



## Spring Budget 2024 update

Chancellor announces Furnished Holiday Let regime to be abolished from April 2025

As announced at the Spring Budget 2024, the Government 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 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.

Although the draft legislation is yet to be published by the Government, we have outlined below our current understanding of the impact of these changes.

### So when will this change take place?

The rules announced suggest the regime will be abolished from 6 April 2025.

We are not aware of any transitional rules or, indeed, any plans to implement such.

For now, it is very much business as usual, but there may be an impact to businesses investing now who have expenditure carried over in effect to periods after 6 April 2025.

### Who could be impacted the most?

We anticipate the most impacted will be:

- Those with high borrowings, where only basic rate tax relief will be available.
- Those 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).
- Those who are unmarried and cannot reallocate a capital share of the property to their partner without triggering a potential CGT transfer.
- Newcomers and those 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.

We anticipate that losses from short-term and long-term lets will be combined from April 2025. Losses will be lessened due to reduced relief on capital expenditure.

**We are keen to learn:** what will happen to existing FHL losses held as at 5 April 2025.





## VAT

While it is currently unclear, it is possible that, if FHLs follow the normal property letting provisions, relevant short-term lets will fall out of the scope of VAT. Currently FHLs are caught by the VAT registration rules when turnover meets the threshold (currently £85,000 but due to increase to £90,000 from 1 April 2024).

Such changes would also mean that owners of those properties on which the Capital Goods Scheme (CGS) applied, could face an unexpected tax charge as their property reverts to a deemed exempt supply.

**We are keen to learn:** what implication this could have on those currently within a VAT scheme.

## Capital taxes

Capital Gains reliefs will no longer be available. This includes:

- 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, currently of 18% and/or 28%. The residential capital gains tax (CGT) rates will now be used instead, of 18% and/or 24% (which decreases from 28% from 6 April 2024 for higher rate taxpayers).
- Business Asset Holdover Relief – where a gain on a business or similar asset has arisen, the vendor could 'roll over' the gain into a FHL investment, deferring the gain until the ultimate sale of the property.
- Gift Hold-over Relief has been valuable when gifting FHL properties to defer the gain until the ultimate disposal takes place.

## 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 is 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.

Historic expenditure on fixtures and furnishings may not have been claimed as first year allowances. These would normally be carried forward in a tax pool for use against future profits.

**We are keen to learn:**

1. How previous capital allowances claims will be treated once the FHL rules are abolished and if there will be a clawback of some of the relief obtained.
2. Where these losses arise from claims for integral fixtures and furnishings, whether these will be denied and separated from losses arising from a normal trade.

## Bank and loan interest

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). This could result in the following:

- Taxpayers who would otherwise have been paying tax at the basic rate becoming 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.

**We are keen to learn:** whether the revised rules will prevent this being the case after April 2025.



## Income and profits will be allocated based on the formal ownership

Income will be split based on the ownership rules rather than splitting on a basis of who may undertake the running of the FHL business.

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 and the income and expenses will be split in line with the ownership shares of the property.

For married couples and those in civil partnerships, by default this is 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 profits will be allocated in the ratio of ownership.

## Planning measures

Those with a 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. Anti-forestalling rules will, however, apply from 6 March 2024, to prevent the obtaining of 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 is important to consider both the income tax and CGT implications and we therefore recommend that advice is obtained before taking any action.
- **Incorporation planning.** We strongly recommend taking advice as there are penal SDLT rates, ATED implications (where there is owner use of the property), potential CGT on the transfer of property to a company and then ongoing double taxation implications to consider.



## Business rates/council tax implications

Currently 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 would need to see the detail of any changes proposed.

## Might there be some exemptions?

The answer is that we don't know. The proposal from the Budget did not suggest a period of consultation, so a hard landing is likely.

The Office of Tax Simplification (OTS) recommendations from 2022 ultimately proposed the end to the tax benefits for FHLs. However, their paper did recommend some potential exceptions under a "brightline" test. Their proposal anticipated that the beneficial rules could apply where the activity had:

1. A minimum number of properties let
2. All lettings on a short-term basis
3. A critical test would be the level of personal time devoted to the property letting and services provided
4. No personal use of the let

**We are keen to learn:** whether the larger business activities/FHL complexes will find some exceptions being applied.

## What next?

We await the draft legislation to be published and will provide further updates when this becomes available. In the meantime, if you would like to discuss any of the above, please do 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.

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