



army families federation

the voice of army families

Briefing

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New tax rules impact on Army accidental landlords

New regulations restricting the financial relief for anyone receiving rental income will significantly affect Army families. These families are often 'accidental landlords' due to the nature of Service life, rather than landlords owning multiple properties in order to derive additional income. No exemption has been granted for Service personnel, which will result in a disadvantage for Army families.

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Background

Present tax rules allow anyone receiving rental income to deduct certain expenditure from the income before it is liable for tax, such as building and contents insurance, maintenance and repairs and letting agents' fees.

For many, the most significant deduction permitted is the interest paid on the mortgage. However, new regulations announced in the summer 2015 budget (phased in from 2017 and fully implemented by 2020) mean that this can no longer be deducted. Tax will now be applied to the rent received, rather than what is left of the rent after the mortgage interest has been paid. The government will allow a tax credit equivalent to basic rate tax (20%) on the interest, but this will do little to offset the increased cost.

This disadvantages Army families who own one property and receive rental income for it. These families are no different from the majority of the public who only own one property; however, they are required to rent their property out, due to the nature of Service life.

HM Revenue and Customs have confirmed that the potential impact of this new policy on Armed Forces families was considered, but the decision made was that this was not an Armed Forces Covenant issue and they wished to ensure there was no advantage to Armed Forces families.

AFF does not believe that an exemption to this policy would result in an advantage; rather it would remove a disadvantage caused by Service life.

Evidence

Army families affected by the policy

This new policy will affect mobile families living in their own home and those who live in Service Families Accommodation (SFA) but own a property.

Families living in own home

The MOD is encouraging Service families to purchase their own home. However, families may not always be able to remain in their home if the Service person is posted to a different area. Therefore, families may buy and live in their own house in one location, for example Catterick, but then be posted to another, e.g. Tidworth or Kenya, and therefore have to rent their home out and live in SFA in the new location.

They may not wish to sell their house as it is a home they intend to return to. However, they cannot afford to meet the mortgage payments without renting the property out, particularly when many SFA charges will rise under the new Combined Accommodation Assessment System (CAAS). These families are not attempting to increase their income, but ensure their mortgage costs are met to retain their family home.

If families are posted overseas or to a new location, they either have to accept the posting or make the decision to leave the Army. This is a disadvantage, as civilian families could choose to work for another competitor within their field of employment.

If a civilian family were posted with their employer overseas, they may well be offered a package to make this financially viable, including having their mortgage paid or free accommodation in their new location. Army families do not have this option and stagnant wages and the difficulty for

spouses in obtaining employment mean that these families are more likely to need to rent their home.

Living in SFA

At present, the majority of Army families live in SFA on accompanied Service. Therefore, many families buy a property to responsibly, financially plan for the future to ensure they have somewhere to live once they leave the Army or a property they can sell to fund their home on leaving the Army. This is not about establishing a property portfolio for income but ensuring that they have somewhere to live on leaving the Army and no longer have access to Army accommodation.

Many families do not feel they can risk waiting until retirement to purchase a property, as they may experience difficulties obtaining a mortgage later in life. In the past, the gratuity received on leaving the Army was designed to allow an outright purchase on leaving or retiring. However, the rise of house prices over the previous decades has meant that families can no longer rely on the gratuity to purchase their home.

To ensure sensible financial planning, many families will take this step. Therefore, they are being penalised for trying to responsibly plan for their future and not rely on the state.

Armed Forces Covenant

This is a clear Armed Forces Covenant issue, as very few civilian families would be put in a position of constant and uncertain mobility, resulting in it being necessary for them to rent out their home, whilst residing somewhere else.

The office of Claire Perry MP, MP for Devizes, which contains a large Army footprint, stated that they felt this new policy ran against the principles of the Armed Forces Covenant and that they would forward this to HM Treasury as an unintended consequence of legislation.

In addition, Stephen McCrossan, Chairman of Services Insurance and Investment Advisory Panel (SIIAP)¹ has indicated that he believes this is an Armed Forces Covenant issue, based on his contact with Service families and the financial issues they face.

HM Revenue & Custom Policy Paper - Summary of impacts

The HM Revenue & Customs policy paper on this issue contains a ‘Summary of Impacts’². This states, under the ‘Impact on individuals, households and families’ that, “the measure is not expected to impact on family formation, stability or breakdown”. However, the impact on Army families could affect their stability and cause breakdown.

With the nature of work/life balance during Service life, the impact of mobile life on spousal employment and the fact that families may not have immediate family nearby to ask for support for childcare, it can be difficult for spouses to achieve a second income, which may be necessary to manage the additional financial pressures of the new regulations. This could put additional strain on spouses and their relationships.

¹ <http://siiap.org/>

² <https://www.gov.uk/government/publications/restricting-finance-cost-relief-for-individual-landlords/restricting-finance-cost-relief-for-individual-landlords>

In addition, families may refuse to move with their spouse to a new or overseas posting as they are unable to afford to leave their home, resulting in a family living apart during an assignment.

Number of Armed Forces personnel living in their own home

Whilst it is not possible to provide exact figures on how many Armed Forces personnel live in their own home, as at January 2016, Defence Business Services had approved 7,900 applications for the Forces Help to Buy Scheme. The Armed Forces Continuous Attitude Survey 2015 stated that 8% of Army personnel live in a home they own, with 28% in the Royal Navy, 24% in the RAF and 20% in the Royal Marines. Therefore, there could be an impact on a significant number of Armed Forces personnel if they were required to move due to Service life.

Spirit of the policy

The spirit of the policy is to ensure that landlords with higher incomes no longer receive the most generous tax treatment. However, Army families with one property are not commercial landlords using rented properties for significant additional income. Therefore, the lack of exemption for Armed Forces personnel does not meet the spirit of this policy.

Other government policies

This new policy does not match other government policies. For example, the MOD announced on 15 January 2016 that a selection of the biggest high street lenders have agreed that members of the Armed Forces who rent out their homes during deployment will no longer have to change their mortgage to a buy-to-let one. This accepts the notion that Armed Forces personnel are disadvantaged when unable to live in their own property due to Service life.

AFF VIEW:

The new tax regulations on rental income could have a significant impact on many Army families. These families are 'accidental landlords' due to the nature of Service life; they are not high earning professional landlords and the regulations would result in an unfair penalty on families who may need to move to meet Service requirements.

AFF believes that an exemption to this regulation should be made for Service personnel who own only one property and receive rental income for it; allowing them to continue to deduct the interest portion of the mortgage before calculating the tax owed. This would remove the disadvantage caused by Service life.

AFF will highlight this disadvantage to families considering the purchase of their own home and will continue to lobby for an exemption.