

22 March 2007

BUDGET CHEER FOR LEASEHOLDERS

This week's budget brought good news for tens of thousands of residential leaseholders who had been suffering from a penalty tax rate of 40%.

The Chancellor announced that the rate of tax on interest earned on communal reserve funds of blocks of flats was to be reduced to 20%, thus saving leaseholders some £3m of excessive tax.

The Budget statement announced:

“The Finance Act 2006 provided relief from the 40 per cent trust rate of tax on income arising from service charges and reserve funds in the social housing sector. Reserve funds are an efficient way to save money for the upkeep and repair of properties. To place the private housing sector on the same footing as the social housing sector, the Government announces that it will extend this relief to the income on service charges and reserve funds held by private sector landlords on trust.”

The Association of Residential Managing Agents (ARMA) and the Association of Retirement Housing Managers (ARHM) have been at the forefront of lobbying for this change for two years as it was clearly inequitable that the social housing sector paid a tax rate of 20% whereas private sector housing paid 40% for the same thing.

“We are delighted that our voice has now been heard,” comments David Hewett, executive secretary of ARMA, “and that the 1.5 million private sector leaseholders will now get a fair deal. We have worked very hard on their behalf to persuade the Treasury to change its mind. We see it as at least one small victory over legislation that continuously penalises leaseholders.”

Under the terms of most leases leaseholders are required to contribute annually to a reserve fund set up to cover future major works. As these funds are held under a statutory trust the Treasury decided to have a one-cap-fits-all approach to interest earned of over £1000 by applying its trust tax rate of 40%. This rate was set to avoid wealthy people using trusts to avoid higher rates of income tax.

“We have always felt this was an absurd situation,” continues David Hewett, “which implies that all private sector leaseholders are rich and are seeking to avoid tax. It was also flying in the face of the government's better housing policy by actually discouraging leaseholders from saving for the future maintenance of their buildings.”

ARMA is the only body in England and Wales to focus exclusively on matters relating to the block or estate management of residential long leasehold property. With over 180 corporate members managing around 750,000 units in an estimated 30,000 blocks of flats or estates (at least 60% of which are lessee-controlled properties), the Association's founding principal aims are to work to represent the interests of and towards improving standards for lessees, resident management companies and investor freeholders. ARMA believes there are approximately 1.5 million long leasehold flats in England and Wales roughly split 50:50 between purpose-built and conversions.

However, Government statistics indicate, that according to the Survey of English Housing for 1998/99, two-fifths of these leasehold flats are currently managed by the leaseholder themselves, without the use of an agent.

On the basis of these figures it would appear that ARMA members manage over three-quarters of properties under professional management in England and Wales.

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