

STATES OF JERSEY



PROPOSED GOVERNMENT PLAN 2024- 2027 (P.72/2023): TWENTY-SECOND AMENDMENT (P.72/2023 AMD.(22)) – AMENDMENT

ABOLITION OF INTEREST TAX RELIEF FOR LANDLORDS

**Lodged au Greffe on 5th December 2023
by the Council of Ministers**

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2024-2027 (P.72/2023): TWENTY-
SECOND AMENDMENT (P.72/2023 AMD.(22)) – AMENDMENT

1 PAGE 2 –

Substitute the words “2026” with “2027”, and after the words “letting properties” insert the words –

“, subject to the outcome of the Fiscal Policy Panel’s review of Jersey’s housing market which will be published in 2024, a full consultation process and consideration of the timing and cumulative impact upon Jersey’s housing market.”

COUNCIL OF MINISTERS

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

1 PAGE 2, PARAGRAPH (a) –

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

“, except that in Summary Table 1 there should be inserted a new line below “Corporate Income Tax” entitled “Interest Tax Relief (letting properties only)” with a figure of £1.9 million to be placed in the column for the 2027 Estimate, to include funds generated from the abolition of interest tax relief on mortgages for letting properties, subject to the outcome the Fiscal Policy Panel’s review of Jersey’s housing market which will be published in 2024, a full consultation process, and consideration of the timing and cumulative impact upon Jersey’s housing market.”

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 2024 – 2027 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 2024 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 in Summary Table 1 there should be inserted a new line below “Corporate Income Tax” entitled “Interest Tax Relief (letting properties only)” with a figure of £1.9 million to be placed in the column for the 2027 Estimate, to include funds

generated from the abolition of interest tax relief on mortgages for letting properties, subject to the outcome the Fiscal Policy Panel’s review of Jersey’s housing market which will be published in 2024, a full consultation process, and consideration of the timing and cumulative impact upon Jersey’s housing market.”

- (b) to refer to their Act dated 30th September 2016 and to approve the application of existing resources for work on the development of ‘user pays’ charges in relation to all aspects of waste, including commercial and domestic liquid and solid waste;
- (c) to approve the proposed Changes to Approval for financing/borrowing for 2024, 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;
- (d) to approve the extension of the use of the existing Revolving Credit Facility to include the provision of funds that would otherwise be implemented through bank overdraft or bank overdraft facilities under Article 26 (1)(a) of the Law, should they be needed, subject to the limits outlined in that article;
- (e) to approve the transfers from one States fund to another for 2024 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;
- (f) to approve a transfer from the Consolidated Fund to the Stabilisation Fund in 2024 of up to £25 million, subject to a decision of the Minister for Treasury and Resources based on the availability of funds in the Consolidated Fund as at 31 December 2023 in excess of the estimates provided in this plan, or from budgeted underspends identified before 31 December 2024;
- (g) to approve each major project that is to be started or continued in 2024 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;
- (h) to approve the proposed amount to be appropriated from the Consolidated Fund for 2024, 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;
- (i) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2024 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;
- (j) to approve the proposed amount to be appropriated from each States trading operation’s trading fund for 2024 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;

- (k) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2024 as set out in Appendix 2 – Summary Table 8 to the Report; and
- (l) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2024-2027, as set out at Appendix 3 to the Report.

REPORT

The Council of Ministers is sympathetic to the amendment, which would remove interest tax relief as an expense against rental property income. However, Ministers are unable to support the amendment in its current form, primarily because the impact of the changes on the rental market are not fully understood, where great care needs to be taken to ensure the timing and approach to such a change does not lead to damaging unintended consequences.

The Fiscal Policy Panel is currently reviewing Jersey's housing market at the request of the Chief Economist. Ministers are willing to work with Deputy Mézec to bring forward proposals building on this amendment, subject to the outcome of that review and consultation.

Who will Deputy Mézec's amendment impact?

The amendment would remove tax relief for smaller investor-landlords on the interest on buy-to-let residential mortgages but may also capture loans for commercial premises. It is unlikely to impact larger-scale investors/landlords who are not able to access such mortgages and who borrow commercially.

A landlord survey undertaken in 2018 in the UK found that 67% of landlords reported they would increase rents to mitigate the impact of the UK's ongoing restriction of mortgage interest tax relief. Crucially, 31% stated they had already done so in the previous 12 months.¹ Whilst many tenancies in Jersey are already limited to RPI increases, the change will still likely have some impact on a landlord's decision to increase rents. Rent stabilisation measures are under consideration as part of the Minister for Housing and Communities' review of the Residential Tenancy Law, although the mechanism and scope is yet to be finalised hence it is not possible to rely on this to support this amendment.

The impact on rental prices will depend on the mortgage interest relief lost and the proportion of rental properties that are financed by buy-to-let residential mortgages. It would be imprudent to make this change without undertaking further analysis into the impact that this measure could have on the property market in Jersey.

Current context for the rental market in Jersey

There have been a number of changes and events in the last 18 months that will be having some impact on Jersey's private rental market, both in terms of costs and regulation. This includes:

- Increases to the Bank of England base rate, which has led to higher mortgage costs for some homeowners and buy-to-let landlords in Jersey.
- In January 2023, a higher rate of Stamp Duty became payable for second homes and buy-to-let purchases, which will be impacting the choices of landlords considering entering the rental market, coupled with an uncertain property market outlook.
- In Spring 2023, the Minister for Housing and Communities published a white paper outlining proposals to modernise the Residential Tenancy Law,

¹ Jones et al, 'The impact of taxation reform on the private rented sectors', *University of Cambridge*, May 2018, available [here](#).

introducing greater protections for both landlords and tenants and address rent stabilisation measures.

- Rented Dwellings Licencing Regulations have been adopted by the States Assembly, for implementation in May 2024.

There are currently low levels of movement in Jersey's housing market, and whilst a landlord choosing to exit the market would normally mean a property re-enters the housing market for sale, there are currently difficulties in attaining sales and many owners – both landlords and owner-occupiers - find themselves to be somewhat stuck. Great care therefore needs to be taken in considering new measures that will impact Jersey's housing market at this time, and it is appropriate that this work is done before agreeing a binding commitment to implement tax changes where the timing, impact and consequences have not been appropriately measured.

The Fiscal Policy Panel is currently reviewing Jersey's housing market at the request of the Chief Economist. Ministers are willing to work with Deputy Mézec to bring forward proposals building on his amendment, subject to the outcome of that review and consultation.

Financial and staffing implications

There will be no direct financial implications arising from this amendment to the amendment. Further work undertaken in 2024 and future years will be undertaken by officials using existing budgets.