

CHANGES TO FURNISHED HOLIDAY LETS 2025



If you let out residential or commercial property, the profits are taxed as part of your 'other income'. However, if a residential property meets the strict definition of a 'furnished holiday let' (FHL), enhanced tax relief rules are currently available.

It has been announced in the Budget that, from 6 April 2025, the concept of FHLs and their beneficial tax treatment will be abolished. Going forward, profits from FHLs will be taxed in the same way as any other rental property profits. If you own FHLs this will be disappointing, especially the loss of your possible claim to 'Business Asset Disposal Relief' on any future sale. This also impacts the following:

Full tax relief for mortgage interest

Mortgage interest is currently a fully deductible expense for FHL properties whereas tax relief on mortgage interest is restricted for residential properties when the owner is a higher rate or additional rate taxpayer. FHL owners with a mortgage may well see additional tax due as a result of these changes.

Access to certain capital gains tax relief

This includes business asset disposal relief (BADR) on the sale of the property. These new rules would see FHL sales taxed at a much higher capital gains rate.

Entitlement to claim capital allowances on the furniture and white goods within the property

Capital allowances on a dwelling is currently unavailable, however, there is an exemption for FHL properties to obtain capital allowances currently. It would appear these changes will remove the availability of capital allowances in respect of FHL properties.

FHL profits being relevant earnings for pension purposes

For pension purposes FHL profits are treated as trading income and therefore the owner could contribute the profits into their pension if required, these changes could see an end to this.

While the abolition won't happen until 6 April 2025, it should be noted that there will be measures in place from Budget Day (6 March 2024) to prevent tax planning steps that artificially accelerate the disposal date of an FHL to a date before 6 April 2025.

How can McPhersons help?

McPhersons have a dedicated tax department and many clients in the property sector.

We have our own dedicated property resource centre with a wealth of information on ways to reduce your tax bill. Visit our [website here](#) for more information.

Please [get in touch](#) for a more detailed analysis of how the withdrawal of the FHL status will affect you.

