

Broadcast

FACTSHEET: ABOLITION OF FHL REGIME

SPECIAL ISSUE

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Landlords letting furnished holiday lettings (FHLs) benefit from tax advantages not available to landlords letting residential property on longer lets. However, at the Spring Budget, the Chancellor announced that the FHLs tax regime will be abolished from 6 April 2025. From that date, FHLs will be taxed in the same way as other residential lets.

Key dates

The abolition of the tax regime for FHLs will be abolished from 6 April 2025.

This update explains the present FHLs tax regime and the impact of the abolition.

Advantages of the present FHL tax regime

A separate tax regime applies to FHLs. The profits or losses arising on FHLs are computed separately from those on long-term residential lets and landlords of FHLs benefit from a number of tax advantages.

Landlords who let properties that qualify as FHLs are able to deduct finance and interest costs in full when calculating their taxable profits.

They are also able to benefit from a number of capital gains tax reliefs that are available to traders, including business asset rollover relief and relief for gifts of business assets. Where the conditions for business asset disposal relief are met, they would benefit from the preferential 10% capital gains tax rate on qualifying gains up to the £1 million lifetime limit.

Landlords of FHLs are also able to claim capital allowances on items such as furniture, fixtures and fittings. Finally, the landlord's rental profits count as earnings for pension purposes.

These advantages are not available to landlords letting residential properties that do not pass the FHL tests.

Qualifying as an FHL

A property will only qualify as a FHL if it is in the UK or the European Economic area. The property must be let furnished and the furniture provided must be sufficient for normal occupation and available use by guests staying in the property. The property must be let commercially with a view to making a profit. Finally, it must pass three occupancy tests.

To meet the pattern of occupancy test, the total of all lettings that exceed 31 continuous days must be less than 155 days in the year.

To meet the availability condition, the property must be available for letting as furnished holiday letting accommodation for at least 210 days in the tax year.

To meet the letting condition, the property must be let commercially as furnished holiday letting to the public for at least 105 days in the year. Lettings of more than 31 days are not considered. Days when the property is used by the landlord or let to friends or relatives below a commercial rate are also excluded.

Abolition of the FHL tax regime

The FHL tax regime is to be abolished from April 2025. For 2025/26 and later tax years, the profits from FHLs will be taxed in the same way as the profits from other residential property lets.

Landlords of FHLs paying mortgage interest and other finance costs will no longer be able to deduct these in calculating the rental profits of their unincorporated property business. Instead, relief for interest and finance cost will be given as a basic rate tax deduction, allowing landlords to deduct 20% of the costs from the tax due on the profits from their unincorporated property rental business.

The capital gains tax reliefs that are a major advantage of the current FHLs regime and the loss of these, will be a blow. Where the landlord is sitting on a large chargeable gain, consideration could be given to selling the property prior to 6 April 2025 to benefit from the current rules, and in particular, the preferential 10% capital gains tax rate where business asset disposal relief is available – for a higher rate taxpayer, the savings will be worth £1,400 for every £10,000 of gain. However, it is prudent to check the detailed rules once available to ensure that the disposal does not fall foul of anti-avoidance provisions. It has already been announced that anti-forestalling rules will apply to unconditional contracts entered on or after 6 March 2024.

Landlords of FHLs who wish to make pension contributions should consider doing so prior to 6 April 2025. Pension contributions are capped by earnings as well as by the annual allowance. Profits from FHLs count as earnings for pension purposes; those from longer residential lettings do not. Without higher earnings, pension contributions are limited to £3,600 gross (£2,880 net) each year.

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Currently, losses can only be relieved against future profits from the same type of let. Once FHL and longer lets are treated in the same way, it is assumed that unrelieved losses from either stream can be relieved against the total profits from residential lets for 2025/26 onwards. However, the detailed rules are needed before this can be confirmed.

While the loss of reliefs will be a blow to landlords of FHLs, the abolition of the regime will relieve them from the pressures of meeting the occupancy tests, paving the way for longer lets during the off-season without the risk of jeopardising the property's FHL status. This may boost income. However, it should be remembered that occupancy tests, albeit less stringent ones, must be met to bring the property within business rates rather than council tax.

We can help

Please call us on **01753 888 211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.