



Update from Matt Jeffery, Managing Director of Zeal Tax

The Chancellor of the Exchequer, Rachel Reeves, announced her long awaited Budget on Wednesday 30th October 2024. The first Budget by a Labour government for 14 years.

Following the announcement of the draft legislation for the abolishment of Furnished Holiday Lets in July 2024, it was of no surprise that the Furnished Holiday Let tax regime was not mentioned in the Budget. The new legislation has been written and subject to any last-minute changes, the legislation will be included in Finance Act 2025 and become legislation from April 2025.

For more information on the changes, you can download Zeal's eBook 'Tax Changes for Furnished Holiday Lets' on Zeal's Free Resource Hub.

The Autumn Budget included several tax changes that will impact UK individuals, unincorporated and incorporated businesses in the UK. Businesses employing staff will be hardest hit with the changes to employers National Insurance Contributions (NIC). However, the rise in the employment allowance from £5,000 to £10,500 will mean small businesses with just a few employees, will not see any major changes to the NIC they pay.

Whilst there were changes to Capital Gains Tax (CGT) on other assets, the CGT rates for the disposal of residential property (including holiday lets) will remain at the current rates. However, the tax you pay to purchase a second home or holiday let will increase. SDLT (Stamp Duty Land Tax), the tax you pay when buying land & buildings in England, will see a rise in the surcharge for the purchase of second homes from 3% to 5%. This is applicable immediately.

From 2027, there will be a major change to the taxation of inherited pensions. Currently, if an individual dies with a private pension, the value of the pension is not taken into account when calculating the value of an Estate for Inheritance Tax purposes.

When the rules change, the remaining pension fund will be included and potentially subject to IHT at 40%. This will be a major blow for those that have invested in pensions as a tax efficient way of protecting their assets from tax on death.

Zeal Tax have reviewed the detail of the full Budget Report, which includes changes that are not announced in Parliament. Below is a summary of the key tax changes holiday let owners should be aware of:

Personal Taxes

- ▲ No changes to Income Tax and National Insurance rates and thresholds.
- ▲ The freeze on tax free personal allowances will be lifted from April 2028 and will be uprated in line with inflation.
- ▲ The Married Couples Allowance & Blind Persons Allowance will be increased by 1.7% from 6 April 2025.
- ▲ Major changes will be made to how tax is paid in the UK by non-UK domiciled individuals. This will result in more tax on overseas income being paid in the UK.
- ▲ HMRC will increase the interest charges on late payment of tax to HMRC.

Business Taxes

- ▲ Employers National Insurance Contributions (NIC's) will increase from 13.8% to 15% from April 2025.
- ▲ The threshold at which businesses make Employers NIC's will be reduced from £9,100 a year to £5,000.
- ▲ To support small businesses with these changes, the Employment Allowance, which allows businesses with employer NICs bills of £100,000 or less in the previous tax year to deduct £5,000 from their employer NICs bill, will be increased to £10,500, and the £100,000 eligibility threshold is being removed.
- ▲ This means no NIC's are paid by businesses on the first £10,500 of NIC due. As a result, small businesses, will be less impacted by the changes to the employers NIC rates and thresholds.
- ▲ NIC changes affect all businesses employing staff and paying employer NIC contributions (whether as a sole trader, partnership or limited company).
- ▲ No change to VAT rates or registration thresholds.
- ▲ Capital Allowances first year allowances will remain. This includes full expensing for companies and the continuation of the Annual Investment Allowance for unincorporated business (£1m a year of qualifying assets can receive 100% tax deduction).
- ▲ Holiday let owners will only be able to claim capital allowances on the replacement of domestic goods, after 5th April 2025 (announced but subject to legislation being passed).

Corporation Tax

The main rate of corporation tax will be frozen for the term of the parliament at 25%.

Stamp Duty

SDLT (Stamp Duty Land Tax), the tax you pay when buying land & buildings in England, will see a rise in the surcharge for the purchase of second homes from 3% to 5%. This is applicable immediately. In Scotland it will remain at 6% and in Wales at 4%.

Making Tax Digital (MTD)

- ▲ The Government have committed to delivering Making Tax Digital (MTD) for income tax Self-Assessment. They will expand the rollout of MTD to those with incomes over £20,000 by the end of this Parliament.
- ▲ MTD will be applicable from 6 April 2026 for individuals/partnerships with an annual business or property income of more than £50,000.
- ▲ From April 2027, it will apply to annual business or property income of more than £30,000

Capital Gains Tax (CGT)

- ▲ There is no change to the current CGT rates for the sale of residential property (including holiday lets) (18% & 24%).
- ▲ CGT rates will increase to 18% and 28% for the sale of other assets (from 10% and 20% respectively). The new rates will apply for sales after 30 October 2024.
- ▲ The new rates apply to the sale of commercial property or the sale of investment assets, such as shares and securities.

Inheritance Tax

- ▲ IHT is paid at 40% of the net value of an estate. Unused pensions are currently exempt from IHT.
- ▲ From April 2027, unused pension funds and death benefits paid from a pension into a person's estate will be included when determining the Inheritance Tax (IHT) payable on death.
- ▲ IHT on agricultural land and business property will be increased.
- ▲ Combined agricultural land and business property worth more than £1m will be subject to IHT, albeit at 20% rather than 40%.
- ▲ The IHT nil rate bands will remain frozen until 2030.
- ▲ Each person has a nil rate band of £325,000. IHT is charged at 40% on the value of an estate above £325,000.
- ▲ Spouses or civil partners can share nil rate bands, giving a total exempt amount of £650,000. If the main residence is passed to dependents, the nil rate band increases to £1m.

Business Rates

- ▲ No changes announced to the qualifying criteria for holiday lets to qualify for business rates.
- ▲ The business rates discount for retail and hospitality businesses in England will reduce from 75% to 40% from April 2025 (capped at £110,000 per business). Currently the discount is 40% in Wales and 100% on Scottish Islands but 0% in the rest of Scotland. We await a decision from Scottish and Welsh Governments as to their discount for the 2025-6 financial year.
- ▲ The discount only applies if your rateable value is above the small business rates relief (SBRR) threshold (in England, currently rateable value of £12,000 or below qualifies for SBRR instead).
- ▲ No changes announced to SBRR.
- ▲ However, small businesses will benefit from the multiplier that is used to calculate their business rates being kept permanently low from April 2026.

Visitors

Staycation numbers might increase given fuel duty has been frozen for another year and the 5p cut retained for another year, coupled with the slight increase to air passenger duty.

Disclaimer by Zeal

This article was written by Matt Jeffery of Zeal Tax, a leading holiday let tax specialist firm in the UK, as an educational piece to help short-term let owners understand their tax responsibility. The information provided in this article is of a general nature. It is not a substitute for specific advice on your own circumstances. You are recommended to obtain specific advice from a professional before you take any action or refrain from action. Whilst we endeavour to use reasonable efforts to furnish accurate, complete, reliable, error free and up-to-date information, we do not warrant that it is such. We and our associates disclaim all warranties.