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Attention Furnished Holiday-Let Owners

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In last month's budget, the Chancellor announced that from April 2025, the furnished holiday lettings regime will be scrapped. It didn't grab the headlines because most taxpayers will not be affected and because no one is sure what the regime will be replaced with. However, furnished holiday let owners have been on the rise because of the rise of UK staycations following the pandemic and because of the favorable tax regime when compared to traditional residential lets.

The question that we are considering here is, what does this change mean for furnished holiday let owners and what actions should they take before the regime is changed?

DIFFERENT TAX REGIMES

The two main differences between residential buy to lets (BTL) and furnished holiday lets (FHL) is that FHL are treated as businesses whereas BTL are treated as investments, for tax purposes.

Where a property is available to let as holiday accommodation for 210 days or more in a tax year, and it is let for at least 105 days in blocks of less than 31 days to the same person; then a property may qualify as an FHL.

The main tax benefits of a FHL are:

- 100% of the mortgage interest can be claimed as a tax-deductible expense,
- Capital allowances may be claimed on the costs of refurbishing a FHL,
- Furnished holiday let income is classed as net relevant earnings for pension purposes, and
- Generous capital gains tax reliefs are available when a FHL is sold, e.g. gift holdover relief, business assets rollover relief and business asset disposal relief.

However, these perks are coming to an end in April 2025.

WHAT TO DO?

We believe that FHL owners would be sensible to consider the following:

- Is your FHL funded by way of a mortgage or a loan? If it is, your taxable profits are likely to be higher in 2025/26 as you may not be able to claim 100% of the mortgage interest. If the system is amended to match the BTL tax regime for example, you will only be able to claim 20% of the mortgage interest as a tax credit.

Higher profits have implications too, if you or your partner are in receipt of child benefit, as higher profits may take you over the threshold whereby you are no longer entitled to receive child benefit.

The same consideration should be made if your income is close to the personal allowance threshold of £100,000, because higher rental profits may result in you losing some or all your personal allowance.

- Are you considering making a large pension contribution? If so, it might be wise to consider doing it before April 2025 because if you do it after; you may find that you do not have enough net relevant earnings from which to make the contribution.

- Are you considering selling your FHL? Before 6 April 2025, FHL owners may be able to claim Business Asset Disposal relief which may result in the capital gain being taxed at 10%, instead of the current residential rate of 24%.

- Are you considering gifting your FHL? If so, you may want to give it away before 5 April 2025, because after this date, it is likely that you will not be able to take advantage of Business Asset Gift relief. This is a relief whereby gains are held over for capital gains purposes. Effectively, the property would be passed on to the new owner at the original base cost meaning that the 'giver' is not subject to Capital Gains Tax.

- Rates will be a consideration too because the new regime may mean that FHL's may no longer be subject to business rates; they may be subject to ordinary rates instead which are more expensive.

CONCLUSION

As you can see, a one-line footnote in the budget can have far reaching effects! That is why we are advising our that may be affected to plan sooner rather than later.

As with most taxes, we recommend taking professional advice because changes will affect individuals in different ways, and it is important that you know how you may be affected. To find out how we can help please contact us.

CONTACT US

If you have any queries or need any advice, please do not hesitate to contact us on 0151 228 8977 or email us at advice@jkca.co.uk

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