

Furnished Holiday Let (FHL) Regime Abolishment Webinar

4 September 2024

Your host and presenters today



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Running order and agenda

12:00 Introduction to FHLs

- Impact of changes
- Tax implications for individuals
- Tax implications for companies
- Other aspects

12:50 Q&A

13:00 Close



Timeline

1984
Distinction
for FHLs

2022
Office of Tax
Simplification

March 2024
Spring
Budget

29 July 2024
Draft
Legislation

30 October
2024
Autumn
Budget

1 & 5 April
2025
FHL Regime
Ceases

Tax implications for individuals



Income tax for individuals

	Current rules to 5 April 2025	New rules from 6 April 2025
Ownership	Flexibility to split profits between owners	Limited flexibility
Expenses	General running costs allowable	No change, these will still be allowed
Capital allowances	Can be claimed for expenditure on new fixtures/fitting/furniture and furnishings	Only Replacement of Domestic Items rules will apply. Capital allowances will no longer be available but transitional rules have been set out
Loan interest	No restriction	Restriction applies
Losses	Losses utilised against FHL property businesses only	Transferred to UK property business
Pension contributions	FHL profits count as relevant UK earnings for pension contributions	No longer the case

Loan interest impact – example

A higher rate taxpayer who has an annual mortgage interest charge of £10,000 with an overall profit of £40,000 (after deduction of expenses and before deduction of loan interest)

Before the abolishment of the FHL regime:

The mortgage interest is deductible in full against the property income to arrive at the taxable profit. The total tax payable would be $£30,000 \times 40\% = £12,000$

After the abolishment of the FHL regime:

The mortgage interest is not deducted from property income to arrive at the taxable profit. Relief is given at the basic rate (20%) after tax has been calculated. The tax payable would be $£40,000 \times 40\% = £16,000$, less the tax reducer of £2,000 ($£10,000 \times 20\% = £2,000$), leaving a tax liability of £14,000

In this scenario, the overall increase in the tax liability is £2,000



Losses impact – example

An individual has four long-term let properties (BTLs) and one short-term let property (FHL). The now combined property portfolio generates an overall profit of £50,000 for the 2025/26 tax year. There are FHL losses brought forward of £35,000.

Previously, FHL losses could not be offset against BTL profit, but from 6 April 2025, losses will be combined, meaning that losses carried forward from tax years up to and including 2024/25 will not be lost.

Therefore, in the scenario above the taxable portfolio profit would reduce from £40,000 to £15,000, saving tax of £10,000 for a higher rate taxpayer.



Key takeaways

- Ownership planning
- Loan/mortgage refinancing
- Capital allowances claims
- Pension contributions
- Wins for those looking to exit FHLs with losses



Capital Gains Tax (CGT) for individuals

	Current rules to 5 April 2025	New rules from 6 April 2025
Residential property	Subject to the 60-day CGT rules Current CGT rates of 18% and/or 24% (unless reliefs applicable)	No change No change under current CGT rates
Business Asset Disposal Relief (BADR)	CGT rates reduces to 10% - conditions apply	Transitional rules apply only
Business Asset Rollover Relief	Capital gain can be “rolled over”. CGT is deferred until new property is sold	No longer available
Gift Holdover Relief	If business assets are given away, CGT is paid by the recipient when they sell or dispose of it	No longer available
Anti-forestalling measures	Announced that these would take effect from 6 March 2024	Measures will apply to disposals where a contract is entered into before 6 April 2025, but the contract is not complete until after this date

Key takeaways

- Selling the property prior to 5 April 2025 to secure BADR
- Gifting the property prior to 5 April 2025 as part of succession/IHT planning
- Budget changes

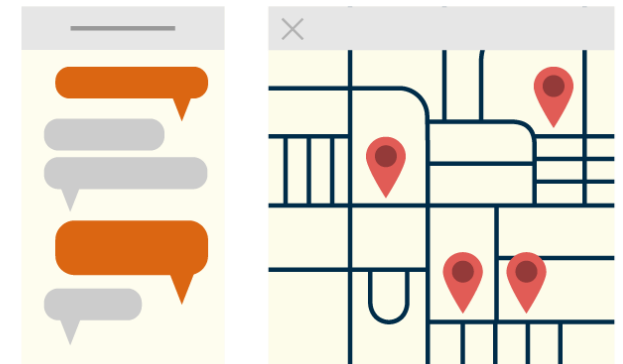
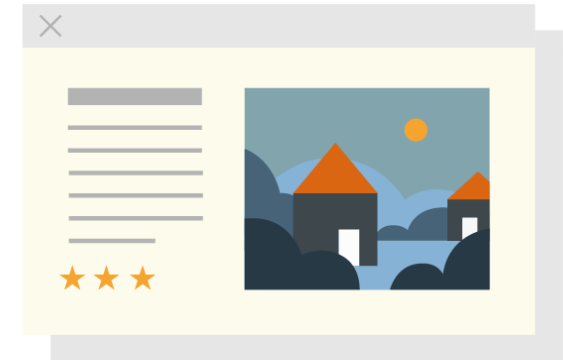


Tax implications for companies



Company-owned FHLs

- The FHL regime will be abolished for companies on 1 April 2025
- Adjustment needed where an accounting period straddles this date
- Losses arising in an FHL business are carried forward and treated as losses of the corresponding property business (either UK or overseas as appropriate) from 1 April 2025
- BADR is currently available provided that qualifying conditions are met (as outlined above for individuals)
- Loss of Rollover Relief for sale of FHL properties
- Full expensing of loan interest to reduce corporation tax
- Consider alphabet shares to enable beneficial profit extraction
- No 60-day reporting for capital disposals



Personal ownership v company

	Personal	Company
Mortgage interest	Basic rate only	Full relief before corporation tax paid
Tax rates on rents	20% / 40% / 45%	19% / 25%
Tax rates on gains	18% / 24%	19% / 25%
Extraction	Already taxed	Salary/dividends
Interest rates	?	?
Occupation by business owner	Restriction on costs	Benefit in kind
ATED	No exposure	Possible return to complete to claim exemption
SDLT	3% premium if other properties	3% premium by companies 15% surcharge can apply

Other aspects

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Other aspects

Inheritance tax (IHT)

HMRC's view is that FHLs will, in general, not qualify for business property relief (BPR), which we anticipate will continue to be the case.

VAT

The draft legislation is silent on VAT and therefore could remain applicable. It's currently unclear how this will be managed.

Trust/partnership owned FHLs

There will be no exceptions for trust and partnership owned FHL businesses and these will be subject to the same new rules as outlined.

Business rates or Council Tax

No detail of any changes currently known.



Other aspects

New registration scheme

The Government announced in February 2024 that a new registration scheme is set to be brought in for short-term holiday lets. Separate planning application measures could also be introduced but how councils will administer this is unclear.

Making Tax Digital (MTD) for Income Tax Self-Assessment

Requires landlords to maintain digital records and update HMRC on a quarterly basis.

Cash basis

Simplified accounting, receipts and payments only from 5 April 2017 (unless you elect).



Today's team



Sally Farrow

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Sally is the lead partner in our dedicated Private Client, Trusts and Probate team. She oversees tax compliance services with a particular focus on tax planning and advisory services. Sally has over 20 years' experience and is a Chartered Tax Advisor and a member of the Society of Trust and Estate Practitioners.



Chris Scargill

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Chris heads up our specialist Tourism, Leisure and Hospitality team. A Chartered Tax Advisor and Fellow of the Association of Chartered Certified Accountants, he helps individuals and businesses plan ahead to minimise tax liabilities, acting for a number of high-wealth individuals and personal tax clients.



Jordan Smith

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A Chartered Tax Adviser, Jordan is an Assistant Manager in our Private Client, Trusts & Probate team. He works with a diverse portfolio of clients, helping them with complex tax planning. Promoted to Assistant Manager in 2024, he is driving the integration of technology within the firm to enhance client service.



Mel Howard

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Mel is an Assistant Manager in our Private Client, Trusts and Probate team, dealing with personal tax compliance and advisory work.

A qualified member of the Association of Tax Technicians, she has a specialist interest in working with clients with Furnished Holiday Let property and is part of our Tourism, Leisure and Hospitality team.



Summer Dyball

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Summer is a Tax Assistant in our Holt office and helps clients with Furnished Holiday Let properties and their tax-related matters.

Thank you for joining us

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