STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): TWENTY-SIXTH AMENDMENT

RENT-A-ROOM TAX RELIEF

Lodged au Greffe on 28th November 2022
by the Council of Ministers

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): TWENTY-SIXTH AMENDMENT

1 PAGE 2, PARAGRAPH (a) –

After the words "Article 9(2)(a) of the Law" insert the words –

", except that total States income in 2023 shall be reduced by £330,000 following the introduction of a new "rent-a-room" income tax relief to commence in the year of assessment 2023."

2 PAGE 2, PARAGRAPH (e) –

After the words "of the Report" insert the words –

", except that in summary table 5ii, the Head of Expenditure for the Community Fund should be reduced by £330,000"

3 PAGE 2, PARAGRAPH (i) –

After the words "as set out at Appendix 3 to the Report" insert the words –

", except that, underneath Table 10 on page 34, there shall be inserted the heading "Rent-a-room tax relief" below which there shall be inserted the words "Ministers are proposing a rent-a-room income tax relief, under which lodging income of £10,000 a year or less will be exempt from income tax. If lodging income exceeds £10,000 the full amount would be taxable in the normal way but would benefit from the existing concessional treatment. This proposal is intended to encourage better use of existing housing stock and allow Islanders to generate additional income while providing accommodation at a fair rent to ease the housing strain. The required legislative changes will be made by an amendment to the Draft Finance (2023 Budget) (Jersey) Law 202- and would come into force for the year of assessment 2023 and future years".

COUNCIL OF MINISTERS

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to receive the Government Plan 2023–2026 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2023 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law, except that total States income in 2023 shall be reduced by £330,000 following the introduction of a new "rent-a-room" income tax relief to commence in the year of assessment 2023;

(b) to approve the proposed Changes to Approval for financing/borrowing for 2023, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approvals;

(c) to approve the transfers from one States fund to another for 2023 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;

(d) to approve each major project that is to be started or continued in 2023 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

(e) to approve the proposed amount to be appropriated from the Consolidated Fund for 2023, for each Head of Expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report, except that in summary table 5ii, the Head of Expenditure for the Community Fund should be reduced by £330,000;

(f) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2023 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;

(g) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2023 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(h) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2023 as set out in Appendix 2 – Summary Table 8 to the Report; and

(i) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2023-2026, as set out at Appendix 3 to the Report, except that, underneath Table 10 on page 34, there shall be inserted the heading "Rent-a-room tax relief" below which there shall be inserted the words "Ministers are proposing a rent-a-room income tax relief, under which lodging income of £10,000 a year or less will be exempt from income tax. If lodging income exceeds £10,000 the full amount would be taxable in the normal way but would benefit from the existing concessional treatment. This proposal is intended to encourage better use of existing housing stock and allow Islanders to generate additional income while providing accommodation at a fair rent to ease the housing strain. The required legislative changes will be made by an amendment to the Draft Finance (2023 Budget) (Jersey) Law 202-."

REPORT

Summary

This amendment to the proposed Government Plan 2023-26 would create a new "rent-a-room" tax relief for homeowners who let out a room in their home. The Council of Ministers consider that providing a new tax relief would help:

- Provide extra accommodation, relieving the shortage of accommodation for seasonal workers;
- Enable homeowners to retain extra income at a time when some households are struggling; and
- Ease overall accommodation issues and encourage better use of existing housing stock.

The proposal would exempt income from lodgers of £10,000 or less from income tax per annum.

Background

The recently adopted Common Strategic Policy emphasises the Government's focus on driving a sustainable response to the housing crisis and making the most of existing housing stock, as well as making more homes available for key workers.

The 2021 Census found that around one-quarter of households were under-occupying their accommodation according to the Bedroom Standard, which is essentially unchanged from 2011. The Census data also found a decrease in the number of lodgers in private households between 2011 and 2021, with only 2% of households falling into this category.

The Council of Ministers is therefore proposing a new income tax exemption to incentivise homeowners to let out a room in their home.

Current tax relief

Profits made in respect of Jersey property, including lodging income, is subject to income tax under Schedule A of the Income Tax (Jersey) Law 1961.

However, a certain degree of tax relief on lodging income is provided by way of an extra-statutory concession. Those letting out rooms in their homes to 5 or fewer lodgers declare the gross income from this activity in their income tax return, with a 25% flat rate deduction for expenses, extended to 50% for those who provide main meals to their lodgers. This income is then taxed at the taxpayer's effective tax rate. Taxpayers may not pay tax on the additional income from rental if their total income is less than the income threshold. The current relief is available to all taxpayers, whereas most allowances in the current tax system are only available to marginal rate taxpayers.

Unlike the UK rent-a-room scheme (see **Appendix**), Jersey does not currently cap income qualifying for the concession and, therefore, the flat rate deduction is available irrespective of how much a taxpayer earns from lodgers.

Usage of current relief

The following table shows lodging income on which the concession has been claimed in income tax returns submitted to Revenue Jersey and the related income tax figures in recent years:

Year of assessment	No. of taxpayers	Lodging income	Income tax
2019	820	£6m	£525,000
2020	670	£5.2m	£455,000

The decrease from 2019 to 2020 could be driven, in part, by the effect of the Covid-19 pandemic. It is also important to recognise that some taxpayers may incorrectly declare their lodging income and expenses alongside other rental income when they would be eligible for the flat rate reduction. In 2019, 21% of those declaring lodger income provided main meals, and were therefore eligible for the 50% deduction. In 2020, this had dropped to 11%. This is likely because of the effect of the pandemic travel restrictions on foreign language students.

Income profiles of households receiving lodging income subject to the concession

There is a broad spread of households across the income distribution. Total income across all sources for those using the current income tax concession ranged from £60 to £662,000 in 2019 and £750 to £929,000 in 2020. The median income of taxpayers receiving lodging income was around £52,000 in 2019 and 2020.

Few taxpayers rely on lodger income as their main source of income. Only 1% of those declaring lodger income in 2019 had no other sources of income; this rose to 1.8% in 2020. Relatively few claimants relied on a combination of lodger and pension income (4% in 2019, and 6% in 2020).

A new "rent-a-room" relief

Ministers are proposing a rent-a-room tax relief, which could be implemented for the 2023 year of assessment alongside the existing concession. The relief would be delivered through changes to the income tax return in the first instance. This would not require full Revenue Jersey IT systems changes in the first instance – these could be made at a later date.

The relief would exempt relevant lodger income of £10,000 or less from income tax. If the relevant income is above the £10,000 limit, all lodger income would be taxable but eligible for relief under the existing concession.

The only restrictions on lodgers would be as follows:

- Lodger income from 'connected persons' would be excluded.[1] This would retain some targeting towards homeowners who provide accommodation to seasonal workers and/or foreign language students. Connected person exclusions are a common feature of tax reliefs. For example, lodger income received by a parent from an adult child living in the family home would not be

[1] Connected persons are defined in Article 3A of the Income Tax (Jersey) Law 1961

eligible for the proposed relief but would be eligible for relief under the existing concession. The same would be true for lodger income received from other relatives of the homeowner or their spouse or civil partner;

- For safeguarding purposes, the relief would be available only in respect of lodgers aged 18 or over, unless the lodger is placed by an organisation that has in place appropriate child protection policies and procedures. This caveat is intended to cover, for example, foreign language students visiting Jersey who stay in the home of a local host.

The room must be within the house, rather than a separate annex or residential unit. The amendment refers to the Residential Tenancy (Jersey) Law 2011, which defines a residential unit as a self-contained dwelling. Any income derived from these separate units would not be eligible for the rent-a-room tax relief in the same way that such income would not be eligible for the current concessional relief.

Impact on social security contributions

Most people below pension age pay social security contributions on their earnings or business income but not on any rental income they receive. The proposed rent-a-room relief would not affect the contributions liability of this group, nor their eligibility to contributory benefits or the social security pension.

A minority of people (approximately 1,000) pay class 2 contributions on their total income, which includes rental income. It is not known how many in this group currently let out a room in their home. If an individual does let out a room and qualifies for the proposed relief, the amendment would reduce their total income by the amount of rent received and subsequently reduce their class 2 contributions liability.

Note that there may be a very small number of people for whom the reduction in taxable income could take their class 2 income below the Lower Earnings Limit (LEL). If total annual income excluding the lodger income is under £12,192 (2022 LEL), then the contribution payer would not be eligible for earnings-related contributions and would either need to pay full rate contributions or seek an exemption from paying contributions for that period. This would only affect individuals with total income above the LEL figure for that year when lodger income is included, and which falls below the LEL figure if lodger income is excluded.

The current calculation of household income for the purposes of Income Support includes unearned income. The definition of income is included in a Ministerial Order. Changes to policy guidance and/or Ministerial Orders will be considered to mitigate any undesirable or adverse impacts to the Social Security or Income Support systems from the proposed changes to the taxation of lodger income.

Environmental health considerations

The renting of a room within a domestic dwelling occupied by the owner does not fall within the remit of the Residential Tenancy (Jersey) Law 2011, which only applies to self-contained dwellings.

The renting of a room within a domestic dwelling occupied by the owner does not fall within the remit of the Lodging Houses (Registration) (Jersey) Law 1962 – as long as there are no more than five lodgers in total.

The Fire Precautions (Designated Premises) (Jersey) Regulations 2012 outlines that a fire certificate may be required where there are more than 5 people living in a building, where they do not form a single household and one or more of them sleep below the ground floor or above the first floor. This may apply to the rent-a-room scheme depending on the nature of the household and the layout of the accommodation.

The Public Health and Safety (Rented Dwellings) (Jersey) Law 2018 would apply where three or more individuals rent rooms in the same dwelling in which the owner resides and the period exceeds 30 days and there is some form of reward. In these cases the duties outlined in the Law and subordinate legislation would apply to the owner. This would include requirements around electrical safety, gas safety, requirement for smoke detection and similar and ensuring that the property was safe and free of the hazards outlined in the legislation, including damp and mould, excess cold, space, security, trip hazards, falls from height and similar.

Financial and manpower implications

Using 2019 income figures (on the basis that 2020 figures were obfuscated by the pandemic), the proposed measure is estimated to cost approximately £330,000. This estimate does not consider any behavioural changes prompted by the amendment. This is proposed to be funded by reductions in the allocations to the Community Fund.

Given that this measure would be delivered through changes to the income tax return in the first instance, the extent to which the impact of the measure can be assessed using taxpayer data will be limited until the changes can be reflected in Revenue Jersey computer systems. Any future reviews of this measure would be conducted in conjunction with Revenue Jersey compliance activities.

Appendix – Rent-a-room schemes in other jurisdictions

United Kingdom

- The UK scheme allows for individual taxpayers to claim up to £7,500 of income derived from letting out furnished accommodation within their home tax free.
- If qualifying rental income exceeds £7,500 for a year of assessment, there are two options available:
  - Pay tax on the net profit (rental income less allowance expenses and capital allowances); or
  - Pay tax on the gross receipts (rental income) over £7,500. This option requires an election for it to be applied.
- The UK scheme is for those who let a furnished room to a lodger or the letting activity constitutes a trade (e.g., run a guest house, bed and breakfast business etc).

Republic of Ireland

- If you rent a room in your home, and the gross income received is less than €14,000, it will be exempt from tax. If the gross income exceeds €14,000, you are taxed on the net income.
- Income that is exempted under the Rent a Room scheme for income tax purposes is also exempt from Pay Related Social Insurance contributions and the Universal Social Charge.
- The exemption is not available for short-term lettings (minimum occupation of 28 consecutive days).
- The accommodation must be within, or physically attached to, your main residence, and cannot be used for business purposes (e.g., guesthouse, B&B etc.).

Guernsey

- Assessed on a percentage of the gross income depending upon the accommodation & services provided:

Accommodation provided	**Percentage rates**
Full or half board	40%
Bed & breakfast	60%
Room only	80%

- For small guest houses, the same rates apply unless the gross income exceeds £15,000.
- If the income exceeds £15,000, taxpayers are required to file accounts and declare the net figure.