



## Research report 636

# Letting agents' experiences of operating the Non-Resident Landlord Scheme

## Emerging themes from small-scale qualitative research

Kantar Public

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## Glossary of Terms

CRM	Customer relationship management
NRL	Non-resident landlord
NRLQ	Quarterly return form
NRLY	Annual information return form
NRL1	Application form for HMRC approval for landlord to receive gross rental income rather than having tax withheld by agent
Scheme	The Non-Resident Landlord Scheme

## Background

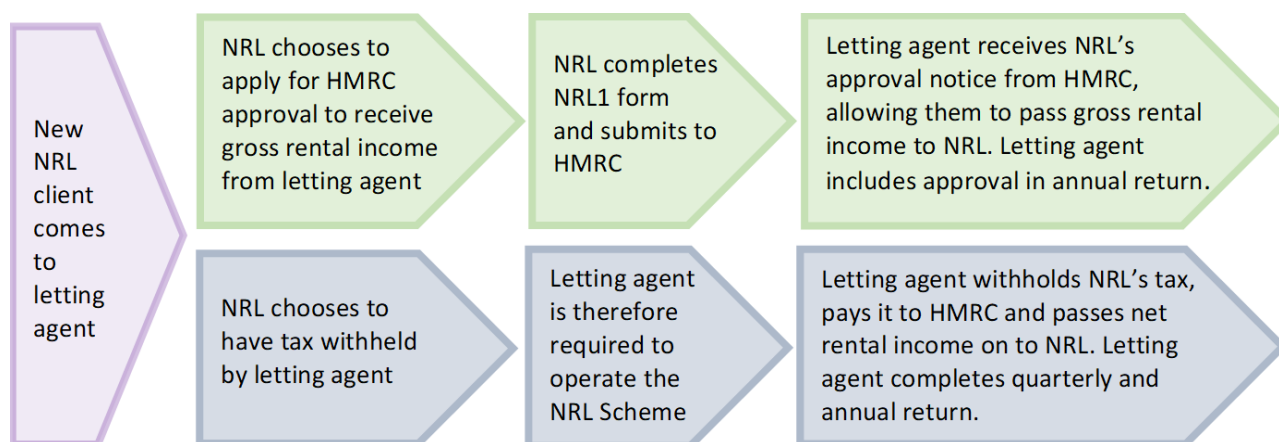
HMRC commissioned Kantar Public to undertake research on letting agents' experiences of operating the Non-Resident Landlord (NRL) Scheme.

In the UK, tax is due on income arising from UK property regardless of where the recipient is resident. The NRL Scheme is a withholding tax regime to ensure tax is collected from overseas landlords on their UK property income.

HMRC requires all letting agents with NRL clients to register with the Scheme. Once registered, letting agents can deduct tax directly from the rental income due to the NRL. They must then submit quarterly returns (including the NRLQ form and payments) and an annual information return (NRLY) to HMRC - and provide NRLs who have had tax deducted with an annual certificate.

As an alternative to this, NRLs can apply for approval from HMRC to receive gross rental income (minus fees and expenses) from their letting agents, and they can resolve their tax liability to HMRC through the Self Assessment process. If this approach is taken, there is no need for letting agents to send quarterly returns to HMRC. However, they must still submit an annual return and they are required to include the approval number from HMRC in this annual return.

### Pathway options for NRLs to have tax withheld or receive gross rental income



The NRL Scheme was introduced in 1996 as a paper-based Scheme and it has not been substantially amended since. This research was therefore commissioned to **explore letting agents' understanding and experiences of the Scheme with a view to identifying potential improvements to its design and operation.**

## Method

The research took a qualitative approach, as it sought to identify rich insights and themes, rather than generate statistically representative findings. The research involved engaging with twelve participants from different letting agencies who each completed an hour-long qualitative, in-depth interview by telephone or video call.

between March and July 2021. A broad mix of participants across a number of different criteria were interviewed, including:

- a range of business sizes (from 1 to 300 branches)
- a mix of businesses with different numbers of NRL clients (from 5 to 3,000)
- a mix of locations (Greater London, South East, North West and East of England)

The target sample size of 25 interviews was not achieved due to a number of challenges that arose during recruitment: in particular, that it was not possible to obtain a list of letting agents who participated in the Scheme, or to identify contact lists for letting agents who could then be screened; and further, at initial contact, some letting agencies were not aware of the Scheme or whether or not their agency operated it. These agencies were therefore screened out from taking part in the research. Please note, it was not always possible to know whether this was down to an issue with awareness on the part of the initial point of contact – although the research agency ensured that they spoke to Managing Directors and Lettings Managers wherever possible.

**Due to the small sample size, findings need to be used with caution. The findings can provide an indication of emerging themes, but they cannot be considered highly robust.** Nonetheless, we are publishing this short report in the interests of transparency.

## Emerging themes

### Awareness and understanding of the Scheme

**Among those interviewed, there was good awareness of the Scheme** – although only those lettings agencies which were aware of the Scheme were selected to take part, as explained above. **In terms of the source of their awareness of the Scheme, this varied depending on their role.** Senior staff (e.g. business owners and Managing Directors) reported becoming aware from external sources, such as professional memberships and training, whereas operational staff (e.g. Lettings Managers and Accounts Managers) often found out about the Scheme internally from a more senior or more experienced colleague.

Among the sample, **letting agents typically identified that the Scheme applied to a landlord and introduced and explained it to the NRL.** The letting agent was often the first source of information that landlords consulted in regard to paying their tax liability. But none of the letting agents interviewed had been asked by the landlord about being covered by the Scheme, which could suggest that awareness of the Scheme among NRLs is low.

In terms of the process, some letting agents in the sample proactively and routinely asked all new landlords questions to assess whether the Scheme applied to them at sign-up. Others reported that their Customer Relationship Management (CRM) software would notify them if any existing UK landlord moved overseas. However, there were also letting agents that took a more reactive approach and only considered whether they needed to operate the Scheme for a landlord if they

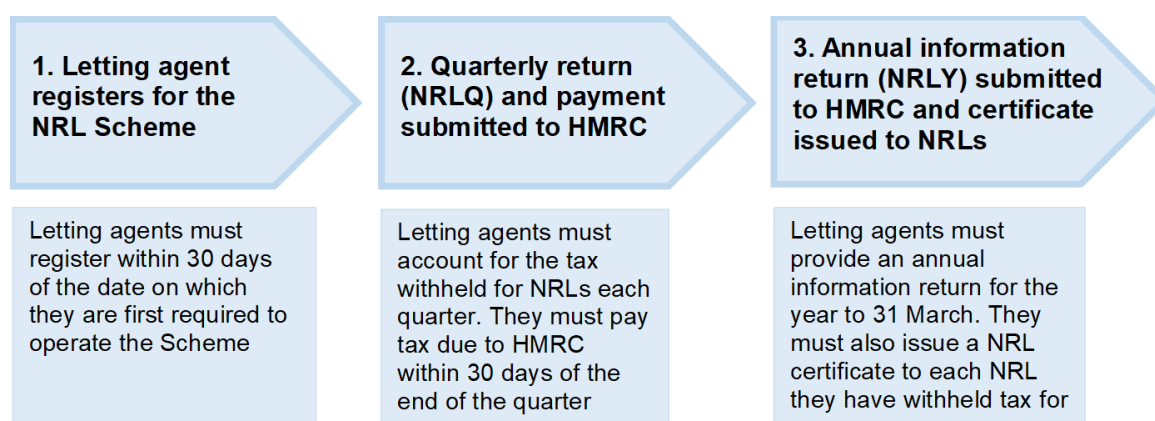
received international contact or banking details from any new landlords joining the agency.

Levels of understanding of the Scheme's overall purpose – to ensure overseas landlords pay tax on their UK properties – were generally strong among the letting agents we spoke to. **However, there were different interpretations among participants of how the Scheme should be operated in practice.** Some letting agents perceived that one route, either NRL approvals or letting agent deductions, was the 'right way' to proceed and acted accordingly. Some less experienced letting agents thought it was mandatory to deduct tax through the Scheme and were not aware of the approval option. Among those who were aware of both options, some exhibited a strong preference for NRLs to seek approvals to resolve their tax liability through the Self Assessment process as they perceived that it required less administration on their part. Some letting agents charged additional fees for operating the Scheme.

### Experiences of operating the Scheme

There are three main stages for operating the Scheme that letting agents must follow. These are detailed below.

#### The main stages for letting agents operating the NRL Scheme



**The use of CRM software by participants was a significant factor in letting agents' ease of operating the Scheme.** Participants typically reported using a dedicated business system to manage their clients and properties that allowed them to easily collect and provide the information necessary for quarterly and annual returns. Participants reported that their software would automate or streamline the process of calculating withheld tax – and, in some cases, the software would also automate the production of certificates. As a result, the **letting agents we spoke to generally found that the NRL Scheme was straightforward and easy to operate.**

**Where letting agents did express points of frustration, these were mostly related to the paper-based aspects of the process.** Paper forms (used for quarterly returns (NRLQ), annual returns (NRLY) and to produce annual certificates) were seen as less convenient, outdated and more difficult to access and return

compared to the alternative of a completely online system. A number of participants reported delays in receiving the quarterly forms posted by HMRC, and found the annual return to be easier to access and complete as it is available online.

Similarly, the provision of paper certificates to landlords was seen as a time-consuming process among those in the sample with high numbers of NRLs whose software did not fully automate the process. **The lack of digitalisation of the Scheme was an inconvenience for all letting agents interviewed, but particularly so for large agencies** who faced greater challenges with the paper-based aspects of it, such as the bulk-printing and posting of numerous documents.

**Letting agents in the sample also reported that they did not always receive a timely response from HMRC regarding NRL's applications to receive gross rental income.** Some letting agents we spoke to reported waiting several weeks for HMRC to provide approval numbers, which would then negate the need for letting agents to submit a quarterly return. If the approval number was not received in time, letting agents were required to complete a quarterly return and deduct tax for an NRL whilst awaiting approval. Letting agents also suggested the digitalisation of this process to reduce waiting times.

**Across each stage of the process, participants in the research presented mixed levels of understanding of what was required in terms of the operation of the Scheme, which meant that practice varied between individual letting agents.** Regarding NRL's application for approval to receive gross rental income, some letting agents reported they completed NRL1 approval forms on behalf of NRLs, but then continued to deduct tax. Although they thought this was correct procedure, it is in fact not the purpose of the NRL1 form - which is to enable NRLs to seek HMRC approval to receive gross rental income. Others reported they printed and sent additional data – which they believed HMRC required as supporting evidence – with their quarterly returns, up to 75 pages in one case. There was also inconsistency around the provision of landlord certificates, with some providing (automated) digital copies to NRLs whilst others reported that paper copies were a requirement.

## **Suggestions for improvement**

**Letting agents interviewed suggested improvements to the Scheme primarily centred around digitalisation.** Elements they wanted to be digitalised included all quarterly and annual return forms (which they wanted to be able to access, complete and submit digitally rather than printing them off) and the production and provision of annual certificates. This was expected to improve the ease of operation, reduce the administrative burden and reduce anxiety around postal delays. Additionally, they wanted all communications from and to HMRC to be digital, particularly approval notices (to reduce delays that might require unnecessary deductions under the Scheme). While all letting agents interviewed wanted full digitalisation of the Scheme, this could be expected to have the biggest impact on larger letting agents.

**Letting agents who participated also wanted HMRC to improve awareness and understanding of the NRL Scheme among NRLs;** for example, through the provision of clearer guidance on GOV.UK and information in other languages for

those for whom English is not their native language. This was expected to help letting agents explain the Scheme to NRLs. One final suggestion raised by some letting agents was that it would be helpful to receive reminders from HMRC when returns are due.