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Property Tax & Accountancy

Furnished Holiday Lets

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Tax is Changing

October 2024

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FHL (Furnished Holiday Lets)

Tax Changes Due 2025

Following the announcement in the Spring Budget regarding the abolition of favourable tax treatment of Furnished Holiday Lets, the **draft legislation** was published on 29th July 2024.

The changes are due to come into effect:

6th April 2025 for individuals.

1st April 2025 for companies.

These changes are:

1. **Tax relief on Buy To Let loan interest**

Currently: The full cost of the interest is deductible against the rental income (***this does not apply to companies***)

Change: The full cost of the interest will no longer be deductible against the rental income (***this does not apply to companies***). Interest relief will be given as a 20% tax credit, which is the same as a traditional buy to let property.

2. **Pensions**

Currently: FHL profits are treated as 'relevant earnings' (income such as salary or profits, that allow you to get tax relief when contributing to a pension) with regards to pension contributions.

Change: Pension contributions post 6th April 2025 will no longer be relevant earnings, and this will therefore will restrict the amount of relief available for pension contributions.

3. **Capital allowances**

Currently: Capital allowances can be claimed at 100% for FHL properties.

Change: For all new expenditure from 6th April 2025, the 'replacement of domestic items relief' will be claimable instead. This is for replacing items but **not** for improvements or initial purchase.

Note: If you have a capital allowances pool for your FHL, you can continue to claim writing down allowances after 6th April 2025.

4. **Losses**

Currently: Losses can only be offset against other FHL profit only.

Change: After 6th April 2025 losses (including carried forward FHL losses) can be offset against other rental income, to ensure losses can be utilised in future years.

5. **CGT (Capital Gains Tax)**

Currently: FHL properties are currently treated as a trade for tax purposes, meaning that, any gift or sale of FHL properties qualify for the following reliefs:

- Business Asset Disposal relief
- Business Asset Rollover relief
- Gift relief
- Relief for loans to traders

Change: The above reliefs will be abolished for individuals from 6th April 2025 and 1st April 2025 for companies.

6. **Jointly owned properties**

Currently: Joint rental income from the profit is not caught by the default 50:50 rule, and you are able to split the profits according to the most beneficial split.

Change: From 6th April 2025, this is no longer allowable and will revert to the 50:50 split for married couples.

> ***Note:*** The 50:50 rule applies even if the property does not have a separate Deed but is on the Deed of the main house.
>
> > ***Eg.*** *You have a Barn or Outbuilding which you are operating as an Airbnb. It is on your land and covered by the main house Deed*

7. **VAT**

Currently: FHL turnover is subject to the £90K vat threshold.

NO CHANGE: There are no plans at this stage for this to change. Any FHL income will still be classed as a Vatable supply and subject to the VAT threshold.

PLANNING AHEAD FOR THE CHANGES

There are tax planning opportunities which can and should be considered and which can be put in place…

Jointly owned properties

- Married couples who have FHLs can enter into a Declaration of Trust and submit Form 17 if they wish to have income and expenses split other than 50:50.

  This changes the beneficial ownership of the FHL for tax purposes but not the legal ownership of the property.

  We have taken advice from our legal experts and they believe that the Form17 should be signed and submitted on or after 6th April 2025.

Capital allowances

- There will be no deemed cessation for capital allowances therefore losses relating to capital allowances will be carried forward and can be offset against any BTLs in the future.

  Therefore, if you are planning to incur any capital expenditure on your FHLs, it is advisable to do this on or before 5 April 2025

CGT (Capital Gains Tax)

- As mentioned earlier, Business Asset Disposal Relief will be abolished from 6 April 2025.

  This means that from 6 April 2025, any capital gains arising on the sale of a FHL will be subject to the residential CGT rates of 18 / 24% rather than 10% (up to the £1m lifetime allowance).

  The CGT rates are also expected to rise in the upcoming Budget on 30th October 2024.

If you are planning to sell your FHL within the next 3 years, it is possible to:

- Cease the FHL business prior to 5 April 2025.
- Claim Business Asset Disposal Relief on any gain as long as the sale is within 3 years of the cessation of the business.

What Next?

Talk to us:

Your client manager is available to discuss your tax questions by phone or email, and by Teams meeting on request.

We can discuss your tax position and help you implement any changes you may wish to make.

Contact Us:

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