

*The new Holiday Let tax landscape
& what owners should do now.*

Presented by Matt Jeffery BA ATTCTA

A bit about **ZEAL**

- UK leading capital allowances consultants.
- 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 . . .





What's the purpose of today's session?

We will cover:

- A reminder of the tax changes for FHL owners.
- Ways to mitigate impacts.
- Capital allowances – have you missed a claim?
- Restructuring your business to be tax efficient.
- Business Rates & VAT.
- Q&A

FHL Tax Regime
was abolished from
April 6th 2025*

(1st April 2025 for Limited Companies)



What Does this Mean?

FHL owners will still be taxed under the FHL scheme for the 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 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

Qualifying criteria – A property must meet the following occupation conditions:

210 days

Must be available to let for 210 out of 365 days a year*

105 days

Must be actually let for 105 days out of 365*

31 days

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 were
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!



Transitional Rules



Transitional Rules - CGT

Business Asset Disposal Relief (BADR)

- ▲ If you ceased 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!
- ▲ BADR rates rise to 14% and 18% post April 2025.
- ▲ Sell between April 2025 to April 2026 = 14%.

Rollover Relief

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

Transitional Rules — Capital Allowances & Losses

- ▲ The tax benefit secured before the deadline can continue to be claimed post April 2025.
- ▲ 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.
- ▲ Capital allowances DON'T need to be claimed by April 2025!

Capital Allowances



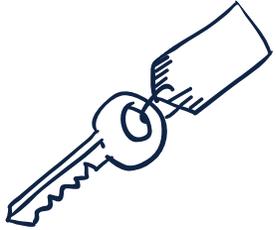
Capital Allowances

- ▲ 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 after April 2025.
- ▲ New assets must have been purchased before April to claim capital allowances e.g hot tub.
- ▲ Still possible to claim replacement of kitchens, bathrooms etc as a revenue expense.
- ▲ Must have been available to let before April 2025 to be able to claim capital allowances.
- ▲ Download Zeal's changes for capital allowances guide [Resource Hub].

Unclaimed Capital Allowances?

- ▲ 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.
- ▲ Not too late to identify and unclaimed capital allowances.
- ▲ Benefit can be claimed post April 2025 and offset against long terms lets as well.
- ▲ Deadline to claim will be 31st January 2027 (a bit later for companies)

Typical Claims for Holiday Let Owners



Purchase claims

- ✓ On the original purchase price of the property



Refurbishment / Conversion claims

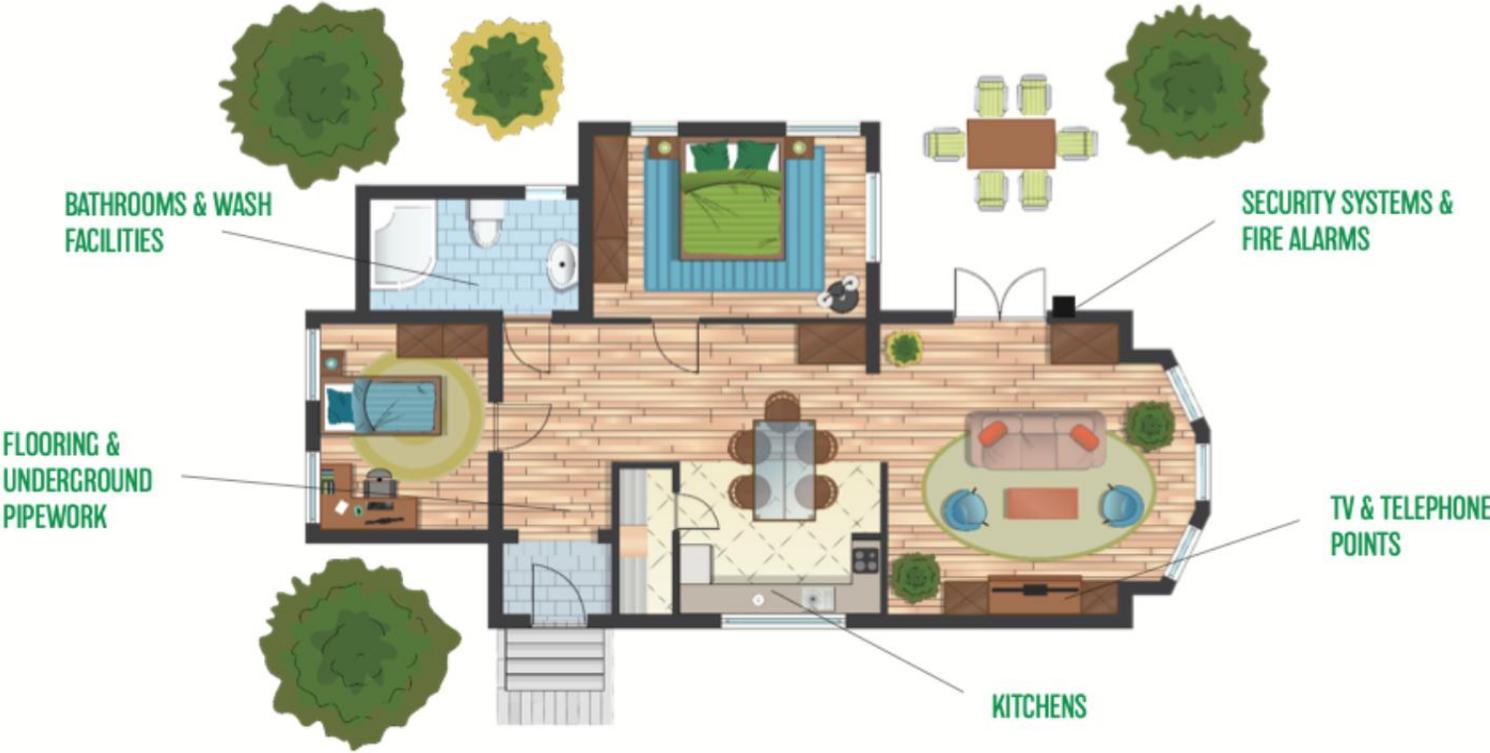
- ✓ On the costs of refurbishing a property for holiday letting or converting outbuildings.



Construction claims

- ✓ 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.



- | | | |
|---|--|--|
|  Water and Heating Systems |  Kitchens and Bathrooms |  Air-conditioning or Cooling |
|  Telephone and TV Points |  Underground Pipework |  Swimming Pools |
|  Carpets and Floor Coverings |  Security and Fire Alarms |  Building Extensions |
|  Lighting and Electric Systems |  Door Locks and Handles |  Infrastructure |

*source = HMRC statistics

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”

This is NOT true!

Claiming capital allowances does NOT impact CGT on sale.



Capital allowances illustrative example

COMPANY

INDIVIDUAL

£200,000

£200,000

£200,000

£50,000

£50,000

£50,000

19% to 25%

BASIC RATE 20%

HIGHER RATE 40%

£9,500
to
£12,500

£10,000

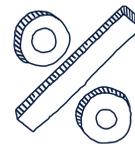
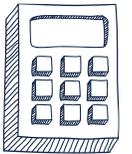
£20,000



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

Cost for CGT purposes on sale STILL £200,000



Purchase Claim

£92k
capital allowances
uncovered

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

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

Beachmount Holiday Apartments, North Wales

Purchased for £352,000 in 2002.
The property was converted to a holiday let in 2018, and a claim was later made in 2020.

"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, Somerset

Constructed for £248,000 between 2009/2010.
The property was purpose built as 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.

£89k
capital allowances
uncovered

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

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



Construction Claim



Refurb Claim

£126k
capital allowances
uncovered

£50.4k
unlocked in total tax
savings (40% rate)

No tax
payable until
CA's used up

The Durham, West Wales

Refurbished for £335,000 between 2021/2023.
The property was fully refurbished before use as a holiday let.

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, Launceston

Converted between 2020/2021 for £285,000.
The property was converted from an old barn into a holiday let.

Using cost breakdowns provided by the owners, Zeal was able to identify a significant amount of unclaimed tax relief on the costs incurred during the conversion.

In this particular case, as a large portion of the conversion costs related to structural alterations and improvements, the allowances available were lower than other successful claims where a similar expenditure amount had been spent.

£65k
capital allowances
uncovered

£13k
unlocked in total tax
savings (20% rate)

£1.5k
reclaimed as a cash
rebate (after fee)



Conversion Claim

Tax saved for FHL Owners in 2024

Capital Allowances identified = £42m

Tax Savings generated = Over £8.4m

Capital Allowances claims submitted = 500+

Making a claim with Zeal – The Process



Consultation

Our team will give you a quick call to collect some basic information about your property and check if you meet the tax relief criteria.

Proposal

We'll provide you with a bespoke proposal that outlines your entitlement, our fee, credentials and methodology.

Survey

Once you engage us, we'll request copies of your latest tax returns and if required, complete a site survey (at no extra cost).

Report

Our tax team will compile a detailed 'Capital Allowances Valuation Report' (CAVR) for you to review and share with your accountant.

Submission

Once approved, we'll submit the report to HMRC. We also deal with any enquiries relating to the claim, in the unlikely case they arise.



Now is the time to review your capital allowances
and ensure you've not missed a claim!

Claiming capital allowances can be the most tax effective way of mitigating the new rules. Taking advantage of unclaimed capital allowances can create losses that can result in no tax payable for several years.

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

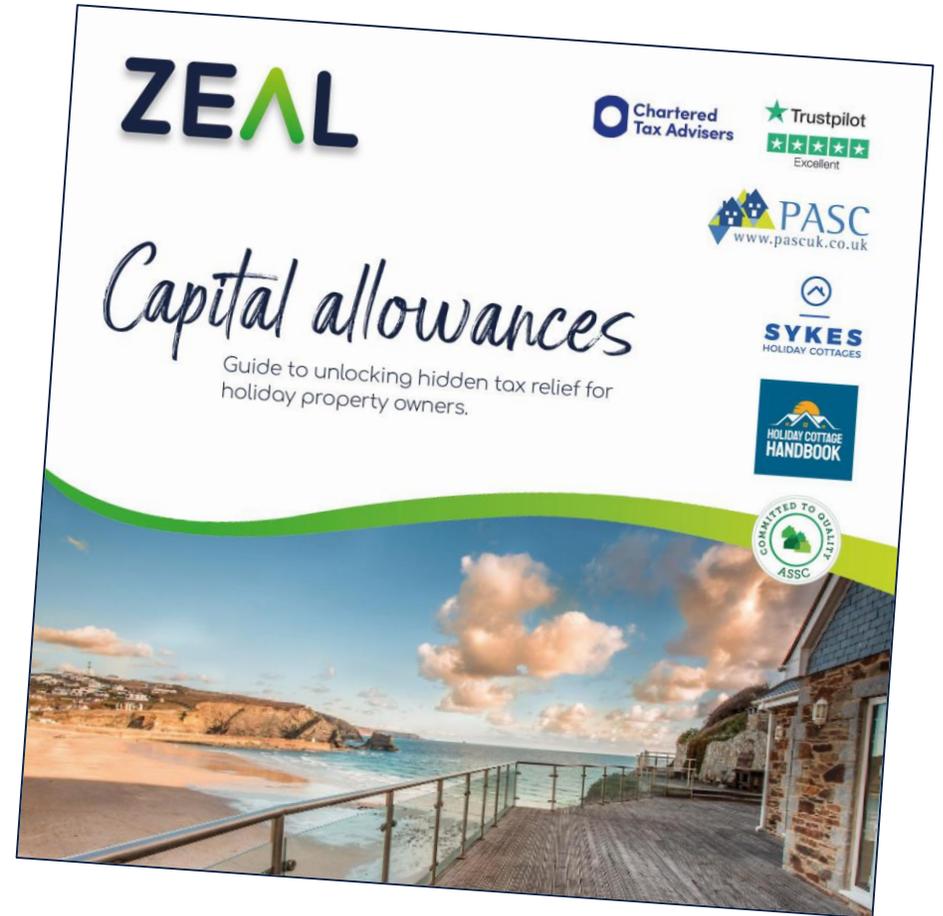


Arrange your free capital allowances review for a time that suits you!

Scan the QR code or visit:
calendly.com/go-zeal

Got a tax question? Email hello@gozeal.co.uk

For more information about
Capital Allowances, visit
the Resource Hub
and check out



Mitigation Strategies



Mitigation Strategies

- ▲ Transferring the property to a limited company (incorporating).
- ▲ Utilising an LLP or Partnership structure.
- ▲ Declaration of Trust
- ▲ Using a management company to operate the FHL business.
- ▲ Claim Capital Allowances!
- ▲ Reducing finance costs (paying off debt).



Limited companies

Should I use a Limited company?



LTD

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!)



CGT and/or SDLT are applicable BUT if certain conditions are met, they can be avoided.

Take professional advice if considering an incorporation!

Partnerships & LLPs



General Partnership

- ✓ Two or more people in business together with a view to making a profit.
- ✓ Simple to set up (no tax charges).
- ✓ Bring other family members or partners into the business.
- ✓ Flexibility to share profits between partners to reduce impacts e.g. of finance cost restrictions.
- ✓ Positions the business for future restructuring opportunities including incorporation.



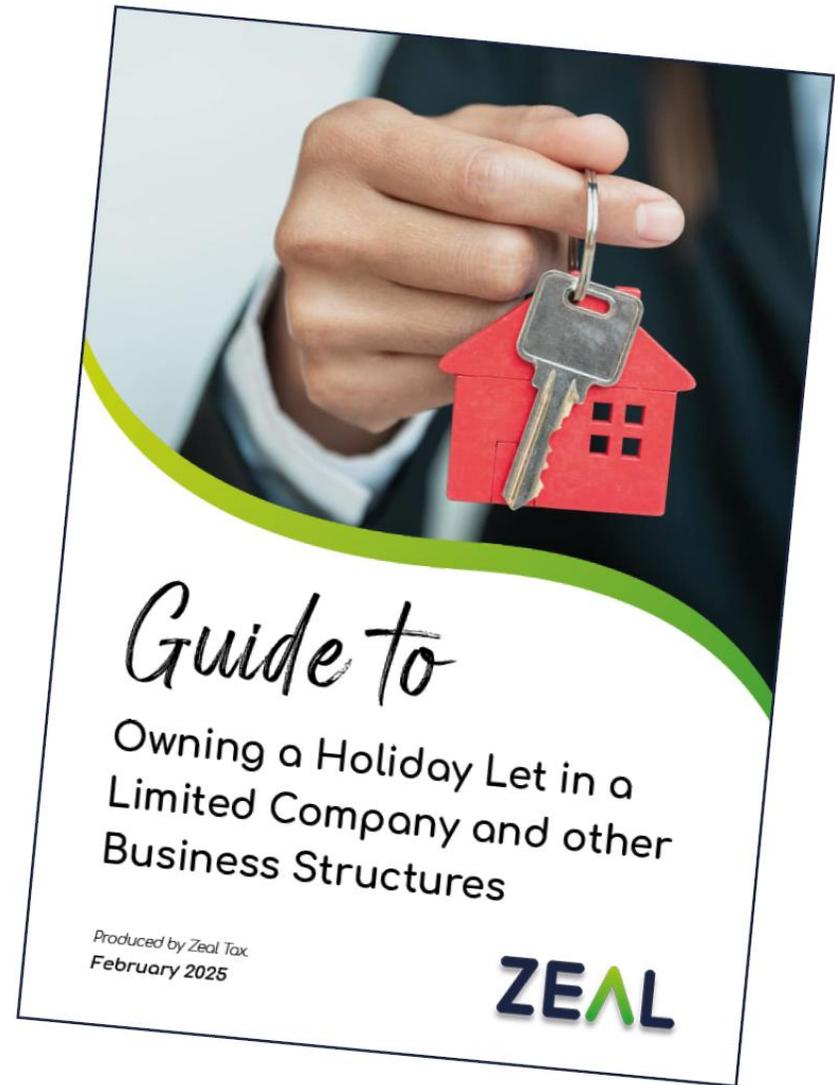
Limited Liability Partnership (LLP)

- ✓ Separate legal entity – provides LIMITED LIABILITY like a company
- ✓ Relatively simple to set up (no tax charges)
- ✓ Bring other family members or partners into the business
- ✓ Flexibility to share profits between partners to reduce impacts e.g. of finance cost restrictions
- ✓ Stepping stone to full incorporation

The logo consists of three white, 3D-style rectangular blocks with rounded corners, each containing a black letter. The first block contains the letter 'L', the second block contains the letter 'L', and the third block contains the letter 'P'. The blocks are arranged horizontally and cast soft shadows to the right and slightly downwards, giving them a sense of depth. They are set against a bright yellow background that is part of a larger rounded rectangular graphic.

LIMITED LIABILITY PARTNERSHIP

For more info and
guidance, visit the
Resource Hub
and check out



Declarations of Trust

A wooden gavel is positioned diagonally across the bottom right corner of the image, resting on a document. The document is white with a hole punch at the top left and features the text "DECLARATION of TRUST" in a bold, black, serif font. The background of the entire image is a gradient from light green at the top to yellow at the bottom, with a white curved line separating the text area from the document and gavel.

DECLARATION
of TRUST

Declarations of Trust – D of T

- ▲ Previously, FHL profits didn't have to be split 50/50 and could be allocated tax efficiently.
- ▲ Under new rules, joint owners must share profits in the proportion of their property ownership.
- ▲ Spouses or Civil Partners can change the profit share ratio using a D of T.
- ▲ A property must first be changed from Joint Owners to Tenants in Common – a solicitor is required for this!
- ▲ Check mortgage allows this and that there are no SDLT charges.
- ▲ Ownership % can be changed from 50/50 to say 99% - 1%.
- ▲ D of T is the legal document that confirms the revised ownership.
- ▲ D of T submitted to HMRC on Form 17.

The D of T can't be changed annually. There is also a cost and legal implications to changing the ownership.

Management Company



Using a Management Company

- ▲ A company can be set up to manage the business (receive income and pay expenses).
- ▲ Can be an effective way of managing the income received in personal names.
- ▲ Can be a way of obtaining BADR if selling one property but keeping others.
- ▲ Provides ability to make pension contributions.

HOWEVER, PLEASE NOTE:

- ▲ Rent **MUST** be paid to legal owners.
- ▲ Restriction on mortgage interest paid in personal name may still be impacted.
- ▲ Additional costs of operating a company need to be factored in.

Business Rates & VAT



VAT



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

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

Not always! Lets of 28 days or more are not subject to VAT between October and Easter. Doing some longer term 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.





Business Rates

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

“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 12-month 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

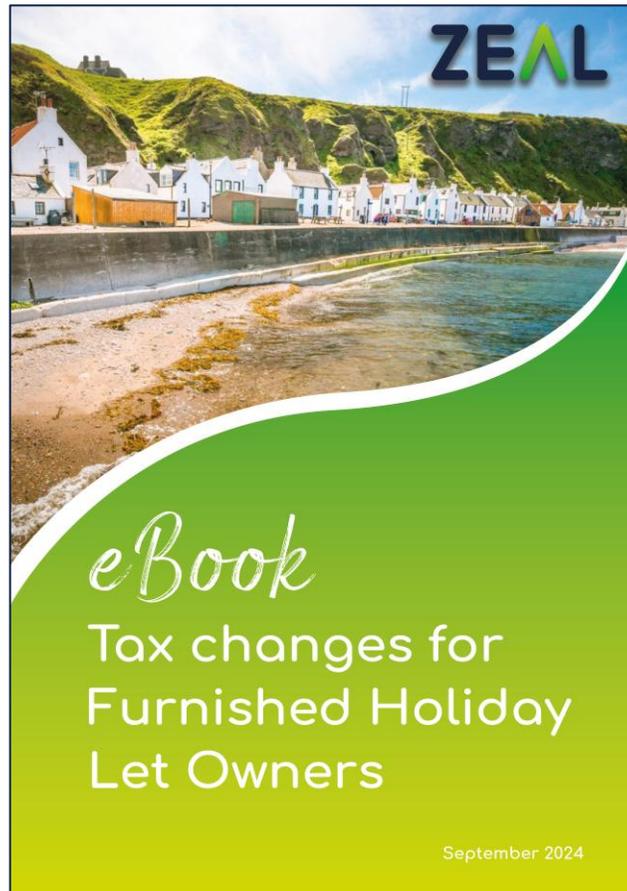
Key Takeaways



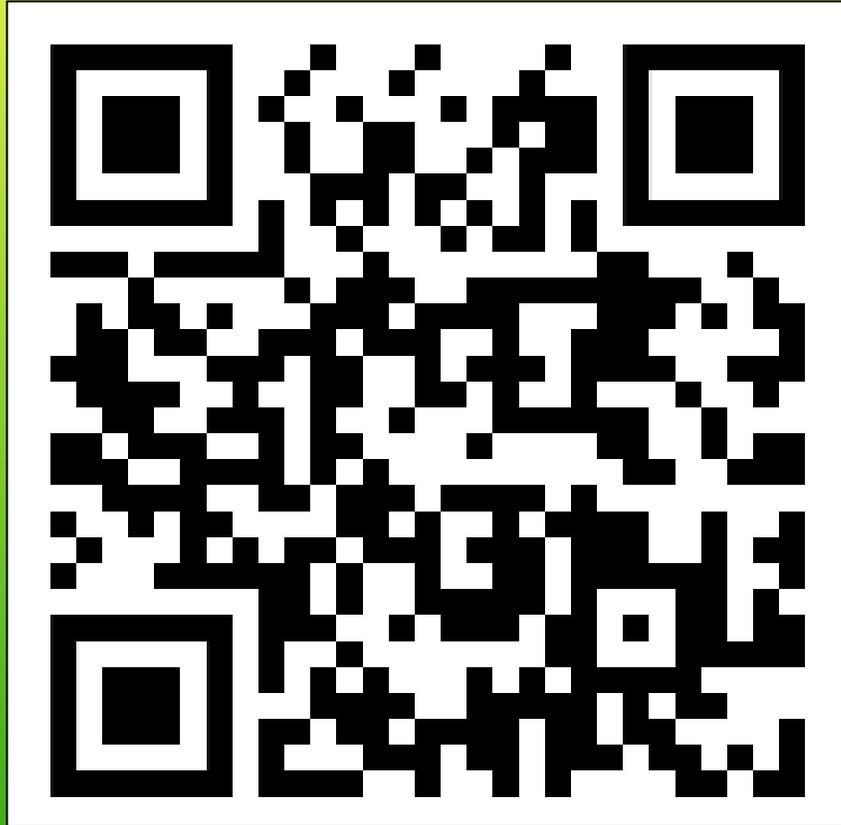
- ▲ Not everyone will be affected and some, not at all!
- ▲ There are no changes to how you calculate your profits.
Most costs will still qualify!
- ▲ Review your capital allowances position and ensure all are claimed
before the deadline.
- ▲ Take professional advice if considering incorporation.
Make sure it's right thing for you.

Free Access to Zeal's Tax Resources Hub

Everything you need,
all in one place!



Scan the QR or visit: gozeal.co.uk/hub-sign-up/



Resource Hub



Arrange a call