

STATES OF JERSEY



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

ABOLITION OF INTEREST TAX RELIEF FOR LANDLORDS

Lodged au Greffe on 27th November 2023
by Deputy S.Y. Mézec of St. Helier South

STATES GREFFE

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

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 2026 Estimate, to include funds generated from the abolition of interest tax relief on mortgages for letting properties”.

DEPUTY S.Y. MÉZEC OF ST. HELIER SOUTH

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 2026 Estimate, to include funds generated from the abolition of interest tax relief on mortgages for letting properties;
- (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

Summary

This amendment, if adopted, would remove interest tax relief on mortgages for letting properties starting from the 2026 year of assessment.

Background

In 2016, the States Assembly agreed to the abolition of Mortgage Interest Relief for owner-occupiers. This was to be achieved through phasing it out over several years. That process will be complete from the year of assessment 2026.

This was supposedly done to address the alleged “unfairness” where a tax relief for the cost of housing was available for homeowners with mortgages, but no equivalent existed for those who rented their homes. Rather than seeking to ‘level-up’ the situation for renters (a situation which has become immeasurably worse in recent years), the Ian Gorst-led austerity government instead chose to level-down the situation for working households with mortgages.

Despite this having been done apparently on the grounds of fairness, the ability for buy-to-let investors to deduct interest payments on their mortgages from their rental income to pay tax on remained unchanged.

Some now regard it as an injustice that families have lost this tax exemption for the homes they live in, whilst those who already own their residences and aim to profit by acquiring additional properties for renting can still enjoy this tax benefit.

“Business expense”

If you are a landlord, you can currently deduct genuine business expenses from the rental income you would otherwise pay tax on. Few would argue this is unreasonable where it leads to improvements in the quality of the property or the service provided by the landlord.

If a landlord invests in their property by upgrading the kitchen facilities, that is clearly a business expense. If the landlord pays to repair a roof that has been damaged by bad weather and is causing leaks, that is clearly a business expense. However, paying interest on a buy-to-let mortgage is not a business cost. It is the cost of acquiring the asset. Paying the interest on the mortgage does not improve the service the landlord provides nor improve the quality of the property.

A tax relief on the interest on buy-to-let mortgages is an incentive to assist a small class of people to acquire a capital asset, the value of which will likely increase, even if the investor does nothing to improve the property.

Prior to 2018, landlords could claim the payment of Parish Rates on their rental properties as a business expense. This changed following an amendment to the Budget in 2017, where it was pointed out that Parish Rates are not business expenses, they are taxes. Being able to claim one tax as a business expense to be deducted for another tax was nonsensical. As this anomaly has been rectified, so too should the ability to consider interest payments on mortgages as a business expense be removed.

But-to-let investments

Low interest rates in recent years have led to a culture where buy-to-let investments have been considered a safe and reliable way to make money, including expecting a yield early in the investment. Instead of people buying properties outright or nearly outright, more investors have purchased properties with a plan to set the rents on those properties at a level which would cover the entire mortgage for them. In other words - they would get their tenants to pay for the property for them.

This has seen more people become landlords who are realistically at the lower end of the scale of wealth that an investor needs in order to make a property purchase a viable long-term investment, rather than a short-term money maker. There are grave concerns that this situation, coupled now with the rise in interest rates, has led to upwards pressure on rent levels, where we now face the absurd situation where newly built, unpleasant, tiny, one-bedroom, single-aspect apartments with no parking are being bought straight away by investors who then charge rents of sometimes up to £1,500 a month. These rent levels put a single person on well above the average salary into rental stress.

On 24th November this year, Statistics Jersey published a report¹ confirming the numbers of locally qualified people who are leaving Jersey. It did not take long before commentators started drawing a link between this evidence and the cost of renting in Jersey.

My hope is that this proposed move (along with the new Stamp Duty surcharge for BTL properties) will help shift the buy-to-let market back to a position where investors have more reasonable expectations on what returns they can expect to see and whether it is appropriate to take on properties that they have to require a tenant to pay for.

Timetable

It is proposed that this change be enacted to coincide with the end of Mortgage Interest Relief for owner occupiers. This provides a year of notice to investors to be aware that this is coming. It also provides time for a new Residential Tenancy Law to be in place that, hopefully, provides mechanisms to control rents and abolish 'no fault' evictions, mitigating any potential disruption to the market that this could cause.

Financial and staffing implications

Revenue Jersey has estimated that the income generated from this change in 2026 will be approximately £1.9m.

¹ [R PopulationAndMigrationStatisticsUpdate2022_20231124 SJ.pdf \(gov.je\)](#)