



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Although property owned in limited companies will not be affected, the profits withdrawn from the company by the shareholders via dividends, will face an increase of 2% on dividend tax rates.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

Business Rates

There was a positive change announced for business rates in England.

Small Business Rates Relief (SBRR), which generally allowed owners of a single short-term let property to be exempt from paying any business rates (and council tax) has been expanded to allows SBRR to still apply to a second property, for a period of 3 years.

Adding a second short-term let property previously meant you would generally not be eligible to receive any SBRR. The change announced in the Budget will enable single let businesses to add another property without any additional business rates for the first 3 years.

For properties not eligible for SBRR, the Retail Hospitality and Leisure (RHL) relief has provided a 40% discount to business rates bills for qualifying short-term lets.

The Budget announced that there will be new, lower rates for qualifying short-term lets. The multipliers that calculate how much business rates you pay will be reduced.

The new multipliers for self-catering properties will be:

- ▲ For small businesses 0.382 down from 0.499
- ▲ For standard businesses 0.43 down from 0.55

Please note, the above changes to business rates only apply to properties situated in England.

Visitor Levy (England)

A new visitor levy has been proposed for certain areas in England. **The key points are:**

- ▲ Mayors in England will be allowed to introduce a visitor levy on all overnight visitor accommodation (hotels, self-catering, campsites etc).

- ▲ It would be for mayoral regions to opt-in, so not automatically across whole of England.
- ▲ We expect it will be at least mid-2027 before it's introduced anywhere and that cities will go first.
- ▲ We have no further information yet on the format because the Government are consulting on it – we will engage in that consultation as well as continue to lobby nationally for a sensible approach, and locally against regions opting in.

Employment Costs (UK)

The National Minimum Wage will be increased from 6th April 2026 as follows:

- ▲ Over 21 - Increased from £12.21 to £12.71 an hour.
- ▲ 18-20 year olds - Increased from £10 to £10.85 an hour.
- ▲ Under 18 & Apprentices - increased from £7.55 to £8 an hour.

The rise in minimum wage is likely to impact the cost of services provided to short-term lets. For example, cleaners' costs may increase in line with the rise in minimum wages.

Consumer Spending

As with all Budgets, changes are announced that impact consumer spending. We have summarised below the main changes that could have a positive or negative impact on short-term rental business.

Positive Impacts:

- ▲ 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 2026/2027 year (maintaining the triple lock).
- ▲ Rail fares freeze for 2026.
- ▲ Inflation projected to decrease in 2026.

Negative Impacts:

- ▲ **Not until April 2028:** £2,500 council tax surcharge on English properties worth over £2m (value from 2026), and £7,500 on properties over £5m.
- ▲ Income tax thresholds frozen until 2031, resulting in more tax being paid and a reduction in disposal income.

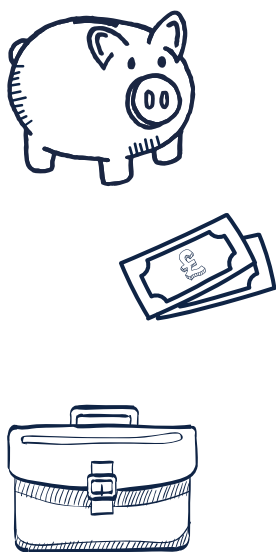
Consumer Spending

Salary-sacrificed pension contributions above £2,000 annually will no longer be exempt from National Insurance Contributions.

This change is not due to come in until 2029, but will mean that employees will pay more tax when making contributions to their pension funds.

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

Contact short-term let tax specialists, Zeal, for free advice and support on the Budget changes or any other taxes relating to short-term lets. You can contact Zeal via hello@gozeal.co.uk



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