Tax Changes for Furnished Holiday Lets

in collaboration with

A bit about ZEAL

Chartered Tax Advisers

Trustpilot Rated "Excellent"

- UK leading capital allowances consultancy
- Our team have over two decades of experience in unlocking tax savings on business properties.
- Over the years, Zeal have saved holiday let owners millions of pounds in tax.
- Zeal have unrivalled knowledge and experience in the holiday let sector, offering a wide range of specialist tax advisory and compliance services for holiday let owners.
- We help holiday let owners claim the tax relief they are entitled to and pay only the right amount of tax.

Just some of our partners and associations include . . .

PASC www.pascuk.co.uk

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West Wales Holiday Cottages

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SYKES HOLIDAY COTTAGES

sts | holidays

HOLIDAY COTTAGE HANDBOOK

CORNISH GEMS

classic cottages

The purpose of today's session

The purpose of this session is to provide an update on the tax changes for holiday let owners.

What we will cover:

- What are the tax changes for FHL owners?
- Who will be impacted and ways to mitigate?
- Autumn Budget update for FHLs
- Capital allowances – have you missed a claim?
- Business Rates & VAT
- Q&A

FHL Tax Regime will be abolished from April 2025*

**Subject to the draft legislation becoming law*

What Does this Mean?

FHL owners will still be taxed under the FHL scheme for the current 2024/25 tax year (ending 5th April 2025).

From April 2025, FHL's will be taxed in the same way as long term residential and commercial lets!

Income and expenses from all UK properties will be pooled together, and tax paid on combined net profit.

To qualify as an FHL in 2024/25, the property must meet the FHL criteria for the 12 months after the property is first available for let.

What is/was the FHL Tax Regime?

Furnished Holiday Lets

Special tax legislation for **Furnished Holiday Lets** "FHL's"

- Since 1982, special tax legislation existed for FHL's.
- Rules were created to bridge the gap between UK property income and trading income.
- FHL's have been treated as hybrid trading activity.
- Tax incentives and benefits of FHLs similar to trading businesses.

Most serviced accommodation will qualify as an FHL

Historically tax advantages of FHL versus traditional BTL's

Not just for holiday accommodation!

Qualifying Criteria

To qualify as a FHL a property must be:

Situated in the UK or European Economic Area (EEA)

Furnished – there must be sufficient furniture provided for normal occupation

Let commercially – intention to make a profit

Qualifying criteria

A property must meet the following occupation conditions:

210 days	105 days	31 days
Must be available to let for 210 out of 365 days a year*	Must be actually let for 105 days out of 365*	Not let to the same person for 31 days + during 105 day period

If conditions are NOT met, income is treated as normal rental income (like BTL property)

**Averaging election and Period of Grace election = potential get out clause!*

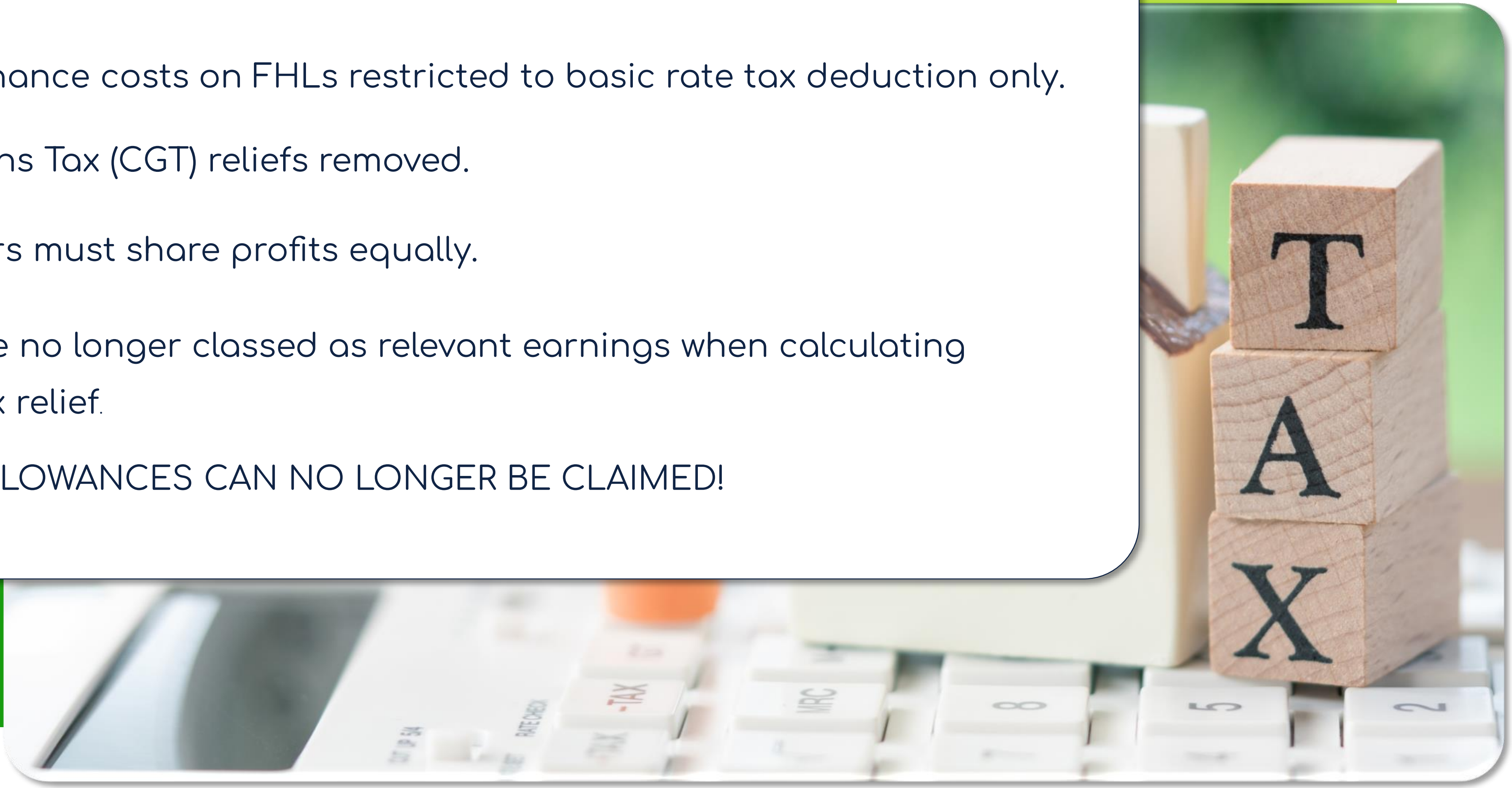
Possible to long term let for 5 months of year!

NOT the same as business rates rules!

What special tax rules are being abolished?

The new rules will have the following key implications for FHL owners:

- Relief for finance costs on FHLs restricted to basic rate tax deduction only.
- Capital Gains Tax (CGT) reliefs removed.
- Joint owners must share profits equally.
- FHL income no longer classed as relevant earnings when calculating pension tax relief.
- CAPITAL ALLOWANCES CAN NO LONGER BE CLAIMED!



Restriction on relief for finance costs

Restriction on relief for finance costs

- Interest paid on finance costs for an FHL business restricted to tax relief at the basic tax rate only.
- Typical finance costs are interest on mortgages to purchase or refurbish FHL properties and hire purchase or lease agreements for items such as furniture, hot tubs, business vehicles etc.
- Common misconception that owners will no longer get tax relief for interest paid on their holiday let mortgage. This is NOT the case. A tax reducer of 20% of interest costs is still received!
- Those affected will pay approx. an extra 20p of tax for every £1 of qualifying finance costs. This would rise to 25p per £1 for additional rate taxpayers (45% rate).

EXAMPLE

If a higher rate tax payer (40% rate) has £10,000 of interest costs, under the existing rules, they would deduct £10,000 from their letting income saving tax of £4,000 (£10,000 x 40% = £4,000).

Going forward, they will work out their profits without deducting the interest and then claim a tax reducer of £2,000 (£10,000 x 20%).

In this example, an additional £2,000 a year of tax would be paid

Who will be affected?

- Not all FHL owners will be impacted by the change.
- If you don't have a mortgage or any finance agreements, then there will be no change to how you calculate your tax payable.
- Properties owned in limited companies also not affected.
- Owners that pay tax at the basic rate and don't have much other income, unlikely to see any change to their tax liabilities.
- Owners that currently pay tax at the basic rate and have other income, likely to pay more tax *(see Zeal's eBook for worked example).*

Mitigation Strategies

- Reducing finance costs (paying off debt).
- Transferring the property to a limited company (incorporating).
- Utilising an LLP or Partnership structure.
- Using a management company to operate the FHL business.

Capital Gains Tax (CGT) Reliefs

Capital Gains Tax (CGT) Reliefs

Under the existing FHL tax regime, currently three CGT reliefs available:

- Business Asset Disposal Relief (BADR) – 10% CGT rate if cease business and sell property
- Gift/Holdover Relief – Defer gain to the new owner
- Rollover Relief – reinvest proceeds to defer the gain to the future

These CGT reliefs will be withdrawn under the new legislation.

Transitional Rules - CGT

Business Asset Disposal Relief (BADR)

- If you cease the business before the rules change, BADR still available.
- Can still be claimed if the property sold within 3 years of the business ceasing.
- If selling just 1 FHL and continuing with another, 10% rate not applicable!
- Rise in BADR rates to 14% from April 2025 and 18% post April 2026

Rollover Relief

- Can still be claimed if the proceeds are reinvested in a qualifying asset in the 3 years after the rules change.
- NOTE - FHL will no longer be classed as a qualifying asset post April 2025.

Profit Allocation

Profit Allocation

- FHL profits currently don't have to be split 50/50. Can be allocated tax efficiently.
- Under new rules, joint owners must share profits in the proportion of their property ownership.

This will likely result in joint owners paying more tax as they have previously taken advantage of utilising personal allowances and lower tax brackets.

Mitigation Strategy

- Income can be legally changed to unequal shares for married or civil partners if a Declaration of Trust (D of T) is submitted to HMRC. Will need to change from joint tenants to tenants in common – seek legal advice

Pension Contributions

Pension Contributions

Under current FHL regime, FHL income is classed as relevant earnings when calculating tax relief for pension contributions in a tax year. The maximum amount on which an individual receives tax relief in any tax year is the greater of:

- The 'basic amount' - currently £3,600.
- The individual's relevant earnings that are chargeable to income tax for the tax year.

Once the rules change . . .

- FHL income no longer be classed as relevant earnings. If an FHL owner has no other 'relevant earnings' maximum contribution they make that will receive tax relief is £3,600.

Capital Allowances

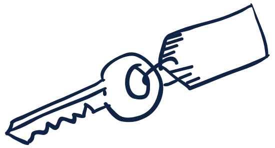
Capital Allowances

- Capital allowances are a form of tax relief that allows businesses to offset qualifying expenditure against taxable profits.
- After April 2025, FHL owners will STILL be able to claim capital allowances on replacing 'domestic goods', i.e furniture, appliances, etc, but will no longer be able to claim on the initial purchase of these assets.
- Many FHL owners are unaware there is an extra level of capital allowances that can be claimed on embedded 'fixtures' in the fabric of their property.
- This tax relief can be claimed on part of the original purchase price or construction costs of the building and can generate significant tax savings.
- Capital allowances can also be claimed on refurbishment and conversion costs.

Transitional Rules – Capital Allowances

- The tax benefit secured before the deadline can continue to be claimed after the rules change!
- Tax relief will also be available to offset tax due on ANY income from residential or commercial properties, as well as your FHL.
- If capital allowances create losses (usually the case for FHLs), and there are losses remaining at the end of the 2024/25 tax year, these will also be available to carry forward and set against ALL UK property income, until they are used up.

Typical Claims for Holiday Let Owners

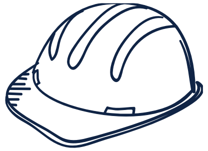


Purchase claims

- ✓ Make a claim on the original purchase price of the property

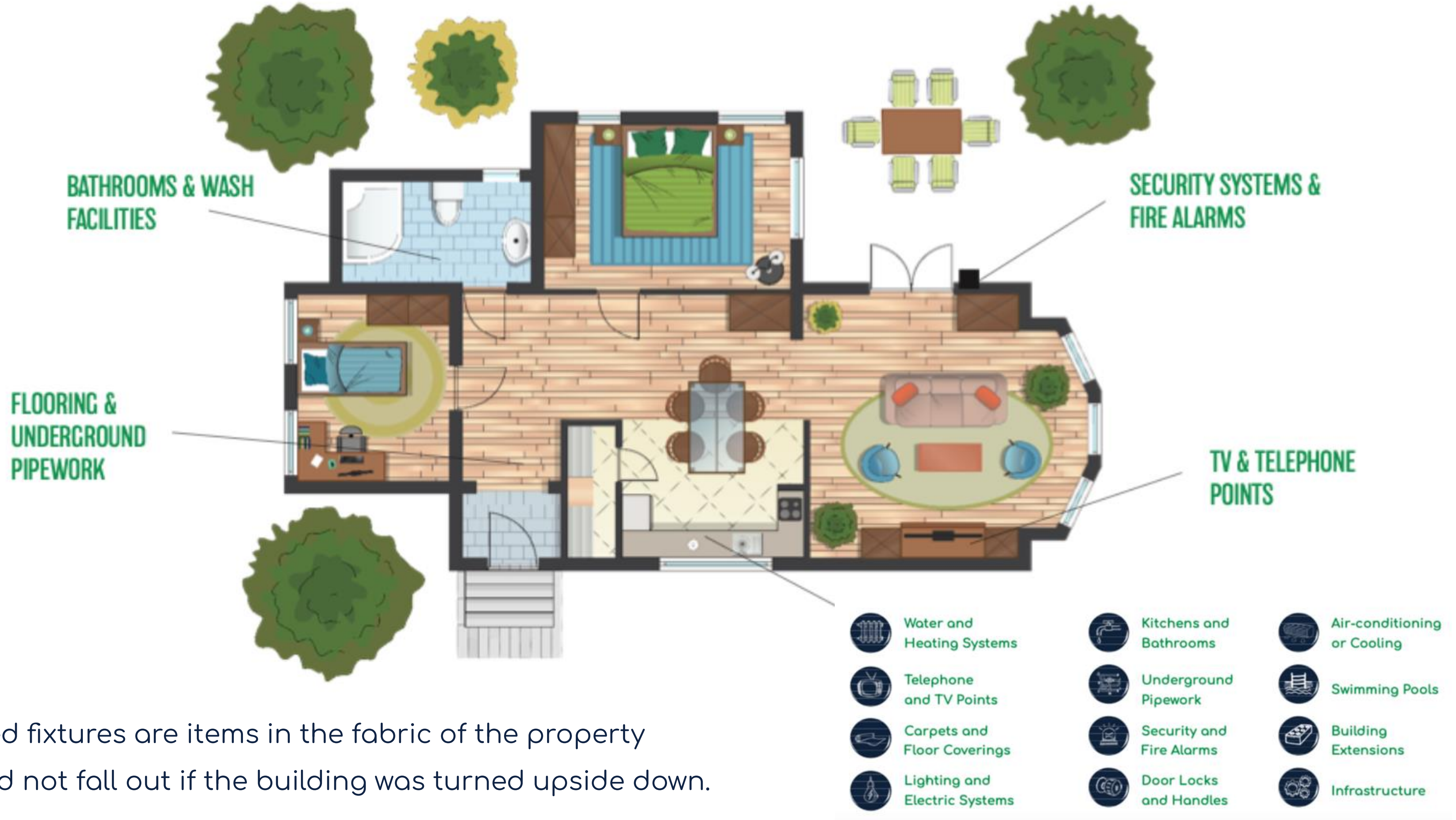
Refurbishment / Conversion claims

- ✓ Make a claim on the costs of refurbishing a property for holiday letting or converting outbuildings.



Construction claims

- ✓ Claim on the costs to construct or extend a holiday let.



Embedded fixtures are items in the fabric of the property that would not fall out if the building was turned upside down.

80%

of holiday let owners have not claimed their entitlement and are sitting on thousands of pounds in tax savings. Many are also due a cash rebate!

SPECIALIST AREA OF TAXATION

Making a claim requires the skills of surveyors and capital allowances specialists like Zeal.

SMALL INDUSTRY

Only a handful of capital allowances firms in the UK vs accountancy practices.

LACK OF AWARENESS

Many business owners are unaware of their eligibility, do not understand the benefits or lack trust, thinking it's too good to be true.

“TOO LATE TO CLAIM“

Many advisors are unaware that claims can be made now on historic expenditure

NO RECORDS AVAILABLE

In most cases, our team can assess costs of construction and refurbishment works.

HISTORICALLY EXPENSIVE

Only the highest tax payers and larger properties have made claims

Why are capital allowances significantly underclaimed?

Common Misconception

"Claiming capital allowances will result in more tax due on sale"

<u>This is NOT true!</u>

<u>Claiming capital allowances does NOT impact CGT on sale</u>

Capital allowances illustrative example

Purchase price

The original purchase price for the property

Capital allowances identified

Allowances are generally between 20%-40% of the total purchase price (includes SDLT and Legal Fees)

Tax savings

Tax savings based on rate of tax applicable

	COMPANY	INDIVIDUAL	
Purchase price	£200,000	£200,000	£200,000
Capital allowances identified	£50,000	£50,000	£50,000
	19% to 25%	BASIC RATE 20%	HIGHER RATE 40%
Tax savings	£9,500 to £12,500	£10,000	£20,000

Cost for CGT purposes on sale STILL £200,000

Beachmount Holiday Apartments

Located in North Wales. Purchased for £352,000 in 2002
Converted to a holiday let in 2018
Claimed made in 2020

£92k
capital allowances uncovered

£36.8k
unlocked in total tax savings (40% rate)

£5.5k
reclaimed as a cash rebate (after fee)

"I did think it was too good to be true, but as my case manager pointed out, there was nothing to lose. I am very pleased with the tax refund, really amazed. Everything was dealt with very efficiently and professionally and I was kept up to date with proceedings throughout. I wasn't hassled and was able to talk through any reservations I had. I was also impressed with the speed and efficiency that everything was done."

Rachel Fox,
Owner of Beachmount Holiday Apartments

Flossy Brook

Located in Blackdown Hills, Somerset. Property was constructed for £248,000 in 2009 / 2010

£89k
capital allowances uncovered

£18k
unlocked in total tax savings (20% rate)

£2.5k
reclaimed as a cash rebate (after fee)

The lodge was constructed in 2009/2010 and provides a 5-bedroom holiday let with an indoor heated swimming pool.

No tax relief was ever claimed on the construction costs (furniture etc was claimed) and just basic invoices from the contractor were available. In January 2021, Zeal were engaged to identify the unclaimed capital allowances on the build costs. Using our in-house surveying and tax team, we were able to determine the capital allowances available and agree the claim with HMRC.

The Durham

Located in West Wales. Incurred £335,000 between 2021 & 2023
To refurbish the property for holiday letting

£126k capital allowances uncovered	£50.4k unlocked in total tax savings (40% rate)	No tax payable until CA's used up

Zeal prepared the claim from the main contractors cost schedules. The detail was not provided to the client, but Zeal obtained it direct from the contractor. The detailed report was then submitted to HMRC to support the claim to tax relief.

Higher Kellacott Barn Conversion

Located in Launceston, South West of England. An old barn was converted to a holiday let in 2020 / 2021 at a cost of £285,000

£65k capital allowances uncovered	£13k unlocked in total tax savings (20% rate)	£1.5k reclaimed as a cash rebate (after fee)

How we do it . . . making a claim with Zeal

First contact
The team at Zeal will take some basic information from you to determine if you have a claim.

Bespoke Proposal
If the owner qualifies, Zeal will provide a bespoke proposal outlining your entitlement, our fees, our credentials and methodology.

Building Survey
One of our surveyors will visit the property to carry out a survey at no cost. We also gather Tax Returns from client or accountant

Report
Tax & surveying team prepare and compile detailed CAVR report for the property.

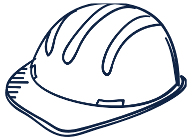
Submission to HMRC
Report submitted to HMRC once reviewed by client and accountant

Claim Agreed
HMRC process claim and issue refund due (where applicable). Zeal deal with any enquiries or questions relating to the claim.

Our process usually takes between 4 and 8 weeks from the first instruction to receiving the tax repayment from HMRC.

Have you :

Spent £100,000+ to purchase, build, convert or refurbish a building for holiday letting?



Paid tax on holiday let profits in the last year, or, are expecting to in the future (<u>including normal BTLs</u>)?

Unlock tax savings!

Save Tax

20%-40%

of the cost

Average saving of

£25,000

per property

Most claims completed in

4-6 weeks

With the change in rules approaching, now is the time to review your capital allowances and ensure you've not missed a claim!

Even if you bought, built or renovated your property years ago, you can still claim tax relief now.

Zeal are Chartered Tax Advisors and Capital Allowances Surveyors that specialise in helping holiday let owners uncover the unclaimed tax savings in their properties.

ZEAL

With unrivalled industry knowledge and expertise, Zeal are the ‘go-to’ specialists!

We work on a success fee basis, with no upfront costs.

ZEAL *are here to help!*

Zeal want to ensure all holiday property owners claim the tax relief available to them, before it's too late.

We are offering holiday let owners a free 15 minute consultation to help you identify if you have any unclaimed capital allowances in your holiday property.

If you do, Zeal can provide you with a free proposal, including an estimate of your potential tax savings and the next steps. As Zeal also work on a paid-by-results basis with no upfront costs, there is no risk in having a conversation with our team.

Arrange your free capital allowances review for a time that suits you!

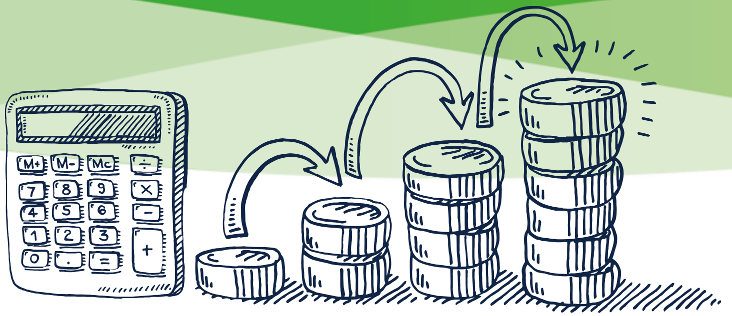
Or contact Zeal on 01633 386017 | hello@gozeal.co.uk

Limited companies

Should I use a Limited company?

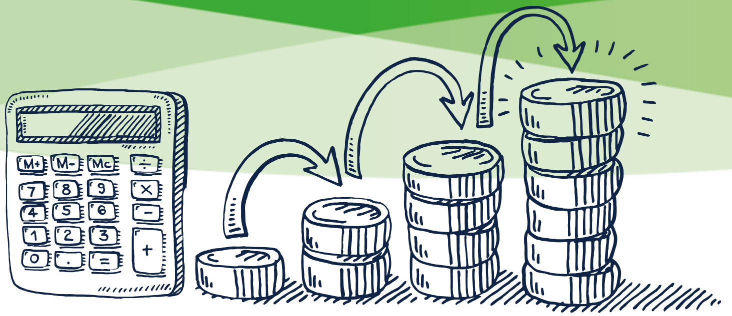
Advantages of Limited Companies

- ✓ Unaffected by finance cost restrictions
- ✓ Potential to pay lower annual taxes*
- ✓ Obtain tax relief for your investment (directors loan account)
- ✓ Flexibility for IHT planning (Family Investment Company)
- ✓ Limited liability – debts of the business are the company's not yours!



Disadvantages of Limited Companies

- ✓ Additional annual costs (approx. £1,500+ annually)
- ✓ Cost of raising finance often higher (finance can impact timing of transfer)
- ✓ Increased administration burden (board minutes, dividend vouchers etc)
- ✓ Higher CT & Dividend rates has mitigated tax benefits
- ✓ Will need to pay tax if you stay there (Benefit in Kind)



Consider Limited company structure if . . .

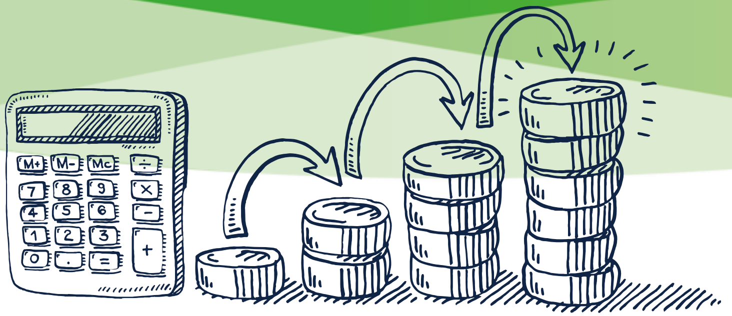
- ✓ *Annual profits over £75,000 a year and rising*
- ✓ *High interest costs that will be impacted by rule changes*
- ✓ *Higher rate taxpayer and don't need all income for living expenses*
- ✓ *IHT planning*
- ✓ *Properties have risen in value significantly (can wipe out gain to date of transfer!)*

TIP: Incorporating before the rules change will ensure there is no CGT payable. Stamp Duty may be applicable depending on circumstances.

Limited Companies

Please be aware that if the company does NOT own the property and acts as a management company, a formal lease MUST be put in place between the legal owner and the company.

A commercial rent must be paid by the company to the legal owner!



Business Rates & VAT

VAT

VAT will still be applicable to properties let on a short-terms basis.

"Do I need to include income from lets of 31 days or more in my turnover calculations for VAT?"

No! Only lets of 28 days or less are subject to VAT. Doing some longer terms lets is a good way to mitigate VAT registration.

"Would I be better to use the VAT Flat Rate Scheme?"

In most cases FHL owners will be better off using the Flat Rate Scheme. VAT paid to HMRC is 10.5% of income but no VAT can be reclaimed.

"When can I apply for business rates?"

To be able to apply for business rates, you must have your property available for short-term letting for 140 days (252 in Wales) and actually let it for 70 days (182 days in Wales) before you can apply to switch from council tax. This is in any 12 month period, not a tax year or calendar year. Council tax is still paid whilst application is processed but refunded back to the date you qualify.

"What happens if I have more than 1 property?"

The small business rates relief is unlikely to apply to the 2nd property, but business rates should be cheaper than Council Tax

Business Rates

There will be no changes to how you apply for and qualify for business rates.

Autumn Budget 2024 Update for Holiday lets

in collaboration with THE ISLAND HOLIDAY COMPANY.co.uk

Autumn Budget 2024

- As expected, no announcement of the abolishment of FHL tax regime.
- Draft legislation is expected to be made law in Finance Act 2025.

Headline Tax Changes

- Increase in Employer National Insurance contributions.
- Inheritance Tax reliefs reduced for Agricultural and Business Property.
- Unused pensions to be included in death estate from 2027 (previously exempt from IHT).
- CGT rates increased in line with CGT for residential property (18% / 24%) & BADR rates to rise to 14% from 2025 and 18% from 2026.
- Extra 2% SDLT surcharge for second properties (5% England, 4% Wales & 6% Scotland).

Key Information for Holiday Let Owners

- Rise in BADR rates DON'T impact FHL businesses that cease before 6th April 2025 (sell within 3 year = 10% CGT).
- Sale of property without BADR at same rates pre-Budget.
- No impact of IHT changes as FHL not regarded as Business Property .
- No change to VAT registration or VAT rates.
- FHL businesses employing staff can benefit from increased Employment Allowance of £10,500 (from £5,000). Rise in employers NI unlikely to impact FHL businesses.
- HMRC will increase the interest rates charged for late payment of taxes.

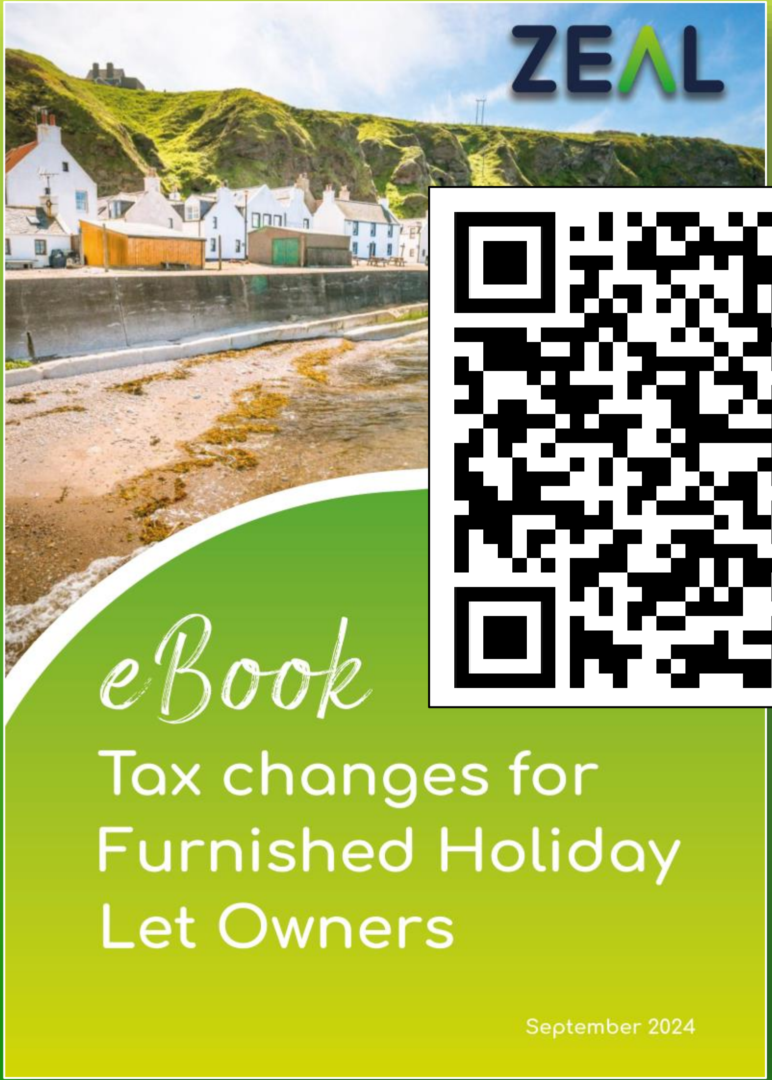
Key Information for Holiday Let Owners

- SDLT surcharge may not be applicable if property being acquired has restrictions to only be a holiday let (excludes Wales).
- Making Tax Digital to be rolled out to all with income over £20,000 in next 4 years (2026: £50,000 2027: £30,000).
- No change to Business Rates registration or qualifying criteria for self-catering properties
- No changes to Small Business Rates Relief (SBRR) & rateable value calculator to be kept permanently low.
- Rates reduction of 40% for self-catering businesses paying business rates (was a 70% reduction!)
- No changes to income or corporation tax rates!

Key Takeaways

- Not everyone will be affected and some, not at all!
- Review your capital allowances position and ensure all are claimed before the deadline.
- New owners – get going before April 2025 (and make sure you hit the letting days in the first 12 months after).
- Take professional advice if considering incorporation. Make sure it's right thing for you.
- There are no changes to how you calculate your profits. Most costs will still qualify!

Things can still change! The legislation to abolish FHLs is still draft and yet to receive Royal Ascent. Whilst no changes are expected, anything can happen!



Want more information?

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Or email hello@gozeal.co.uk

to request a free copy.

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