Funding the Future

Collecting tax due on rent and buy-to-let gains is not ...

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The London Borough of Newham has suggested that its research has shown that half of all its buy-to-let landlords were not registered for self assessment with HMRC when it introduced a regulatory regime for its landlords. Their estimate is that maybe £200 million of tax is not being paid in London alone as a result of the failure of landlords to register to declare tax that they owe. This compares with HMRC's suggestion that they may lose £550 million of tax a year in this way across the country as a whole.

I have some immediate comments, and then some suggestions. The first is that the rate of non-compliance is at the higher end of research experience for non-declaration (most of which is US based) but still within it. If this rate of non-compliance is, however, to be found in a relatively easily traceable source then it may suggest non-compliance elsewhere in the UK is also higher than expected, including by me.

Second, simple extrapolation clearly suggests that the losses may be higher than HMRC's estimate. I am of course aware that absolute returns on letting in London may be higher than the rest of the country, but I would also not be surprised if gearing was too. In that case straightforward extrapolation may not be inappropriate and losses could very easily considerably exceed £1 billion. To put that in context, the loss in this area of the tax gap alone may amount to half the cost of running HMRC, who are nonetheless planning to slash those costs, and so the chance of tackling this issue over the next few years.

Third, to add a little more context, based on a number of sources, including data from HMRC and letting agencies, I estimated that maybe £3.2 billion of rent was undeclared for tax purposes in 2011. This was about ten per cent of the total rental market at the time, which implied a vastly higher compliance rate than Newham has now found. If the Newham rate was extrapolated at national average rents the undeclared rents would be £13 billion. This, I stress, does not mean tax is lost on that whole sum as costs can be offset even against undeclared income, but it does, rather worryingly suggest that I have been seriously underestimating tax gaps.

Third, the loss, which may when extrapolated across 32 London boroughs, be about

£480 a property, seems very unlikely indeed to take into consideration unpaid capital gains tax. Much of the return from buy-to-let is made in this way. In 2011 I estimated that about twenty one per cent of all privately owned UK housing stock was in the buy-to-let sector, suggesting that the same proportion of sale transactions in this sector at that time were also likely to relate to such properties. Since gains were commonplace at the time this might have suggested almost 200,000 gains on such property should have arisen that year. In fact only 52,000 property sales were declared for CGT purposes. I accept, of course, that some properties may have been sold at a loss and others might have realised non-chargeable gains, but candidly I think this was a decided minority of gains. I estimated that maybe half of all gains were not disclosed as a result, a ratio remarkably similar to the non-disclosure rate Newham suggest exists. I did not attribute a loss to this sector in isolation: if I had it might have exceeded £1 billion.

What this makes clear is the staggering cost of the tax gap. What is as staggering is the government's refusal to recognise the scale of this issue, or to still tackle it properly. What is absurd is that, as Newham has shown, doing so is not hard.

If all landlords had to be registered with HMRC informed much to the problem would be resolved, and landlords could be made to pay the cost.

If only HMRC checked all property transactions for potential gains disclosure (which would not be hard; they are subject to stamp duty or its equivalent in most cases, after all) much of the rest would go away.

This does not happen though, for three reasons.

First, the government would rather cut what they call red tape than collect tax.

Second, they would rather cut costs at HMRC, using the excuse of austerity than collect tax. They are significantly cutting the number of staff at HMRC over the next few years.

And third, they'd rather inequality increased, which this failure on their part permits, than collect tax.

There is gross negligence by taxpayers going on here. But the reality is that the greater negligence is by government who refuse to collect tax owing for dogmatic reasons. We all have a right to be very angry with them.