BIG TAX CHANGES AHEAD

FURNISHED HOLIDAY LETS

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Taxcafe Tax Guides

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Important Legal Notices:

Published by:
Taxcafe UK Limited
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Kirkcaldy KY1 1TL

Email: team@taxcafe.co.uk

Second Edition, December 2024

ISBN 978-1-917392-00-6

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About the Author

Carl Bayley is the author of a series of 'Plain English' tax guides designed specifically for the layperson and the non-specialist. His aim is to help landlords, other business owners, and families understand the taxes they face and make savings through sensible planning and by having the confidence to know what they can claim. Carl's speciality is his ability to take the weird, complex world of taxation and set it out in the kind of clear, straightforward language taxpayers can understand. As he often says, "My job is to translate 'tax' into English."

Carl enjoys his role as a tax author, as he explains, "Writing these guides gives me the opportunity to use the skills and knowledge learned over more than forty years in the tax profession for the benefit of a wider audience. The most satisfying part of my success as an author is the chance to give the average person the same standard of information as the 'big guys' at a price everyone can afford."

He takes the same approach when speaking on taxation, a role he undertakes with great enthusiasm, including his highly acclaimed annual 'Budget Breakfast' for the Institute of Chartered Accountants. In addition to being a recognised author and speaker, Carl has spoken on taxation on radio and television, including the BBC's 'It's Your Money' programme and BBC Radio 2's Jeremy Vine Show.

Beginning his career as a Chartered Accountant in 1983 with one of the 'Big 4' accountancy firms, Carl qualified as a double prize-winner then began specialising in taxation. He worked for several major international firms until beginning the new millennium by launching his own practice, through which he provided advice on a wide variety of taxation issues; especially property taxation, inheritance tax, and tax planning for small and medium-sized businesses, for twenty years, before deciding to focus exclusively on his favourite role as author and presenter.

Carl is a past Chairman of the Tax Faculty of the Institute of Chartered Accountants in England and Wales; President of ICAEW Scotland; and member of the ICAEW Board. In June 2023, he stepped down after almost twenty years on the Institute's governing Council. He co-organised the annual Practical Tax Conference from its inception in 2002.

Aside from his tax books, Carl is an avid creative writer. His first novel, *Trinity of Souls*, was published in 2024, with his second, *Destiny of Souls*, to follow in early 2025. When he isn't working, he takes on the equally taxing challenges of hill walking and horse riding: his Munro tally is now 106 and, while he remains a novice rider, his progress is cantering along nicely. Carl lives in the Scottish Borders, where he enjoys spending time with his partner, Linda.

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Introduction

Furnished holiday lets are a unique, special type of business, lying somewhere between a trade and property letting. They come in all shapes and sizes, yet all have a great deal in common.

For over forty years, the UK tax system has recognised this through a special tax regime that provides many of the same reliefs as are provided to a trading business, while still preserving the unique features of this property-based business.

The rise of online booking platforms has allowed the furnished holiday letting sector to blossom, with over 89,000 furnished holiday lets currently estimated to be in operation in the UK alone, compared with just 8,000 in 2017.

But the sector's success appears to have become its undoing, as it has attracted the ire of both the previous Chancellor of the Exchequer, Jeremy Hunt, who announced the abolition of the special tax regime in his March 2024 Budget, and current Labour Chancellor, Rachel Reeves, who confirmed it in her October 2024 Budget.

This shocking death sentence is to be carried out in April 2025, giving owners of furnished holiday lets in both the UK and the European Economic Area a little time to plan for the transition, mitigate the impact, and make the most of the furnished holiday letting tax regime while it still lasts: and that's where this guide comes in.

In Chapter 1, we start by looking at how properties qualify for the current regime, some of the background to its abolition, and who will be affected.

Chapter 2 looks at the current treatment of income from furnished holiday lets received by individuals, the additional costs likely to arise in future years, how to maximise the benefits of the regime before it's too late, and how to minimise the cost of the coming change.

In Chapter 3, we look at how the furnished holiday letting regime operates for businesses run through a company. We will see that the impact of the abolition will be less severe for companies, but there will still be consequences to consider and important planning points to bear in mind.

Chapter 4 really gets to the heart of the furnished holiday letting regime; we examine the many Capital Gains Tax reliefs that currently apply, and the consequences of the regime's abolition, for both individual furnished holiday let owners, and owners of companies with furnished holiday letting businesses. We also look at a range of tax planning measures designed to maximise the current benefits of the regime.

In Chapter 5, we look at property stamp taxes, particularly Stamp Duty Land Tax (SDLT), and how these apply to furnished holiday lets. While these taxes are not directly affected by the abolition of the furnished holiday letting regime, they have a crucial impact on many of the planning measures considered elsewhere in the guide.

Chapter 6 looks at a potential escape route for furnished holiday let owners facing massive increases in their tax bills: the possibility of establishing, or achieving, trading status for their business. For some, the benefits could be huge, but for others trading status is either unachievable, or would come at too high a price. We look at all the pros and cons, the factors to consider, and some of the history behind this long-running issue.

In view of the additional tax burdens individual furnished holiday let owners are likely to face in the future, and the current relative ease with which furnished holiday letting businesses can be transferred, many people will be considering moving their business into a company. We look at this issue in detail in Chapter 7, including how to make the transfer at the minimum cost, how to maximise annual savings thereafter, and the benefits, and costs, of different exit strategies. We will see that transferring a furnished holiday letting business to a company is far from being a straightforward 'no brainer' and will not always be the panacea many may think it is. Nonetheless, it is well worth considering under the right circumstances.

Finally, in Chapter 8, we look at some other important taxes, including Inheritance Tax; we will see that, for many furnished holiday let owners, now may be the ideal time to strike while the iron is hot and carry out Inheritance Tax planning that could ultimately save their families hundreds of thousands, perhaps even millions, of pounds.

Taking the guide as a whole, my aim is to ensure you gain a full understanding of the current benefits of the furnished holiday letting regime, how to make the most of them while you still can, what the regime's abolition will mean to you, and what you can do about it. Prompt action may be the key to saving many thousands of pounds now, and in the years to come.

Chapter 1

Background to the Changes

1.1 WHAT'S HAPPENING?

At present, qualifying furnished holiday lets enjoy a special tax regime giving them many of the advantages of a trading business without some of the inherent disadvantages.

Unfortunately, however, the Government is planning to abolish the furnished holiday letting tax regime with effect from 6th April 2025. From that date onwards, the vast majority of furnished holiday lets are likely to be treated the same as other residential rental property for most tax purposes.

Draft legislation to put this transformation in place was issued in July 2024 and reissued in October to accompany Chancellor Rachel Reeves' Budget. This guide is based on that draft legislation, but it is important to understand it could be changed before being finally enacted. We would not expect much change at this stage, but the possibility, while perhaps slim, cannot be entirely ruled out.

1.2 CURRENT BENEFITS

The furnished holiday letting regime provides benefits for individual landlords with qualifying properties, including those who are joint owners, or who operate as a partnership.

The regime also benefits companies owning qualifying properties, as well as the owners of those companies. The benefit to the company itself is, however, not generally as significant as the benefits for individual property owners.

In the following chapters, we will look at the many current taxation benefits of the furnished holiday letting regime, which are expected to be withdrawn from the vast majority of landlords operating furnished holiday lets after 5th April 2025.

At the same time, we will also look at the implications of the regime's abolition, the costs this will lead to, and the potential planning steps landlords can take to mitigate the impact, and to put themselves in a better position in the future.

1.3 WHAT ARE FURNISHED HOLIDAY LETS?

To qualify as a furnished holiday let, the property must generally be:

i) Situated in the UK or the European Economic Area (EEA)
ii) Fully furnished (see below)
iii) Let out on a commercial basis with a view to making profits
iv) Available for letting as holiday accommodation to the public generally for at least 210 days
v) Actually let as holiday accommodation to members of the public for at least 105 days
vi) Not in longer term occupation for more than 155 days

The day count tests under conditions (iv), (v), and (vi) must generally be met for the tax year where the property is owned by one or more individuals, or for the relevant accounting period where the property is owned by a company. However, when the property begins or ceases to be let out fully furnished, it is the first or last twelve months for which it is so let (see Section 1.4 for how this applies to new properties first let in 2024/25).

Longer term occupation means any period of more than 31 consecutive days during which the property is in the same occupation, unless this arises due to exceptional circumstances (e.g. the tenant falls ill, or their flight home is delayed). Periods of longer-term occupation cannot be counted towards the 105 days required under condition (v).

A taxpayer with more than one furnished holiday let may use a system of averaging to determine whether they meet condition (v).

Under the current regime, landlords can elect for properties that qualified in the previous year to stay within the regime for up to two further tax years, despite failing to meet condition (v). The property must meet the other qualifying conditions. This will not enable properties that qualified as a furnished holiday let in

2023/24 or 2024/25 to continue to qualify in later years after the regime has been abolished.

For tax purposes, all a landlord's UK furnished holiday lets are regarded as one business, while all their furnished holiday lets in the EEA are regarded as a different business. (All furnished holiday lets within the EEA are regarded as the same business.)

The EEA comprises the 27 member states of the European Union, plus Iceland, Liechtenstein and Norway.

Other Qualification Issues

While the property need not be in a recognised holiday area, the lettings should strictly be to holidaymakers and tourists in order to qualify.

Where property owned by one or more individuals qualifies as a furnished holiday let, it generally qualifies for the whole of each tax year: subject to the special rules for the years in which fully furnished letting commences or ceases, as explained above.

Where, however, there is some other use of the property during the year, some of the available Capital Gains Tax (CGT) reliefs will be restricted accordingly: see Section 4.10 for further details.

Nevertheless, it remains possible for the taxpayer and their family to use the property privately as a second home during the 'off season' and still fit within the qualifying conditions.

Some years ago, there was a concern such private use could mean the furnished holiday lets were not being undertaken on a commercial basis and the property would therefore fail to meet condition (iii). However, it is now understood the property can still qualify, as long as the holiday letting business is run on a commercial basis, rather than the property as a whole.

Example
Joseph has a second home in Cornwall called Crab Quay that he rents out as furnished holiday accommodation during the spring and summer. The property's running costs amount to £50 per day.

Joseph spends 120 days at Crab Quay himself each year and advertises it as a holiday rental for the rest of the year at a price of £125 per night. His advertising costs, and other overheads relating to the letting, amount to a total of £1,500 per year.

He normally expects to rent the property for an average of around 140 nights each year, and achieved this comfortably in 2023/24 (hence he can elect for the property to remain a furnished holiday let in 2024/25, even if he does not manage to rent it for the requisite 105 nights, as long as he still meets the other qualifying conditions).

In 2024/25, he only manages to rent Crab Quay for 100 nights, giving him income of £12,500, and leaving him with an overall net cost for the property over the year of £7,250 (£12,500 – 365 x £50 – £1,500).

However, his running costs for his rental season of 245 days only amount to £12,250 (£50 x 245). If he had rented out the property for the expected 140 nights, he would therefore have had income of £17,500 (£125 x 140) and a rental profit of £3,750 (£17,500 – £12,250 – £1,500).

Joseph is therefore letting out the property on a commercial basis with a view to making a profit. The fact the property gives rise to an overall net cost for the year is irrelevant. What matters is his letting business is run on a commercial basis. The other qualifying conditions are satisfied, so Crab Quay qualifies as a furnished holiday let.

Joseph's private use of the property means he has to exclude part of his running costs when calculating his rental profit or loss for Income Tax purposes. In 2024/25, for example, he will have an allowable loss of £1,250 (£12,500 – £12,250 – £1,500).

We'll look at what will become of Joseph's loss of £1,250 in Section 2.7. In Section 4.10, we will also look at the impact his private use has on the applicable CGT reliefs for Crab Quay, should he dispose of the property.

Where a furnished holiday let is owned by a company, any private use by the company owner or their close relatives is generally to be avoided like the plague, as this can cause numerous tax problems. Other use of the property in the 'off season' will not generally cause any problem, however.

What Is a Fully Furnished Letting?

To be classed as a fully furnished letting, the landlord must provide sufficient furnishings so the property is capable of 'normal residential use' without the tenant having to provide their own. Typically, this will include beds, chairs, tables, sofas, carpets or other floor coverings, curtains or blinds, and kitchen equipment.

The key phrase here is whether the property is capable of 'normal residential use' and the level of furnishings and equipment required must be considered in this context. In essence, the landlord must provide the tenant with some privacy, somewhere to sit, somewhere to sleep, somewhere to eat, and the facilities required to feed themselves.

1.4 NEW LETTINGS IN 2024/25

Where a property is let out as furnished accommodation for the first time in 2024/25, it can still qualify as a furnished holiday let for a short period.

This is because, under these circumstances, the qualifying conditions set out in Section 1.3 have to be met for the first twelve months of furnished letting. This rule still applies even when that twelve-month period extends beyond April 2025, when the furnished holiday letting tax regime is due to be abolished.

For example, where a property is let furnished for the first time on 1st March 2025, it may qualify as a furnished holiday let for the period from 1st March to 5th April 2025 if it meets the qualifying conditions in Section 1.3 for the twelve-month period ending 28th February 2026.

While the property will only qualify as a furnished holiday let for a short period, this could be of critical importance for a number of key issues, such as capital allowances claims (Section 2.4) and CGT rollover relief (Section 4.4).

The property will even qualify if it is not actually let as holiday accommodation until after 5th April 2025: provided it is let fully furnished for the first time on or before that date and meets the qualifying criteria for its first twelve months of furnished letting.

Example

Izabella purchases a flat and rents it out furnished for the first time on 5th January 2025. The first tenant stays in the flat for three months. Izabella then starts renting out the flat as furnished holiday accommodation, making it available from 12th April 2025, just in time for Easter.

In the twelve months to 4th January 2026, the flat is available for letting as holiday accommodation for 268 days, thus meeting condition (iv) in Section 1.3. The initial letting was not long enough (on its own) to breech condition (vi) so, provided the other conditions are met, Izabella's flat qualifies as a furnished holiday let from 5th January to 5th April 2025: despite not being let as holiday accommodation until after the furnished holiday letting regime has been abolished!

Note that an actual furnished letting to an unconnected person on or before 5th April 2025 is required, private use will not suffice.

All of the above applies equally to properties owned by a company, except that 5th April should be read as 31st March in all cases.

1.5 WHY IS THE REGIME BEING ABOLISHED?

'Why?' is often one of the hardest questions to answer in tax and I'm tempted to say it's simply out of spite.

The previous Conservative Government's stated reason for abolishing the regime was to help improve the housing supply for local residents in popular tourist areas like the South-West of England and the Lake District. Alongside the stick they used to beat furnished holiday let landlords with, they also offered the carrot of a reduction in the rate of CGT applying to higher rate taxpayers disposing of residential property: which fell from 28% to 24% on 6th April 2024.

As far as the current Labour Government is concerned, if we believe what we are told, they are so strapped for cash, they had no alternative but to press ahead with the regime's abolition: after all, as we have repeatedly been informed, they have a £22 billion 'black hole' to fill. Perhaps so, but given that the persecution of furnished holiday letting landlords will raise a mere £315m by

2028 ('mere' in Government spending terms), they've got a long way to go.

Whether the old Government's 'carrot and stick' tactics will work is anybody's guess, but the impact on the tourism industry could potentially be dire: I wonder if they factored that into their calculations?

If you ask me (not surprisingly, they didn't), what is needed is *more* affordable housing for local people, not *less* holiday accommodation for tourists bringing money into the area. But when did anything that any Government did ever make sense?

1.6 IS THERE ANY CHANCE OF A REPRIEVE?

There's always a chance, however slight, that Government proposals might be scrapped before they come to fruition. However, in this case, I really wouldn't like to bet on it.

The last time the furnished holiday letting regime was scheduled for execution was in 2010. It was saved when the Labour Government that proposed its abolition lost the general election that year and were replaced by the Conservative-LibDem Coalition.

This time, it was a Conservative Government that proposed the abolition of the furnished holiday letting regime and went on to lose the general election and be replaced by Labour.

Before July, there was some hope the new Labour Government might just be too busy doing other things, but then they published the draft legislation for the furnished holiday letting tax regime's abolition, effectively endorsing the previous Government's plans. This stance was later confirmed in Rachel Reeves' October 2024 Budget.

So, frankly, while there's always a glimmer of hope until the King gives the finance bill royal assent, you have more chance of winning the National Lottery than seeing a reprieve for the furnished holiday letting tax regime at this stage. (As we shall see later, some furnished holiday let owners may *need* a lottery win to cope with the extra tax they will be suffering.)

1.7 FURTHER INFORMATION

For more information on property taxation generally, see the Taxcafe guides *How to Save Property Tax* (for individual ownership), or *Using a Property Company to Save Tax* (for those using a company).

Transfers of property to a company have many tax implications, including SDLT, which we will look at in Chapters 5 and 7. For further details of all the issues involved, see the Taxcafe guide *Using a Property Company to Save Tax*.

Transfers of property to an individual other than your spouse, or to a trust, may have Inheritance Tax implications, but also may often lead to Inheritance Tax savings. For further details see the Taxcafe guide *How to Save Inheritance Tax*.

For more information on the benefits of pension contributions and the various limits applying, see the Taxcafe guide *Pension Magic*.

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