



As long as the qualifying criteria have been met – regarding occupancy etc – properties let as furnished holiday accommodation (FHLs) have benefitted from significant tax advantages; essentially, the letting activity has been treated as a trade.

These tax advantages, summarised below, are to be withdrawn from 6 April 2025, and from that date FHL income and gains will form part of an owner’s UK or overseas property business and be treated for tax purposes in line with all other property income and gains.

As a result of these changes owners of FHL properties will need to reconsider their planning options, and in particular, any actions that can be taken before 6 April 2025.

According to HMRC:

Repealing the beneficial tax treatment for furnished holiday lettings promotes fairness by removing the tax advantages that furnished holiday let landlords have over other residential property landlords.

Present tax advantages

As FHL activity is presently treated as a trade, owners can benefit from the following tax advantages:

- exemption from finance cost restriction rules (which restrict loan interest to the basic rate of Income Tax for other landlords);
- more beneficial capital allowances rules;
- access to reliefs from taxes on chargeable gains for trading business assets; and
- inclusion as relevant UK earnings when calculating maximum pension relief.

Of these advantages, having access to capital gains tax reliefs when FHL properties are sold – potentially reducing any tax charge to 10% of gains – will be the most significant loss to FHL property owners.

The changes

The measure will have effect:

- on or after 6 April 2025 for Income Tax and for Capital Gains Tax; and
- from 1 April 2025 for Corporation Tax and for Corporation Tax on chargeable gains.

These changes will remove the tax advantages that current furnished holiday let landlords have received over other property businesses in four key areas by:

- applying the finance cost restriction rules so that loan interest will be restricted to basic rate for Income Tax
- removing capital allowances rules for new expenditure and allowing replacement of domestic items relief
- withdrawing access to reliefs from taxes on chargeable gains for trading business assets
- no longer including this income within relevant UK earnings when calculating maximum pension relief

After repeal, former furnished holiday let properties will form part of the person's UK or overseas property business and be subject to the same rules as non-furnished holiday let property businesses.

Transitional arrangements

The following specific transitional rules will apply:

- Businesses with FHL properties will no longer be eligible for more beneficial capital allowances treatment but will instead be eligible for 'replacement of domestic items relief' in line with other property businesses. Where an existing FHL business has an ongoing capital allowances pool of expenditure, they can continue to claim writing-down allowances on that pool. Any new expenditure incurred on or after the operative date must be considered under the property business rules.
- Under current rules a loss generated from a FHL property business can only be carried forward and used against future profits of that same FHL business. After the changes, former FHL properties will be part of the person's UK or overseas property business as appropriate, that property business will then include the amalgamated profits and losses of all the properties in that business.
- Persons may have losses to carry forward from their FHL business after repeal. Losses generated from this FHL business will be permitted to be carried forward and be available for set off against future years' profits of either the UK or overseas property business as appropriate.
- Under current rules FHL properties are eligible for roll-over relief, business asset disposal relief, gift relief, relief for loans to traders, and exemptions for disposals by companies with substantial shareholdings. After the changes eligibility for the reliefs will cease, however, where criteria for relief includes conditions that apply in a future year these specific rules will not be disturbed where the FHL conditions are satisfied before repeal.
- In relation to business asset disposal relief, where the FHL conditions are satisfied in relation to a business that ceased prior to the commencement date, relief may continue to apply to a disposal that occurs within the normal 3-year period following cessation.

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- There is also an anti-forestalling rule which will prevent the obtaining of a tax advantage through the use of unconditional contracts to obtain capital gains relief under the current FHL rules. This rule applies from 6 March 2024.

Like to consider your planning options?

This is a significant change to the taxation of FHL property and as the above transitional arrangements suggest, it does mean present FHL owners have a short window of opportunity to consider their planning options before April 2025.

Please get in touch if you own FHL property or forward this update to any of your friends or relatives that have holiday let accommodation. The opportunity to reconsider planning options is limited and the clock is ticking. Call us on **01753 888 211** or email **info@nhllp.com** we would be happy to help.