The Autumn Budget 2025

What do the changes mean for the Short-Term Let Sector?

A summary by Matt Jeffery, Zeal Tax.

The 2025 Budget has landed and unsurprisingly, the short-term let sector will be adversely impacted by tax changes. Most notably - by the additional 2% income tax charged on profits from property letting.

Zeal have summarised the main tax changes in the Autumn Budget 2025 that will affect owners of short-term lets.

Increase in Income Tax Rate for Property Income

From April 2027, the income tax rate for profits from property letting will increase by 2%. This means the basic rate of income tax for property income will be 22%, rising to 42% at the higher rate and 47% for additional rate taxpayers.

There will be no changes to income tax rates on employment income or trading income. This income will be taxed at the same rates (20%/40%/45%). If your rental profits plus any other sources of income are below £12,500, then there will still be no income tax payable.

The new rates will only affect taxpayers in England, Wales & Northern Ireland. Scotland's tax rates are set by the Scottish Parliament and no announced has yet been made by the Scottish government.

Following the abolishment of the Furnished Holiday Let (FHL) tax regime in April 2025, owners of short-term lets will be taxed in the same way as long term residential or commercial lets. Consequently, short-term let owners will be subject to the additional 2% tax charge.

The FHL tax regime provided several tax incentives/reliefs for qualifying short-term let owners over long term lets. One of the benefits was the ability to deduct the interest on finance costs, such as mortgages, when calculating tax payable.

This was removed from April 2025, and the tax relief was restricted to a basic rate tax reducer of 20% of the interest costs. Under the new rules, from April 2027, the tax reducer will increase to 22%, inline with the new basic rate of income tax on property income.

These changes will only impact unincorporated businesses. Properties owned in limited companies will NOT be affected.

Increase in Dividend Tax Rates

Although property owned in limited companies will not be affected, the profits withdrawn from the company by the shareholders via dividends, will face an increase of 2% on dividend tax rates.

Dividend tax rates will change from April 2026, as follows;

- Basic rate: 8.75% to 10.75%
- Higher rate: 33.75% to 35.75%
- Additional rate: remains unchanged at 39.35%

Savings Tax Rates (From April 2027).

- First £5,000 tax free if no other taxable income.
- 22% basic rate – first £1,000 tax free.
- 42% higher rate – first £500 tax free.
- 47% additional rate – no tax free.

Freeze on Personal Tax Free Allowances

Personal tax free allowances will remain at £12,570 until 2030/31. With the average rise in minimum wage being 7% over the past 5 years, this will of course result in more tax being paid.

Other Tax Changes

- Major changes to business rates – *to be covered by PASC.*
- Council Tax surcharge on properties in England worth over £2m.
- Tax relief on employee pension contributions restricted from 2030.
- Minor changes to capital allowances.
- Proposed new visitor levy - *to be covered by PASC.*

Other Non-Tax Changes

- Increase in minimum wage.
- Household gas and electricity costs will be lowered (£150 average a year).
- Fuel duty frozen at current rate until Sept 2026.
- Two child benefit cap to be lifted for those on universal credit from April 2026.
- State pension increased by 4.8% for 2026-27 year (maintaining the triple lock).
- Rail fares freeze for 2026.
- Inflation projected to decrease in 2026.

Have a question on the tax changes announced in the 2025 Budget?

PASC
www.pascuk.co.uk

PASC Members can contact tax specialists Zeal for free advice and support on the Budget changes or any other taxes relating to short-term lets.