MARSLAND NASH ASSOCIATES

Abolition of the Furnished Holiday Lettings Tax Regime at 5 April 2025

What is a Furnished Holiday Let?

Furnished Holiday Lets are a specific class of short-term letting which meets certain availability and time of letting rules, and have historically had favorable tax rules.
The legislation has been drafted for the abolition of the special tax treatment for FHLs, effective from 6 April 2025 for individuals and 1 April 2025 for corporation tax.
This means that income and gains from FHLs will now be treated like any other property business.

Here are the key changes:

Finance Cost Restrictions: Loan interest will be restricted to the basic rate of Income Tax (20%), similar to other residential property businesses. This means higher rate taxpayers may see their tax increase for 25/26 as they become taxed on the profits from the FHL before interest and then have only 20% of the interest deducted from their 40% marginal tax.

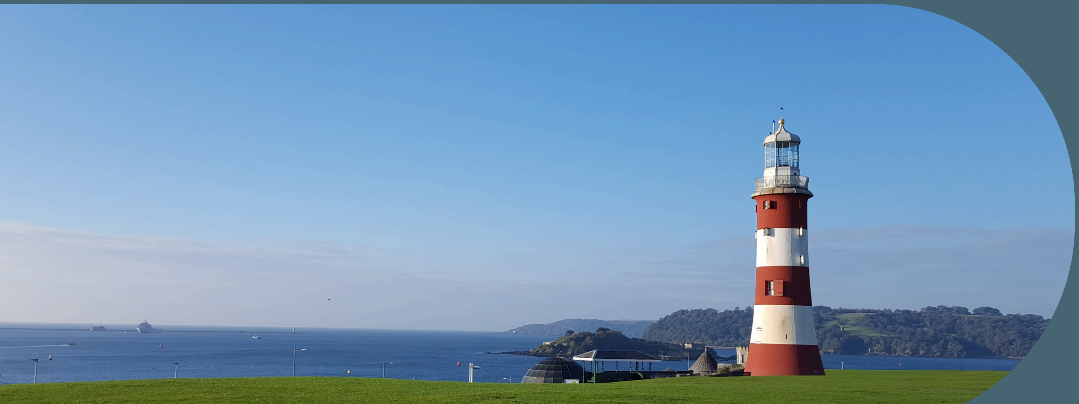
Capital Allowances: The ability to claim capital allowances will be removed. Instead, you can claim Replacement of Domestic Items Relief for replacing furniture and appliances but no longer claim for integral fixtures of the building.

Reliefs on Chargeable Gains: Currently FHL's benefit from reduced Capital Gains Tax rates if the property is sold with a gain arising. After 5 April 2025 standard residential CGT will apply at 18% or 24% (see below).

Pension Relief: Income from FHL's will no longer be included as relevant UK earnings for calculating maximum pension relief.

Profit share: Spouses jointly owning FHL's have been able to apportion profits as they wish, from 6 April 2025 a default 50/50 split applies (see below how this can be addressed)

Losses: Any losses unused by the FHL will be treated as losses of the ongoing property business going forwards. This also means any FHL's with unclaimed capital allowances (this would be integral fixtures in the building e.g. cold water and heating systems etc.) should claim those in the final 24/25 tax year and receive tax relief or create a loss for future years.



Impact on Disposals

The latest draft law suggests if you cease any letting (FHL or Long term) on the property before 5 April 2025 you have 3 years from the cessation to dispose of the property and still benefit from BADR, however BADR rates are also increasing.

Cease letting property and sell pre 5 April 2025 - 10% CGT rate
Cease letting property and sell 6 April 2025 to 5 April 2026 - 14% rate
Cease letting property and sell 6 April 2026 until 3-year anniversary - 18% rate
Post 3-year anniversary of cessation - 18% basic rate or 24% higher rate
(Assuming you have not used your £1m individual lifetime BADR allowance elsewhere)
Example - FHL is worth £300k and has a £100k gain after costs/allowances, if sold now 10% = £10k CGT, or if continues to let post 5 April 2025 and then sold £24k CGT if a higher rate tax payer.

It is possible to gift an FHL and either crystallise CGT at the current rate (although this will create a tax charge with no cash received) or holdover the gain to be eventually paid by the transferee, with no BADR.

Income Sharing

Spouses (or others) who joint own FHLs have been able to apportion profits as they wish. From 6 April 2025 spouse jointly owning a FHL will receive profits in a default 50/50 split. Where they have differing tax bands this may increase family tax considerably.
A married couple can complete a deed and file a Form 17 with HMRC to vary the beneficial interests and this should be addressed by 5 April 2025 if applicable.

Action Needed

Owners have the option to continue holiday lettings and have the income treated under the same rules as other residential property.
We recommend owners consider the impact of the tax increases on their FHL rental profits and also consider long term plans and the current CGT cost of disposal versus the CGT cost if any letting continues post 5 April 2025.

We are happy to discuss all of the above in detail and suggest you consider the changes now.