have wider negative impacts on public health. From 26 March 2020, housing possession actions were suspended, and later that year a ban was instituted on eviction proceedings. The Coronavirus Act 2020, enacted in March 2020, extended the required notice periods for evictions. In the course of the pandemic to date, all these provisions have been amended several times[5]. Notice periods reverted to pre-pandemic lengths on 1 October 2021 but certain other restrictions remained in place as of October 2021 (Wilson 2021).

Many tenants benefited from the furlough scheme and from Covid-related changes to the benefit system, where there were increases in the amounts of local housing allowance and Universal Credit that households could claim. However, there was no specific help for the private tenants not in receipt of benefits who had built up arrears over the Covid period.

To help landlords under financial pressure, the government announced that landlords could request a three-month suspension of payments on buy-to-let mortgages (later extended to six months). These payment holidays could be requested until March 2021. Landlords were not included in the financial support packages offered to some other types of business.

Survey results: Effects of Covid on landlords' businesses

In December 2020/January 2021, the NRLA surveyed its members about the effects of Covid. Some 60% of the 1,391 respondents said they had lost rental income during the pandemic, and 14% said they had lost more than 20% of rental income. About two-thirds said the pandemic would affect their landlord business negatively, and 34% said that as a result they were likely either to leave the market entirely or to sell some of their rental properties (NRLA 2021). The timing of the LSE research presented a good opportunity to collect up-to-date evidence about how Covid had affected landlords' businesses.

About two-thirds of single-unit landlords said their tenants paid rent in full and on time throughout the post-March 2020 Covid period (Table 3.1). Partial and/or late payments were reported by 9% of landlords each, and non-payment of rent by 4%. Owners of more than one unit also reported that most of their tenants had kept up with rent payments during Covid, although landlords with larger portfolios were more likely to report some non-payment or late payment of rent.

Table 3.1 Effect of Covid pandemic on rents received

(single-unit landlords, n=435)

Rent was paid in full and on time	66%
Tenants did not pay 100% of rent	9%
Tenants made some late payments	9%
Other	8%
Tenants did not pay any rent	4%

Of respondents saying 'other', eight said they had reduced the rent or granted a rent holiday during the Covid period, and eight said their tenants had left—several back to their countries of origin.

[5] A full chronology appears in Wilson (2021).

Dealings with tenants under Covid

Covid regulations prevented me from proceeding with the eviction of my tenant who was already in 5 months arrears with their rent.

I decided not to go ahead with planned rent rises during Covid.

Due to Covid one of my properties has stood empty - but with the tenant effectively trapped abroad in Spain and paying a reduced rent - for almost 15 months. Sounds great - except we've had to deal with service/ suppliers overcharging or threatening cut offs, as well as a break in attempt by squatters.

In early 2020 we wrote to our tenants to say that we would be flexible during the pandemic if they had problems paying the rent. We didn't want them to be worried. In the event, the tenants remained in employment and were able to pay their rent.

Some respondents had experienced long void periods or non-payment of rent and were unhappy that private landlords had not been eligible for Covid-related financial support for their businesses.

Effect of Covid on rental business

COVID lockdowns caused masses of foreign low income workers/tenants to leave the UK. I had the worst year as a landlord in my 22 years of experience as a landlord. Voids were high, no viewings possible, rent arrears high, and an overwhelming negative impact on my Credit Rating that will take at least 6-7 years to recover from. At the same time I was excluded from all government grant scheme and income support schemes (not one penny of support was received) even though my personal income declined by over 75%. It was much worse than the financial crash in 2008-10.

Covid is temporary but the tax changes are permanent and together with all the plethora of legal changes add up to a more complex and challenging situation. I think this will put off small investors and is the reason I will sell up rather than leave my daughter with the properties to manage.

The landlords of this country were expected to shoulder the burden of non-payment of rent with no government support during the epidemic. It was impossible for private landlords to obtain access to BBLS or CBILS (recovery loans) yet legislation was brought in to prevent them evicting tenants for non-payment of rent; or indeed for any other cause

Despite the seismic impact of Covid on the economy, on the whole respondents said tax changes had affected their plans more than the pandemic had (Table 3.2). This probably reflects a perception that the tax changes represent a fundamental and possibly permanent reordering of the incentive structure, while the pandemic—difficult as it has been—is temporary. Some 26% of respondents to the LSE survey said tax changes had a decisive or major impact on their businesses, while 10% said the same of Covid. About half of landlords said Covid had not affected their business plans, while only 30% said recent tax changes had had no impact.

Table 3.2 Relative impact of Covid and tax changes on plans for rental business

(all respondents, n=1149)

	Impact of Covid	Impact of recent tax changes
Decisive impact	3%	11%
Major impact	7%	15%
Some impact	23%	26%
Little impact	16%	13%
No impact—plans have not changed	49%	30%
Don't know	2%	5%

4. Why former landlords left the sector

In the extensive literature about the characteristics and business models of landlords, there is very little about the motivations of *former* landlords. This partly reflects the practical difficulties of identifying and contacting them. Our survey invitation was sent to former members of the NRLA, as some were expected to have left the sector.

The intention of the survey was to explore the reasons landlords had left the sector, and the possible contribution of tax changes and/or Covid to that decision. Some 61 respondents to the survey were former landlords who no longer rented out property[6]. Most had owned one or two properties (Table 4.1), but 7% had previously owned portfolios of 11 units or more.

Table 4.1 Portfolio size of former landlords

(n=61)

Number of units	%
1	49%
2	15%
3	18%
4-10	11%
11-25	7%

This was a relatively experienced group: of the landlords who exited the sector in the last two years, about half (46%) had acquired their first property in 2005 or earlier (Table 4.2). Some 58% had stopped renting out property in 2020 or 2021—that is, since the most recent suite of tax changes and the Covid pandemic. Most former landlords (75%) had sold their unit(s), while 11% were living in the property themselves or allowing family members to do so.

Table 4.2 Year of acquisition of first property x year landlord stopped renting

(n=60)

	Year landlord acquired first property				
Year landlord stopped renting property	**Before 2005**	**2005 - 2009**	**2010 - 2014**	**2015 - 2019**	**Total**
before 2017	3	2	1		6
2017	1				1
2018	1		2		3
2019	9	2	2	2	15
2020	6	1	4	3	14
2021	10	2	5	4	21
Total	**30**	**7**	**14**	**9**	**60**

[6] Note that this is not a representative sample of former landlords. Only a minority of landlords are members of the NRLA, and they tend to be more professional and better informed than average.

Former landlords tended to be in older age groups, with 54% aged 60 or over. Compared to active landlords, former landlords were more likely to be aged over 70 (24% vs 17%). More were collecting pensions (46%) than receiving income from employment (44%). This suggests that many property disposals were linked to retirement: exiting the landlord business eliminates the responsibility of maintaining a property and dealing with tenants (for those who manage properties themselves) and capital receipts from property sale can supplement pension income.

Table 4.3 Age profile of former landlords vs active landlords

	Former (n=54)	Active (n=1146)
20-29		1%
30-39	6%	5%
40-49	17%	14%
50-59	24%	29%
60-69	30%	34%
70-79	22%	15%
80-89	2%	2%

Renting residential property was not the main source of income for most of these former landlords: 80% said their rental income had made up 40% or less of household income in the year before they exited the sector (Table 4.4).

Table 4.4 Rental income as % of household income in year before exit

(n=45)

Rental income as % of household income	% of respondents
up to 20%	42%
21-40%	38%
41-60%	9%
61-80%	4%
>80%	7%

The former rented units owned by these landlords were about equally split between flats and houses (Table 4.5). The two most common property types were terraced houses and purpose-built flats. The values ranged from under £99,000 (3 units) to over £500,000 (5 units), with most clustering in the range of £100,000 to £300,000 (for comparison, the current average house price in England is £284,000). Two-thirds of sellers said the property was bought by someone intending to live in it themselves, while 26% had sold to another landlord. 9% were unsure of the buyer's intentions.

Table 4.5 Sales value of former rental unit x type of dwelling

(most recently sold, if landlord owned > 1. n=

	Sales value of rental unit in £000s						
Dwelling type	**<99**	**100-199**	**200-299**	**300-399**	**400-499**	**>500**	**Total**
HOUSE: Detached						3	5
HOUSE: Semi-detached		3	1	1	1		9
HOUSE: Terraced	1	5	4	1		1	16
FLAT: Above shop			1			1	2
FLAT: In a converted house	1	1	3	1	1		7
FLAT: Purpose-built	1	5	2	2			16
Other				2			4
Total	**3**	**14**	**11**	**7**	**2**	**5**	**59**

Reasons for leaving the sector

Consistent with the findings from active landlords, Covid was not the main reason for selling up> Rather, the main reasons given for selling were economic/financial ones (Table 4.6), particularly increasing costs, tax changes (which may come to the same thing), and the impact of regulation. Issues with tenants and personal reasons were each cited by about 30% of landlords. Although the decision to cease trading is one that many landlords (like other business owners) make eventually, and is often long planned, only 15% said selling was part of a long-term exit plan. Just three landlords said the pandemic had motivated sale.

Table 4.6 Main reasons for selling rental property

(landlords that had sold their property, n=46. Respondents could chose >1 answer)

Landlord costs have increased	50%
Effects of tax changes —eg reduction in mortgage tax relief, stamp duty changes	46%
Effects of new and expected regulation (eg licensing, abolition of S21)	43%
Issues with tenants	30%
Personal reasons—eg health, wishing to retire, use proceeds to help children	28%
Financial reasons not directly related to the pandemic—eg house price changes, poor yields, attractiveness of other investments	26%
Other (please specify)	17%
Part of long-term 'exit' plan (from being a landlord)	15%
Effects of the pandemic	7%
Local property market conditions	4%

In their fuller descriptions of reasons for leaving the sector (box), respondents echoed the concerns of active landlords about tax changes and increased regulation. They also referred to negative experiences with tenants and to the expectation of future regulatory changes, including the mooted elimination of S21 no-fault eviction.

Former landlords—reasons for leaving the sector

My last tenant resulted in bailiffs £9000 repair cost and £2000 rent arrears. Local authority wanted landlord registration. I decided to quit.

Far too many layers of regulatory and tax changes over the last few years which has been the trigger for us carrying out a full financial review and selling all our four residential rental flats - such a shame as we enjoyed it for so many years. No incentive for us to continue and I can now make more money on the stock markets sitting in front of a computer screen. However, this does not help provide homes to those that can only rent.

Apart from the very punitive effects of the changes in CGT and SDLT the government's concerted efforts to desecrate the rental market and expand the supply of properties to the private-sales sector has persuaded the average small-time landlord to give up. Furthermore, the ever increasing overhead of legislation in respect of property standards such as EICR, EPC and Legionnaire's risk assessment without financial support is killing the golden goose.

I have been a landlady since 1980 but in recent years the benefits have been whittled away and I consider there is a distinct bias against landlords in favour of tenants. Some of my properties have been left in dreadful condition, filthy, damp through humidity, badly treated and damaged, deliberately flooded for insurance claim, garden overgrown and left with dog poo. Some tenants told me to pay their last month's rent from their deposit leaving little or no deposit left to make good the damage. I appealed but felt I was not treated fairly and the tenants left me with considerable costs to put the property back into good condition. Private landlords make up the gap in rented accommodation caused by a lack of social housing, but I think are treated badly and squeezed for every penny.

Although landlord tax changes had a big impact, my main reason for giving up being a landlord was the threat of Section 21 being abolished. If this happens the only way a landlord can evict a tenant is if they don't pay their rent. However tenants know that even if they only start paying a bit of their rent when they come to court they won't be evicted and then of course they stop paying any rent again and the landlord has all the court costs. I was also alarmed at suggestions the government was going to make landlords sell their properties to their tenants at a discount.

5. Tax changes and landlord business models

Financial modelling of landlord businesses: the 2011 base case

In 2011, Michael Ball carried out a study for the then-Residential Landlords Association, one of the precursor bodies to the NRLA (Ball 2011). This included a spreadsheet model of landlord business models based on detailed financial data provided by 200 RLA members. Ball noted that most landlords were small individuals/couples; he did not even model company landlords.

The Ball paper was written in the wake of the Global Financial Crisis, at a time when property prices across much of the UK were falling and were expected to continue to fall. Ball's 2011 landlord business model was a thorough exercise incorporating assumptions about the macroeconomic environment (inflation, house-price changes), taxes (personal tax rates, SDLT) and financing (LTVs and mortgage interest rates). On the cost side it included allowances for voids, arrears, depreciation, repair and agency fees. The model would be equally applicable today if updated to reflect current figures.

At that time, there was no SDLT surcharge for investment properties; landlords could deduct mortgage interest payments at their marginal personal tax rate; and the capital gains tax for non-owner-occupied residential property was the same as for other types of asset. Even so, Ball argued that landlords were taxed disproportionately compared to owner-occupiers because the latter were not taxed on imputed rental income and paid no CGT on their principal residences.

When Ball ran his model he found that base-case returns for landlords were low, with a typical internal rate of return of just 0.4% (taking all costs into account including depreciation). This provided little incentive for new investors, and Ball forecast that private landlords would increasingly exit the market, reducing rental supply and driving up rents for tenants. He recommended that if the government wanted to achieve the 'desired social goal of a large and affordable PRS' they should reduce taxes on landlords and/or introduce positive incentives for investment.

With the benefit of hindsight the paper looks less than prescient, as in fact the sector continued to grow, despite the lack of tax concessions. The main reason for this is that Ball's base case allowed for expected house price inflation of 3% per annum, and in fact until mid-2012, house prices in the UK continued to fall (HM Land Registry data)[7]. But for the five years from mid-2013, house-price inflation was over 3% per annum, reaching a rate of nearly 10% for a period in 2014. Running the model with more realistic house-price inflation rates generates higher rates of return. Because much of landlords' overall yield comes from capital appreciation, this helps explain the continued growth of the sector in the 2010s.

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[7] Land Registry (2021) UK House Price Index. Available at : https://landregistry.data.gov.uk/app/ukhpi/browse?from=2011-01-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2Funited-kingdom&to=2021-08-01&lang=en

Other ways of categorising business models

Scholars of landlords and landlord behaviour have devised a number of categorisations; the decision about which is relevant depends on the purpose and kind of analysis undertaken. Various authors[8] have divided landlords into categories including

- 'accidental' vs professional (or business vs sideline)
- full-time vs part-time
- short- and long-term investors (or experienced vs inexperienced)
- type of operator (private individual, employer, BTR operator etc)
- local, national and international investors
- the degree to which they are motivated by economic drivers (yield) vs personal interests (housing a relative, buying a future retirement home). Sometimes described as 'entrepreneurial' vs 'lifestyle'
- portfolio size (often divided into bands--eg 1-2 units/3-5 units etc)

The most relevant distinctions for the current discussion are two-fold. The first is between those who are taxed via self-assessment and those who operate as companies, since the tax treatment of these two business models now differs substantially. The second distinction is between landlords who are principally motivated by economic incentives and those who have invested for other reasons.

Landlords taxed as companies vs those taxed by self-assessment

Recent changes to landlord taxation have affected mainly individual landlords who pay tax through self-assessment—that is, the landlords captured in Ball's 2011 model. Compared to 2011, such landlords now face a significantly more disadvantageous tax regime, as described above. Most of the tax changes apply equally to company and to self-assessed landlords, but the change with the biggest effect—the shift from full deductibility of mortgage interest to a 20% credit—applies only to those paying through self-assessment. Company landlords continue to be able to deduct mortgage interest as a business expense.

Further, the rate of corporation tax is currently 19%, vs rates of 20%/40%/45% for those paying through self-assessment. Operating through a company therefore now has significant tax advantages. This effectively favours new landlords over those with a long-term commitment to the sector: new landlords can incorporate and buy properties through a company, but existing landlords who own properties would have to sell them and repurchase through a company. Were they to do so, capital gains tax would be calculated on the full nominal gain (less personal allowance) with no indexation, at a rate of 18% or 28% (vs 10% or 20% for other asset types).

Economically rational landlords vs those with other motivations

In addition, the Ball model was designed to explore the incentives in money terms for an *economically rational* landlord. Most economic analysis of the behaviour of investors, including

[8] See for example Allen & McDowell (1989), Skifter Andersen (1998), Crook et al (2002), ODPM (2003), Scanlon & Whitehead (2004), and Monk et al (2014).

landlords, starts from the premise that they are rational economic actors—that is, that their decisions about their investments (in this case, rental property) are governed by the goal of maximizing their returns. If rental property is viewed as an investment, then economic theory suggests that the risk-adjusted expected return on property assets should equal that on other types of asset, for otherwise investors would shift their holdings. Thus if investors expect the risk-adjusted return on property to exceed that available, say, in shares, then they would sell shares and buy property; and conversely they would sell property and buy shares if the expected return on property were below that available in the stock market (ignoring diversification, for the sake of simplicity).

In recent decades, though, economists have paid increasing attention to how psychology affects economic behaviour, and many argue that investors do not in fact rationally assess relative rates of return. We also know that many investors specialise in particular types of asset and have a depth of knowledge about particular sectors which affects their behaviour. Even if in the end on average investors do behave in this way there will be long lags in adjustment.

As importantly, there is strong evidence that many landlords are not in fact motivated by the desire to maximise yields. Rather they acquired and/or keep the rental property for other reasons—e.g., to house a family member or to live in themselves in retirement. Equally they may treat their tenants as friends and only adjust rents and other conditions when the tenant changes.

Implications of the Ball model today

Although Ball's predictions of large-scale disposals were not borne out, the model correctly captures the basic economic drivers: over time low expected relative yield and/or higher risks will lead to disinvestment. Ball found in 2011 that yields were low; since then policy changes have all effectively depressed running yields, especially for landlords taxed through self-assessment. Even so, we have not to date observed a wave of disposals. We posit at least four reasons for this:

- The relevant figure is not running yields but total yields. Although running yields have been pushed down by tax changes, total yields include capital appreciation. The very low interest rates prevailing over the last several years have inflated the value of assets including rental property.
- The adjustments so far have not been large enough to result in significant behavioural changes -- although many survey responses suggest considerable awareness of the possibility that further changes may be enough to make them re-consider;
- The requirement to pay CGT on nominal gains and (now) within 30 days of disposal will disincentivise some sellers
- Those landlords who own rental property primarily for non-economic reasons – and/or those who own the properties outright and are thus unaffected by S24 – will be less likely to respond to the changed tax climate by selling up.

More generally, many landlords--especially individuals who have been in the market for a long time--are likely to adjust only when their personal circumstances change. Those who are recent market entrants and have at least a small portfolio have historically been more likely to make active decisions to buy or to sell. But it is also clear from surveys carried out by NRLA that many adjust the scale of their portfolio rather than make a binary decision to enter or exit the market, so response to changing market circumstances tends to be slow. Of the respondents to our survey, a large majority (86%) had owned rental property for at least five years. Indeed, 64% reported that they had the same number of units as they had five years ago.

Despite the survey's evidence of concern about the effects of tax changes, the landlords surveyed were more than twice as likely to have grown their portfolios over the last five years (26%) as reduced them (11%). Recall though that those who responded to the survey were mainly active landlords. We tried to capture the views of former landlords as well, but managed to reach only a relatively small number.

Particularly important in terms of confidence in the market is landlords' perceptions of government policy. Evidence from our survey indicates that landlords are more concerned by the taxation changes than they are by Covid-related policies – or even perhaps the potential changes to Section 21. Many are aware of the government view that first-time buyers remain at a disadvantage compared to buy-to-let landlords, and several survey respondents said they felt like scapegoats for wider housing-policy failures. Although Ball's view in 2011 was that there was a shared social goal of a large and affordable PRS, official policy now clearly points to a goal of a smaller PRS and more owner occupation.

6. English tax and regulation in the international context

In this section we examine the situation facing private landlords in other European and comparable countries, concentrating mainly on taxation but also on changes to rent regulation and security of tenure and the effect of subsidies to tenants. The goal is to understand which elements of the English tax and regulatory systems are aligned with practice in other countries, and which seem to be unique.

The scale of the private rented sector across countries

Comparable data on the scale of the private rented sector across countries is not readily available. This is in part because definitions differ, but also because of the different histories of regulation of the sector.

There are three main ways of defining the PRS. Historically the sector has tended to be defined by ownership – that is, the proportion of the total housing stock that is owned by private landlords. This figure is often a residual, because the scale of owner-occupation and properties owned by social landlords are far better documented than the numbers in private renting (which may include a multiplicity of ownership forms).

The second basic approach is to distinguish between those properties whose rents are market determined and those that are administratively set. In an earlier era, when rent controls were common, this made very little sense. But over the last forty years, old-style controls have been modified, subsidies have shifted more towards tenants, landlords have had more freedom to respond to market pressures and the range of government programmes has increased. Now the distinction between regulated and unregulated rents can provide a more policy relevant way of describing the sector. Thus for instance in England, social landlords increasingly own and provide some market rented housing, while private landlords may have access to government subsidy to provide a range of affordable housing. Equally both sectors may use private finance to provide both market and affordable housing. In this context ownership is not the relevant descriptor but rather methods of rent determination.

The third, more demand-oriented, approach is to measure the numbers of people or households living in privately rented accommodation. This is the approach taken in large-scale surveys and indeed censuses – where respondents generally self-determine their tenure. As a result, it is this definition that is now most readily available based mainly on the EU-SILC survey that has been in place since 2003. OECD data also tends to use this source.

Table 6.1 provides comparable data as far as possible based on the proportion of households who are renting privately for some 19 countries. In some cases, the figures apply to the proportion of the stock. Countries are ordered by the size of the sector in 2019. The data should be used with care – in particular for the Netherlands where the 12.7% figure reported is identified as the housing stock owned by 'other' (ie non housing association) landlords. It should also be noted that government statistics suggest that the privately rented sector defined by ownership is thought to account for around 28% in Amsterdam (Hochstenbach, C and Ronald, R. 2020).

Table 6.1 Tenure by households and dwellings: selected countries

	2010	2019	
Country	**PRS %**	**PRS %**	**Change**
Germany	52.7	47.3	-10%
Austria	29.4	34.7	18%
USA[1]	30.8	32.1	4%
Denmark[1]	13.9	19.4	6%
Australia*	23.7	27.1	14%
Norway	15.1	23.7	57%
Belgium	23.6	23.4	-1%
Finland[1]	15.8	22.4	42%
France	17.7	20.8	18%
England	15.6	19.3	24%
UK*[1]	16.4	19.1	17%
Czech Republic	5.4	17.9	231%
Iceland*	13.7	16.7	22%
Spain	11.4	15.5	36%
Netherlands[1]**	11.4.	12.7	11%
Ireland*	11.4	10.9	-4%
Slovenia	5.3	6.0	13%
Poland	2.9	5.4	86%
Hungary	2.7	4.4	63%

[1]Shows number of dwellings
*2018 latest data available
** Renting in the Netherlands distinguishes between those who live in accommodation with controlled rents (rents under around 700 euros in 2019) whoever the owner is, and those whose rents are market determined whoever the owner is. Data on the split between controlled and free market housing is limited.
Sources: See References B

Germany stands out as having a privately rented sector that accommodates nearly half of all households. Austria and the United States come next with around one third. The more usual proportions are around or below 20%; Proportions are generally small in ex-transition countries. Finally, in all but three of the countries the size of the sector has generally been rising, in some countries very rapidly.

Comparing the taxation of residential landlords

Here we look at four main issues:

- Are there principles of taxation followed across most European and comparable countries?
- Are different types of landlord treated differently to one another?
- Are small company landlords treated in the same way as other small businesses?
- Finally, have there been significant changes in the taxation of landlords over the last few years?

Taking these four elements together provides a context for assessing the current situation in England.

Taxation of rental property

Economic principles state that housing is an asset and therefore we might expect it to be taxed as other investment goods. It also suggests that the tax should be on income net of the cost of providing the product. At its core this would involve taxing net income and capital gains. In addition, housing may or may not be subject to a variety of more general taxes notably transactions, property, wealth and inheritance taxes (Mirrlees et al, 2011).

The starting point is that 'private rental property is treated as an investment good in most countries' (Scanlon and Kochan, 2011). This would imply that rental income net of costs and maybe depreciation would be taxed. In addition, depending on each country's tax regime for investments of all types, capital gains as well as income would be liable for tax.

Even in this general definition there are obvious differences – in particular whether the housing is treated as a perpetual asset (ie one which maintains its value however used) as in the UK, in which case there is no depreciation element, or as a depreciating asset, as in Germany, which means that there is an allowance for natural decline in real value as a result of use.

This distinction implies that in some countries the costs that can be set against income include the costs of maintaining the value of the asset; in others costs include only running costs such as mortgage interest and maintenance costs. If the first, then offsetting actual depreciation is covered; if not then the return required will be higher as it needs to take loss of value from use into account.

In addition to the taxation of net income, each country faces issues around whether asset value or change in asset value is/should be taxed. Most tax systems do not tax the current value of assets at the national level. However, many systems have increasingly seen realised capital gains as the equivalent of income and therefore have introduced taxes on increases in the value of assets at the point of transaction. This has been particularly important in the context of housing. In addition, in many countries transactions (and/ or registration) are taxed – as a relatively easy source of income – in the form of stamp duty. At the local level there are also often levies on value to pay for local services and in some countries more general land and wealth taxes including housing assets. where these are part of a country's general tax system. All of these taxes impact on house prices and modify investment and business decisions.

The basic principles, notably the taxation of net income, are undoubtedly the starting point for the taxation of landlords in most countries with a history of private renting. In the UK for instance when income tax was introduced in 1799, net rental income was taxed in the same way as other investments. Owner-occupation was treated in the same way through an imputed income tax (Holmans 1987).

Over the years, however, taxation systems have become very much more complex and generally no longer obey simple rules. As a result, the taxation of housing differs between tenures; private rental taxation differs between types of landlord; and more generally there are also often differences between the taxation of rental income and income from other investment sources. In particular, rental income is often treated as personal rather than as business income.

Differences in taxation between landlord types

Table 6.2, below, provides some detail of the tax position of individual and company landlords across 19 mainly European countries, based on a recent survey of academic experts in each country[9].

The table shows that rental income is typically taxed as business income (i.e. allowing for at least some costs) in all the countries included here. Equally, while the principles of taxation are the same for individual and corporate landlords, the details of how net income is determined and the tax rates charged vary considerably. Among individuals the rates are based on income taxation and are therefore often progressive. For corporate landlords, rates are much more likely to be constant or to have two or more levels based on size/income. Thus within the company landlord sector it is rare to distinguish between types of landlord, except with respect to different tax rates, usually depending on company size (eg in France). Some countries give more favourable tax treatment to rental property held by pension funds (whether institutional or individual).

It is not easy to classify the countries into well-defined groups, although it is generally the case that tax rates are higher in Scandinavian and Western European countries. However, this is true of these countries' tax systems in general, particularly with respect to progressive taxation in the individual landlord sector.

Company landlords generally pay corporate tax rates which are fairly standardized. Where the landlord can make a choice between being an individual or a company landlord that choice will depend on the details of the overall tax system - in terms for instance of exemptions and tax rates, so the mix of landlords found in each country will depend on these incentives. In most countries individual landlords dominate in terms of numbers of landlords, though not necessarily in terms of the numbers of rental units.

[9] The table is based on research carried out by Jen Lunde and Christine Whitehead. Details can be found in Lunde & Whitehead (2021).

Table 6.2 General tax rules and tax rates for private landlords across countries

	Private persons/families/owned firms	**Corporate tax (Limited companies)**
Australia	Net surplus on rental income taxed at the marginal income tax rate for individuals (34.5% - 39% - 47%), including a compulsory Medicare levy. Individual landlords benefit from negative gearing - ie they can set loses against other income. For properties held by private, self-managed retirement funds (SMSFs), 15% in accumulation phase; 0% in pension phase.	27.5%-30% corporation tax.
Austria	Up to 55% on net rental income	25% corporation tax; dividend tax 27.5%
Belgium	Federal income tax on net income (besides a regional and a local property tax). Landlords pay personal income tax (at their marginal tax rate) on imputed rent (the "cadastral value", which is far below the market value of the property) after deduction of 40% of costs. Interest payments can be deducted as a cost from the cadastral value.	34%-with 3 scales of reduced rates.
Czech Republic	15% on private landlord rental income after deduction of all costs, including depreciation.	19%
Denmark	The net surplus on renting is taxed at the same tax rate as the owner pays on other income - i.e. from 47% - 60%	The net surplus on renting is taxed at 56.5% (corporate tax rate 25%, dividend tax net of corporate tax 42%). For pension funds, the rate is 15.3%.
Finland	Rental income is taxed as other investment income.	Rental income is taxed as other investment income.
France	Rental income is taxed at the landlord's marginal income tax rate.	Corporation tax above a limit (flat rate tax below limit)
Germany	Rental income is fully taxable, at the relevant personal tax rate.	Net rental income is fully taxable as other investment income.
Hungary	Taxed at 15% after deduction of all eligible costs or a 10% lump sum.	Corporation tax at 9%, and dividend tax at 15%
Iceland	Rental income fully taxed as capital income (at 22%) with 50% deductible if no more than 2 units rented.	20% corporation tax.

Ireland	Landlords pay tax on rental income, with allowance for interest payments, wear and tear on furniture and fittings, and some other identified costs - at 20% standard rate and 40% higher rate.	12.5%. Tax advantages for new types of corporate landlords, which are registered as Special Purpose Vehicles.
The Netherlands	Flat rate of 30%, based on the assumption that a taxable yield of 4% is made on the net assets minus exempted amount(s). The effect is an annual tax of 1.2% on the value of the assets. Changes regularly, sometimes because of lawsuits.	Corporate tax rates are generally the same as for other corporations. Rates vary between smaller have been falling for those with less than 245,000 euros business income- now 15%; above that level the rate is 25%.
Norway	Generally, taxed at marginal income tax rate.	Net rental income is taxed as capital income.
Poland	Part of personal income tax (progressive, 8.5% 18%, 32%).	A flat percentage corporation income tax (19%)
Slovenia	27.5%. - A standard deduction of 15% of gross income is available against taxpayer's rental income earnings. Alternatively, the taxpayer can deduct actually incurred income generating expenses.	19% from 2017 – depreciation and all other costs are allowed as deductible expenses.
Spain	Individual landlords pay taxes at their marginal rate net of costs. Mortgage interest rates and depreciation of 3% per year are included in these costs. Of this net rental income, 60% is tax exempt.	Companies pay taxes on net rental income. If they have eight or more units rented 80% of the net rental income is tax exempt.
Sweden	30-60% on personal income	Regular corporate taxation: Joint stock companies: 22% corporate tax, dividend tax 30% for stockowners. Pension funds pay 15% times a reference interest rate, currently 0.58% on capital value.
USA	Standard federal individual income tax rates apply to net rental income, ranging from 10% to 37%. Some states also have income taxes that similarly apply to rental income.	Landlords in the business of renting property may deduct interest expenses against their federal corporate income tax. Standard corporate income tax rates apply to rental income—usually 21% plus state taxes at varying rates.

Tax treatment of mortgage interest

Importantly, because mortgage interest payments are seen as costs, most countries permit private landlords to take the equivalent of mortgage tax relief at their marginal tax rate.

In England this was the case until 2015. Now there a 20% tax credit for individual landlords but full relief for company landlords. There are other countries where not all landlords are afforded mortgage tax relief including Iceland, the Netherlands (where 'amateur' landlords are not permitted to deduct mortgage interest payments) and France, where similarly only professional landlords may do so and then only in certain circumstances. The Eastern European countries for historic reasons also tend to treat mortgage interest differently: Hungary, Poland, Slovenia and the Czech Republic do not allow landlords to deduct mortgage interest payments, although the Czech Republic has a depreciation allowance. In Eastern Europe this pattern is significantly a matter of history.

Capital gains taxes

In the main, across countries, private landlords of residential properties have to pay capital gains tax when they sell their property. (Table 6.3). Capital gain tax systems are often both complex and very different between countries. To generalize, however:

- gains are usually calculated as the difference between the purchase price and the selling price (i.e. nominal gains are taxed);
- in many countries varying amounts of capital gains are exempt;
- the tax rates for individual landlords, companies and pension funds may differ (common rates are around 25-30 % and rates for pension funds or their equivalent are lower);
- long-term capital gains are often taxed at a lower rate than short-term gains, and sometimes not taxed at all. 'Long-term' is often defined as 5 years, but can be as little as 12 months or as long as 10 years.

In addition, there are many country-specific rules.

Table 6.3 How do private landlords pay capital gain tax?

Country	
Australia	For an individual, the capital gains rate paid is the same as their income tax rate for that year. If they have held the property for more than 12 months they are eligible for a 50% discount. For SMSFs, the tax rate is 15% and the discount is 33.3%. Companies pay 30% tax on net capital gains and are not entitled to a discount.
Austria	Yes. Capital gains tax was introduced in 2012 and the system modified in 2016. The tax rate is now 30% of the nominal gain.
Belgium	Yes, if sold within 5 years of acquisition. The tax is 16.5% on the difference between sales and purchase price +5% per year owned + costs of rehabilitation
The Czech Republic	Yes, but only if the landlord has owned the property for less than 5 years. The rate for an individual is 15% as part of income tax. Rates and holding times vary between types of owner.
Denmark	Yes. Private landlords (persons and firms) are taxed on the nominal gain, which is in principle the sales price minus the purchase price. The capital gains can be "rolled over" to newly acquired properties. For private individual landlords the capital gain tax rule varies between 47% and 60% and for private companies it is 57%. Pension funds' capital gains are taxed annually at 15.3%.
Finland	Yes. The tax rate is 30% up to a gain of 30,000 euros, 34% above that.
France	Yes. Landlords who sell rental dwellings pay capital gains tax of 19%, plus 17.2% for social security contributions. There is full exemption after 22 years for the tax and after 30 years for the social contribution.
Germany	Yes, but not if the property has been held for more than ten years. Charged at the personal income tax rate.
Hungary	Yes, but only if held for 5 years or less, as with owner-occupiers. Institutional landlords follow business accounting rules. Individual landlords pay tax on the difference between sales and purchase price, less the cost of improvements. The tax starts at an income tax rate of 15% and falls the longer the landlord had owned the property (1 or 2 years: pay the full 15%; 3 years 90%: 4 years: 60% 5 years: 30%, 6 years 0%).
Iceland	Yes at 22%.
Ireland	Yes. After an allowance of €3,000 and subject to an index linked annual allowance for value increases, it is charged at 33% of the gain. Special types of corporate landlords are not liable for CGT.
The Netherlands	No capital gains tax is levied for individual landlords – but the housing wealth would be taxed in box 3 as an hypothetical yield on savings/investment. Capital gains are taxed as normal corporate profits.
Norway	Yes, all owners of second homes or rented property have (above a minimum) to pay capital gains tax on the difference between the selling price and the purchase price minus any documented investment in the house. Tax rate: 22% on the capital gain.
Poland	Yes, but only if owned for less than 5 years. Otherwise, there is no capital gains tax.
Slovenia	Yes. Since 2020 capital gains tax has been paid at the relevant income tax rate: 27.5% for a holding period of up to 5 years, 15% from 5 to 10 years, 10% from 10 to 15 years, 5% from 15 to 20 years and tax exempt after 20 years.

Spain	Yes. Two types of capital gains tax one: national and municipal. For the municipal tax the same rules apply for owner-occupiers and landlords. With regard to corporation tax, the same rules apply but without the deductions and the exceptions from payments.
Sweden	Yes, at the regular corporate tax rate for corporations and at 22% for private owners.
UK	Yes. The first £12,300 are tax free in 2020/21. After that the rate is 28% for private landlords with incomes of £50,000+ (18% for those with lower incomes). There is no rollover relief. The rate is 19% for companies. From 2020, payment has to be made within 30 days of sale (previously the tax had to be paid at the same time as income tax—that is, nine months after the end of the tax year).
USA	Yes, upon realization. Federal long-term capital gains rates apply, up to 20%.

Taxation of small company landlords vs taxation of other small companies

Specifically for this project, we asked the same group of academic experts whether small company landlords are treated for tax purposes in the same way as other small businesses in their countries. Many of our respondents found this a difficult question to answer. Some regarded it as self-evident that they would be treated similarly. In other cases, the complexities of company taxation meant this was not a simple question to address.

We received specific answers from 10 countries about the position in their country (Table 6.4). In general, small companies were treated similarly whatever their activity, with those making net profits taxed at varying rates. In some others tax rates varied between those who owned property and those who actively involved in supplying goods and services. Respondents from some countries – e.g. Australia and the Netherlands -- emphasised that individual landlords own the bulk of the sector.

Table 6.4 Are small company landlords taxed differently from small companies in other industries?

Country	
Australia	There is no distinction between company landlords and other companies. However, tax rates are lower for small companies which will include most of the small numbers of company landlords.
Belgium	Small company landlords are treated like other small companies except for social housing associations who face a different regime.
The Czech Republic	Small company landlords are taxed in the same way as any other company.
Denmark	The same tax rules apply for private landlords, irrespective their status. The exception is pension funds and other organisations who take care of pension saving who receive special treatment.
France	There are no differences in how small company landlords are treated as compared to other companies.
Germany	Very small companies (of less than 5 employees) pay property tax rather than the lower corporation tax. But generally active companies all face the same corporate tax structure. What is more, companies may circumvent transfer tax by buying shares instead of assets (share deals).
The Netherlands	Company landlords are treated in the same way as other companies.
Slovenia	Company landlords are treated in the same way as other companies.
Spain	There is special corporate tax treatment for certain company landlords. Those companies whose only activity is rental housing and that rent eight or more units, profit from an 80% tax exemption. Profits are calculated after discounting all expenses, interest payments for any loan involved plus a 3% annual amortization of the construction costs.
Sweden	Small company landlords are taxed as other companies.
USA	Small company landlords are treated in the same way compared to other small companies. Residential property REITS are however common.

Recent changes in the taxation of small landlords

A further question we asked was whether there had been recent changes in the taxation of landlords. A number of respondents reported changes (Table 6.5), which reflect government attitudes to the sector and their wish to encourage or discourage new investment. Some of the countries (Spain, Iceland) made taxation more favourable for landlords. The Czech Republic and Slovenia reported some changes towards more favourable taxation of landlords and some towards less favourable treatment; the net effects are not known. Amongst those countries reporting changes, none reported a similar pattern to that seen in England.

Table 6.5 Recent changes in tax regimes

Country	Have there been changes in the taxation of small landlords lately?
Changes make taxation of private landlords more favourable	
Spain	Since the 1990s landlords have received large fiscal incentives to invest in rental housing.
Iceland	The treatment of private non-business landlords, has become more attractive, as there is now a reduced tax for landlords who own only one or two units.
Changes in both directions—more favourable and less favourable	
The Czech Republic	Stamp duty, which had been 4%, has been permanently abolished both for homeowners and landlords. The term after which sales are free from capital gains tax was extended from 5 to 10 years for landlords. Depreciation allowances for landlords have been increased.
Slovenia	Since 2019, rental income has been taxed at a flat rate of 27.5%. The taxable amount can be reduced by 15% for maintenance costs (no documentation needed). The amount of relief can be higher if proven by invoices. Before 2019 the rate was 25% with a 10% allowance.

Rent regulation and security of tenure

- **Post-war history of rent controls**

Since the end of the second world war, as numerical housing shortages were overcome, the general trend across European and Anglo-Saxon countries has been to reduce or remove rent controls. Over the last decade this trend has started to be reversed, in the face of rising rents and housing shortages in many major cities.

Around 2010, Western European countries could be divided into two main groups (Whitehead et al, 2012). The first group had systems (often called 'third generation' rent control[10]) where initial rents are set by the market, tenancies are open-ended and rents within the tenancy are set by a

[10] Rent controls tend to be defined as first generation (those mainly brought in in 1916) which froze rents at their existing levels – and may or may not have a mechanism for increasing them. Second generation controls set rents against an index or other defined comparator both within and between tenancies while third generation operates only within a given tenancy.

defined formula. These systems typically set out permissible reasons and defined notice periods for the ending of tenancies by landlords. They also specify the reasons for which rents can be further raised; carrying out energy-efficiency improvements is the most common. Countries with long term security include Germany, Denmark, the Netherlands, Sweden and Switzerland.

The second group have rents set by the market and fixed-term tenancies ranging from six months to three years. England belongs to this group, with assured shorthold tenancies generally lasting six months or one year (although longer terms are possible). Countries such as Australia and New Zealand and much of the United States and Canada have similar systems – although in north America there are also legacies of earlier rent control policies, especially in New York and California.

The OECD Affordable Housing Database provides information about the rent regulations in place across OECD countries (OECD 2021a). Regulations of one kind or another remain in place in Europe, most often in the form of rent stabilisation within the tenancy.

- **International trends**

Rents and their worsening relationship to local incomes are becoming a major issue across many countries (Whitehead and Williams, 2018). As a result, an increasing number of countries and cities have introduced more regulation or are looking to do so. Actual and suggested changes mainly aim at protecting tenants from significant rent increases. Often the targets of regulation are 'predatory' corporate landlords rather than individuals. The most notable examples are Denmark and Germany, but countries that have already legislated or intend to include Ireland, Scotland, France and Spain. Changes are also mooted in parts of the USA and Canada.

Table 6.6 below lists some of the more important changes that are taking place Europe. It sets out how national legislation has been modified but also notes a number of instances where regulations apply to particular cities or area types. Most systems look to keep rents in line with inflation; some within each individual tenancy; others, notably France, also between tenancies. Some involve rent caps, often based on local area averages.

The most important general trends appear to be that

(i) A number of countries have distinguished between rent pressure zones and the rest of the country. Once such regulation has been put in place there is often popular pressure to increase the strength of that regulation – eg by increasing the numbers of 'rent pressure zones' and may as in Ireland and Germany begin to cover areas where rent pressures are not so extreme.

(ii) Where regulations are time-limited (eg in Ireland) there is often pressure to extend the period.

Table 6.6 Recent and expected changes in rent regulation in Europe[11]

Country	When introduced	Minimum tenancy length	Form of rent regulation	Coverage	Impacts
Germany	2013 but not in force until 2015 2019 Berlin	Has been indefinite for decades with 3rd generation rent controls within tenancies	Additional rent controls introduced in tight housing markets with rents limited to 10% above local comparator. Allowable maximum rent increases in existing tenancies reduced from 20% to 15% over a three-year period. Rent increases on modernisation limited to 11% and then to 8% in pressured areas in 2019.	Initially applied to major cities but now covers over 300 cities/municipalities across the country Berlin legislated to freeze rents for 5 years and cap the rent per sq metre chargeable. Federal government has overturned the legislation and tenants are expected to pay back accrued rents. In the latest elections a popular vote has been pro-expropriation but is highly unlikely to be implemented.	Although the size of the privately rented sector has declined since 2010, specific analyses of rent controls imposed in 2015 show little effect on actual rents. A projected shift of property into owner-occupation has not yet been observed. The situation in Berlin is more uncertain
Ireland	2016	In 2004 4-year tenancies with a 6-month probation period were introduced. Rents set in line with comparable properties.	Rent Pressure Zones ("RPZ") were introduced for a four-year period. In these areas rents can only rise according to a prescribed formula by a maximum of 4% annually.	Numbers of RPZs have increased and RPZ regulation now covers two thirds of all tenants, including all tenants in Dublin and Cork.	Legislated as short term – but likely to be continued. Is limiting rent increases although not to 4%. There has been some decline in lettings and a significant shift towards larger landlords.
Scotland	2017	Indefinite tenancies subject to 18 prescribed grounds for	Market rent on new tenancies limited to one increase per year. In Rent Pressure Zones (RPZ) would be at CPI plus 1%	No RPZs yet in place. Local authority must make a case to national government based on rents rising too much; tenants suffering; costs to LA	Main changes are indefinite security and capacity to appeal rents. So relatively mild by international

[11] The table is a modified version of an earlier review undertaken in part for the NRLA.

		ending the tenancy by the landlords			standards. Unclear whether RPZs will be introduced
France	2014 and 2019	3-year leases. Rents within tenancies set by an index.	From 2014 rent increases on re-let tenancies in *zones tendues* are restricted. The ELAN law of 2018 authorises agglomerations with tight housing markets to apply to pilot rent control measures for five years. Paris was the first jurisdiction to implement the measure in 2019 based on reference rents followed by three further cities in 2019.	In 2014, 28 cities and towns (covering over 1,000 local authorities) were specified as *zones tendues* (high pressure areas). It is mainly these cities which are currently asking to introduce rent caps.	Covers all main pressure areas. The mechanisms for setting local caps are not yet clear – but in principle involves a partial return to 2nd generation rent regulation
Spain	2019	Were 3 year now extended to five	Cap on rent increases to the inflation rate within tenancies	Catalonia introduced rent caps in September 2020 affecting 60 cities and towns with over 20,000 population and with "tense housing markets," In these areas, rents will be determined by the Catalan Housing Agency's average price index	National government has now (October 2021) introduced a Housing Bill which involves capping rents for large landlords in stress areas, together with some incentive for small landlords to reduce rents.

Outside Europe perhaps the most relevant example is New Zealand. New Zealand has moved from a situation very similar to England with short tenancies, no-fault eviction and market rents to a system of periodic tenancies which do not allow leases to be terminated without reason. These changes have bene accompanied by strengthened enforcement measures.

- **Evidence on impacts**

Most of the controls discussed above have only been in place for a short time - or indeed are not yet fully operational. Evidence on impact is very limited.

In both Ireland and Germany, where controls have been introduced in the last few years, assessments of the impact on rents show that rent increases have slowed but are still above regulatory limits.

Studies in Germany have so far shown little evidence across the country that the changes have impacted on investors' preparedness to invest.

In Ireland the number of tenancies is said to have declined by 2% in 2018 and landlord associations have suggested that small landlords are looking to leave the sector. There has been a shift towards larger more professional landlords.

Modelling by the CCHPR at the University of Cambridge also suggests quite limited impacts in the short run (Clarke et al 2015).

Longer-term impacts might be expected to be much stronger, with properties moving out of the privately rented sector into owner-occupation. In Germany this has been predicted but there is as yet no significant trend.

Rent stabilisation within tenancies is generally seen to have worked well and has been in place in many Western European countries for decades. It is usually part of a package which also gives tenants the right to remain indefinitely (Whitehead et al, 2012). This approach is seen as favouring larger institutional landlords because it provides a workable framework for patient investors because of the level certainty it provides. It works less well for smaller landlords who both cannot spread risk as effectively and often have other reasons for investing.

Income-related subsidies to private tenants

The most usual income-related subsidies for tenants are in the form of housing benefits / housing allowances. These may be identified separately from more general income support instruments but equally may simply be a part of such a system. The system may also differ between employed and non-participant households, as is the case for example in Germany.

The OECD Affordable Housing Database (OECD 2021b) gives information on income-related housing benefits across OECD countries. It shows that it is normal to support low-income private tenants. Tenants have access to income related housing benefits in all the countries in our survey.

Finland, Iceland, Germany, Norway, Sweden and Spain have income related subsidies for both owner-occupiers and tenants. France has had a similar system, but it was changed in 2020. Hungary has a municipality-based system for both owner-occupiers and tenants. The Czech Republic is one of the few countries with a tenure-neutral housing benefit system – although even there, while the system is the same, the rates are more generous for tenants.

The specific rules for income-related housing benefits / housing allowance differ greatly between countries. Housing benefit systems tend to be complicated, in part because they may have other objectives than simply making accommodation affordable.

In many cases, the system is more favourable for specific household groups: e.g. for pensioners and disabled persons in Denmark. In Spain, the autonomous communities can reduce or increase the subsidies based on age and other criteria. In Poland, the subsidies for families vary with the number of children. In England younger single people are only eligible for assistance towards the cost of shared accommodation. In Australia, private tenants who receive government benefits may also qualify to receive rent assistance (CRA). In Germany, housing assistance for those on welfare is part of that payment, and there are separate housing allowances for those not on the state security system.

Clearly, income-related benefits impact on what people are able to pay for their accommodation so in the private rented sector they may also affect rents. The extent to which this occurs depends on the proportion of households able to claim; the amounts available; rules limiting what may be covered; and the form of rent stabilisation regimes.

In this context the OECD notes:

> 'At 1.4% of GDP, public spending on housing allowances is by far the highest in the United Kingdom followed by Finland, Germany, Denmark and France (Figure PH 3.1.1). Public spending on housing allowances is close to 0.5% of GDP in the Netherlands and New Zealand, and between 0.1 and 0.3% of GDP in Sweden, Australia, Greece, Iceland, Israel, the Czech Republic, the United States, Ireland and Norway' (OECD 2021c, p. 1).

Finally, the OECD note (Table PG 3.2.3) that in a number of countries (almost certainly more than they have so far listed – e.g. the UK is not included) there have been Covid-related emergency measures to improve affordability.

Comparing the UK with international experience

The UK is comparable to most of the other countries in our survey in that individual or couple landlords dominate the market often owning only one or a small number of properties and using the rents to supplement their eared income or pension.

There is some evidence across the board that more people are building up larger portfolios and limited evidence of institutional and overseas investors entering the private rented sector. Ireland is a good example.

Equally the size of the sector has increased in most countries over the last decade at varying rates. The UK is generally quite average in terms of the rate of growth.

- **Taxation regimes**

The starting point across the countries in our survey is that private rental property is treated as an investment good, implying that rental income net of costs and maybe depreciation would be taxed. The most important elements are with respect to mortgage tax relief, the costs of running the business (including depreciation); capital gains tax; and transactions taxes.

The UK now lies at one – the ungenerous - extreme of this spectrum. For individual landlords, mortgage tax relief has been limited to a 20% tax credit; limits have been placed on what can be claimed with respect to furniture and fittings and there has never been any depreciation allowed; and capital gains tax rates are higher than for other types of investment and have to be paid more quickly; and there is a supplementary 3% on stamp duty for landlords and second home owners.

There is some limited evidence of some other countries moving in the same direction but also evidence of more generous systems being put in place to incentivise private renting.

Many of the countries in our survey had somewhat different rules between individual landlords and company, often small company, landlords. There were usually some differentials but company landlords were normally treated as other companies. Again the UK is beginning to treat those owning property rather less generously.

A major reason given by the UK government for the changes in taxation is a strong belief that landlords have been treated more generously than first time buyers. Comparability with respect to taxation between tenures is a core element in many country specific discussions. The most important change over the last few decades is the reduction or removal of mortgage tax relief for owner-occupiers which has led to a few commensurate changes of the taxation of landlords – but not in the same way as in the UK.

While the UK is at one extreme of the spectrum, most taxation systems have become more complex and often idiosyncratic. However, some elements of the principles of housing as an investment good remain, except in transition economies where private renting has historically been small and informal.

- **Regulatory regimes**

The regulatory regime in the UK with respect to rents determination and security of tenure also lies at one end of the spectrum being one of the least regulated systems among the countries we surveyed. In most European countries on the other hand, there are longer tenancies – often indefinite; and some limitations on how much the rent may change within a tenancy. Across North America while market determination dominates but in many cities there are elements of rent control and associated tenure security. Australia is more comparable to the UK but as we have already noted in New Zealand where there used to be a comparable system indefinite tenancies with some stabilisation have now been introduced.

7. Discussion and conclusions

Over the last few years, the private rented sector in England has seen a number of changes in taxation and regulation at both national and local level. Many of these changes have disproportionately (or only) affected landlords who operate as individuals rather than company landlords. Every change in taxation, regulation or subsidy modifies both risks and returns so will have some impact on the behaviour of economic actors—in this case, landlords. Fundamentally, those who own privately rented properties for economic reasons take account of both their net rental return and projected capital gains as well as their freedom to move into other assets. It is the total package that matters: returns on the property; returns available elsewhere; and the capacity to adjust.

Individually and cumulatively, the recent changes have reduced the incentive to be a landlord in England. But predicting the timing and magnitude of these effects is challenging, as is assessing them in retrospect: differentiating the various incentives cannot be done easily and we lack the detailed data required to build formal statistical models.

The evidence from the survey shows clearly that landlords are aware of the impact of tax changes on their businesses (not always the case until recently). Landlords are observing the effects of higher taxes on returns, but taxation is not the only official lever: they also cite increasing regulation and bureaucracy and, importantly, the government's negative messaging about private landlords and their role in the housing market. Many say that as a consequence they plan to reduce their involvement over the next few years. Some of those surveyed had already taken steps to do so.

On the evidence of this survey, increased taxation and regulation are also already leading to restructuring of portfolios as some landlords adopt a company structure, at least for new acquisitions. Equally almost 40% of respondents had either reversed decisions to invest or postponed proposed investment. These indications may herald the start of a contraction of the sector, unless the economic environment changes. Disinvestment will probably be led by those economically motivated landlords most affected by the recent changes. This includes highly leveraged individual investors who are higher- and additional-rate taxpayers as they can no longer deduct mortgage interest at their marginal tax rates.

Any change will probably be gradual in part because transactions taxes including capital gains tax are a significant disincentive for sellers. Importantly also, there are many landlords who are simply less responsive to changes in tax or regulation, including those who do not regard their investment strictly (or at all) as an economic transaction.

The various tax changes were not elements of a cohesive strategy; rather, they were introduced piecemeal over a period of years for a range of reasons. Two such reasons are the government's commitment to increasing access to owner-occupation and the feeling that first-time buyers are still disadvantaged by taxation arrangements; and their emphasis both on institutional investment, especially with respect to new build in the Build to Rent market, and a more 'professional' private rented sector.

Individually and cumulatively, the recent tax changes have reduced the incentive to be a landlord in England. The pressures are there, but predicting the timing and magnitude of the effects on landlord behaviour—and on the sector itself—is challenging, as is assessing them in retrospect.

Equally, other factors such as regulation or changes in the rate of inflation or house prices may enhance or offset some of these pressures. Differentiating the various incentives cannot be done easily and we lack the detailed data required to build formal statistical models.

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Denmark:

https://www.statistikbanken.dk/10064

England:

https://www.gov.uk/government/statistical-data-sets/tenure-trends-and-cross-tenure-analysis

Finland:

https://pxnet2.stat.fi/PXWeb/pxweb/en/StatFin/StatFin__asu__asas/statfin_asas_pxt_115y.px/

UK:

https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/dwellingstockbytenureuk

2018 data for Northern Ireland is estimated

USA:

Overall occupied housing units by tenure:
https://www.census.gov/data/tables/time-series/demo/nychvs/series-1b.html

HUD subsidized dwellings:
https://www.huduser.gov/portal/datasets/assthsg.html#2009-2020_query

Other countries:

https://www.oecd.org/housing/data/affordable-housing-database/housing-market.htm

10. Annex A: Detailed research questions and methodology

The research focused on England and Wales, as the regulatory framework of the PRS in Scotland is now rather different (although the tax rules apply equally there).

Research questions

This study looked at the following questions:

Research theme 1: The tax treatment of landlords in England and Wales

1. What taxes currently apply to landlords in England and Wales, and how has this tax picture changed over the last ten years?
2. How does the taxation of different types of landlord vary and how does it compare with other small business types, institutional investors and owner-occupiers?
3. How can we best categorise landlord business models in order to understand incentives? Typical (overlapping) frameworks distinguish for instance between

    a. Company vs individual/couple landlords
    b. Corporate vs small businesses/individuals
    c. Mortgagors vs outright owners
    d. UK-based investors vs those based overseas
    e. Profit-oriented vs other objectives
    f. Single property owners vs mid-sized landlords
    g. Residential lettings vs short-term or holiday lets

4. How do tax changes individually and cumulatively impact on the business models of various types of landlords?
5. Looking ahead, how can we expect landlords to respond to different tax changes?
6. Market effects:
    a. What is the impact on tenants and potential tenants?
    b. How are tenants supported?

Research theme 2: UK taxation of landlords in international context

1. How are private landlords taxed in other European countries and the USA?
2. How are rents and security of tenure determined?
3. How are landlords and tenants helped by government?
4. How do the taxation arrangements in other countries impact on the scale of the sector, taking account of the taxation of other tenures and assets?
5. Comparisons with the UK position.

Methodology

PART ONE

(i) **Conduct literature review**. We did a short review of existing academic and policy literature on landlord business models and taxation, of publications produced by leading scholars including Tony Crook, Michael Ball and Peter Kemp, and of LSE London's own publications in this field[12]. The pace of change in this area means details of the analyses can rapidly become superseded; even so the literature review helped us focus the questions for the empirical research.

A up-to-date summary of recent international comparative work by Prof Whitehead and Jens Lunde on taxation of property across Europe was produced, as context for the next step of the research.

(ii) **Compile evidence on international experience.** We conducted a short survey of international experts who took part in the Lunde & Whitehead project to check taxation, rent determination and subsidy.

(iii) **Conduct comparative analysis of UK and international taxation of private landlords.** We compared the position in terms of income tax, asset/wealth tax, CGT and transfer taxes; how much the tax environment had changed in other countries; whether there was seen to be a trade-off between revenue raising and private rented housing supply; and any evidence of market impacts.

PART TWO

(iv) **Online surveys of landlords *and* former landlords**

a. For current landlords: to collect details about their business models and impacts of taxation.

b. For former landlords: Why did they leave the sector? What role did tax changes play in their decisions? Which types of landlord, with which types of property, were most likely to cite tax changes? To whom did they sell (ie did properties go to owner occupiers or other landlords)?

(v) **Administer surveys and analyse results** We aimed to survey both current landlords and those who had ceased being landlords in the last three years, to explore one possible impact of tax changes. We worked with the National Residential Landlords Association (NRLA) and the Tenancy Deposit Scheme, who sent emails to current members/customers inviting them to take part in the online survey. The NRLA also sent invitations to previous members who had left the organisation, as this group was likely to include some former landlords.

The survey was open from 18 July to 15 August 2021. There were 1384 responses from

[12] e.g. Scanlon & Kochen (2011), Scanlon & Whitehead (2016a, 2016b, 2014, 2004), Whitehead & Williams (2018), Scanlon, Whitehead & Williams (2016), Udagawa, Scanlon & Whitehead (2018)

current landlords and 61 from former landlords. It was not possible to determine precisely how many responded respectively to the NRLA and TDS approaches, but based on the timing of the survey responses it appears that most were from the TDS.

(vi) **Compare results with the financial model for landlords** developed by Michael Ball for RLA research in 2011.

(vii) **Analyse results,** focusing on evidence about landlord behaviour in response to tax changes.