



## Furnished Holiday Lets: A guide to the new tax treatment August 2024 update

Plans go ahead for the Furnished Holiday Let regime to be abolished from April 2025

The Government has finally issued draft legislation outlining the plans to abolish the Furnished Holiday Lettings (FHL) tax regime from 6 April 2025, meaning short-term and long-term lets will be treated the same for tax purposes. This means individuals and companies with a mix of FHL and non-FHL residential properties (known often as buy-to-lets) will no longer need to calculate and report income separately.

Based on the draft legislation, we have outlined below our current understanding of the impact of these changes.

### When will this change take place?

The rules announced propose the regime will be abolished from 6 April 2025 for individuals and 1 April 2025 for companies.

Specific transitional rules have been outlined, which will provide businesses with the opportunity to invest now without being negatively affected. Advancing expenditure prior to 1 or 5 April 2025 could be advantageous but time is key and we recommend taking advice as soon as possible.

### Who could be impacted the most?

The most impacted will be:

- Individuals with high borrowings, where only basic rate tax relief will be available.
- Individuals who do not want to formally reallocate a capital share of the property to their spouse or civil partner (where no capital gains tax (CGT) arises).
- Married couples who have been fluid with profit allocations
- Individuals and companies wanting to expand or carry out major property renovations, where much of the cost will no longer be an allowable deduction.

### Simplification

There will no longer be a requirement to report income from FHLs separately and for different rules to be followed. The same rules will apply for both short-term and long-term lets.

### Losses incurred from April 2025

The rules currently only allow for FHL losses to be carried forward and set against future FHL profits.

Losses from short-term and long-term lets will be combined from April 2025, meaning that losses being carried forward from tax years up to and including 2024/25 will not be lost.



## VAT: The draft legislation is silent on VAT and we have asked for clarification from HMRC

While it's currently unclear, it's possible that one exception to the changes will be that VAT rules will still apply and relevant short-term lets will stay within the scope of VAT. Currently, FHLs are caught by the VAT registration rules when turnover meets the threshold, currently £90,000 (from 1 April 2024).

Advice should be taken on anyone selling a VAT registered activity or a VAT registered business deciding to cease short-term letting, as there could be consequences of ceasing the VAT registration.

### Capital taxes for individuals

Capital gains reliefs will no longer be available from April 2025.

- **Business Asset Disposal Relief (BADR)**, being the relief we see most widely used, results in the gain on the sale of qualifying property being taxed at a lower rate of 10%, rather than the residential rates of 18% and/or 24%. **Transitional rule:** Where the FHL qualifying criteria is met for a business that ceases prior to 5 April 2025, relief may continue to apply to a disposal that occurs within the following three-year time limit.
- **Gift Holdover Relief** has been valuable when gifting FHL properties to defer the gain until the ultimate disposal takes place. From April 2025, this will no longer be available.
- **Business Asset Holdover Relief:** Where a gain on a business or similar asset has arisen, the vendor could "roll over" the gain into an FHL investment, deferring the gain until the ultimate sale of the property. From April 2025, acquisitions of FHLs are no longer qualifying replacement assets for the purpose of this relief.

#### Regarding rollover:

There is a question over the timing of the replacement of assets arising after the transition date, but sold pre April 2025. We are awaiting clarity on this from HMRC.

### Capital allowances

FHL owners can currently claim capital allowances for fixtures, fittings and integral fixtures as well as furniture within the property. This is particularly valuable for a new business kitting out a property for the first time, or where a renovation has taken place. Historically, 100% relief can be claimed and set against the income achieved in the first period of trade, or the expenditure used to enhance losses.

Under the long-term let rules, there's generally no deduction allowed for new fixtures and fittings, or the initial costs of furnishing the property.

Future deductions for repairs and replacing domestic items are, however, allowable.

#### We now know:

1. Those with an existing capital allowances pool being carried forward can continue to claim allowances on the pool but any expenditure after April 2025 is caught by the new rules.
2. No disposal value is required to be brought into account and therefore no clawback where losses have arisen from claims for integral fixtures and furnishings.
3. Planning point: Capital allowances claims should be maximised now on spend made prior to 5 April 2025.

### Bank and loan interest for individuals

Currently, under the FHL rules, there is no loan interest restriction in place. Under long-term residential let rules, rental profits are calculated without loan interest (then a 20% tax relief claim on the interest incurred is deducted from your tax liability). As expected, the draft legislation means the following:

- Individuals who would otherwise have been paying tax at the basic rate will become higher-rate taxpayers, once the finance costs are disallowed.
- If you become a higher-rate taxpayer after calculating your rental profits, you will only claim relief at 20% (basic rate) and lose higher-rate tax relief on your finance costs, resulting in a higher income tax liability.
- Becoming a higher-rate taxpayer could potentially impact the rate of CGT paid and the High Income Child Benefit Charge (HICBC) (although there will be an increase in the HICBC thresholds in 2024/25).

### Relevant earnings for pension contributions

Currently, FHL profits count as relevant earnings for pension contributions. This will no longer be the case from April 2025.



## For individuals: Income and profit allocations

From 6 April 2025, for married couples there will no longer be an option to apportion the income to align with the individual carrying out the majority of the management of the property. By default the split will be 50:50, but if there is a different ownership ratio, an election can be made to HMRC.

For unmarried couples or individuals who own a property together, the opportunity to allocate profits in line with actual ownership still applies, without the need for an election. There is also an option to divide profits or losses on a flexible basis, if agreed between the owners, and can differ from the actual ownership ratio. The share for tax purposes must be the same as the share agreed.

Where a property is part of a partnership, specific rules will apply.

Therefore advice is required on the allocation of profits and which records should be kept.

## Planning measures for individuals

Those with an FHL property may wish to consider the options open to them before the FHL rules are abolished in April 2025. These could be:

- **Selling the property** (where the disposal may benefit from a 10% tax rate) **or gifting the FHL property** as part of succession planning. There is a window of opportunity to take advantage of reliefs available prior to 5 April 2025, for those businesses which meet the conditions. Please get in touch to discuss with a member of our team if you are thinking of selling or gifting your property, as soon as possible. Anti-forestalling rules will, however, apply from 6 March 2024, to prevent a tax advantage through the use of unconditional contracts to obtain CGT relief under the current FHL rules.
- **Ownership planning** around legal and beneficial ownership under long-term letting rules. It's important to consider both the income tax and CGT implications and we therefore recommend that you get advice before taking any action.
- **Incorporation planning.** We strongly recommend taking advice as there are penal Stamp Duty Land Tax rates, Annual Tax on Enveloped Dwellings implications (where there is owner use of the property), potential CGT on the transfer of property to a company and ongoing double taxation implications to consider.



## Business rates/council tax implications

A number of FHLs benefit from reduced council tax contributions by registering for business rates and falling below the de minimis thresholds.

It would be easy to assume that such beneficial savings are unlikely to continue, but we await the detail of any changes proposed.

## Company and trust owned FHLs

The new rules also relate to FHLs owned within a corporate and trust structure.

- The commencement date for companies is 1 April 2025 and where an accounting period straddles this date, the accounting period will need to be apportioned into two separate accounting periods.
- Post-commencement disposals by companies with substantial shareholdings will be affected.
- From commencement date, a loan in relation to an FHL business ceases to be a qualifying loan for the purpose of loss claims on irrecoverable loans.
- The commencement date for trusts is the same as for an individual, being 6 April 2025. There are no other exemptions relating to trust owned property.

## What next?

There is a short window of technical consultation between 29 July and 15 September and we anticipate the final legislation will be included in the next Finance Act. If you would like to discuss any of the above, please get in touch with your usual contact at Larking Gowen.



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We recommend, however, that you speak to one of our rental property specialists, to enable us to consider and advise you in respect of your individual scenario.

*Meet the team*

# Private client property specialists

Larking Gowen's specialist team is highly experienced in the commercial and residential letting sector.

We provide accounting services for hundreds of businesses and individuals throughout Norfolk, Suffolk and Essex.

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