HM Revenue
& Customs

Policy paper

Abolition of the furnished holiday lettings tax regime

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This publication is available at https://www.gov.uk/government/publications/furnished-holiday-lettings-tax-regime-abolition/abolition-of-the-furnished-holiday-lettings-tax-regime

Who is likely to be affected

Individuals, corporates, and trusts who operate or sell furnished holiday lettings (FHLs) accommodation.

General description of the measure

This measure removes the specific tax treatment and separate reporting requirements for FHLs.

End of FHL rules

Income and gains from a furnished holiday let (FHL) will then:

Then into usual property business rules

- form part of the person's UK or overseas property business
- be treated in line with all other property income and gains

Policy objective

The measure promotes fairness and aligns the tax rules for furnished holiday lettings with those for other property businesses.

Background to the measure

The current rules provide beneficial tax treatment for furnished holiday lettings compared to other property businesses in broadly 4 key areas:

- exemption from finance cost restriction rules (which restrict loan interest to the basic rate of Income Tax for other landlords)
- more beneficial capital allowances rules
- access to reliefs from taxes on chargeable gains for trading business assets
- inclusion as relevant UK earnings when calculating maximum pension relief

To qualify as a furnished holiday let, properties:

- must be available for short-term letting to the public for 210 days and actually let for 105 days or more in each tax year
- should not be used as a long-term let of over 31 days for significant periods

The distinction for a furnished holiday let was introduced in 1984 and provided different and more beneficial tax treatment for short-term lettings within the property investment sector. Repealing the beneficial tax treatment for furnished holiday lettings promotes fairness by removing the tax advantages that furnished holiday let landlords have over other residential property landlords.

Detailed proposal

Operative date

The measure will have effect:

- on or after 6 April 2025 for Income Tax and for Capital Gains Tax
- from 1 April 2025 for Corporation Tax and for Corporation Tax on chargeable gains

Current law

The current law on the tax rules for furnished holiday lettings is contained in:

- Part 3 of the Income Tax (Trading and Other Income) Act 2005
- Part 4 of the Corporation Tax Act 2009
- Part 7 (specifically sections 241 and 241A) of the Taxation of Capital Gains Act 1992
- the Capital Allowances Act 2001

Proposed revisions

This change will remove the tax advantages that current furnished holiday let landlords have received over other property businesses in 4 key areas by:

- applying the finance cost restriction rules so that loan interest will be restricted to basic rate for Income Tax
- removing capital allowances rules for new expenditure and allowing replacement of domestic items relief

- withdrawing access to reliefs from taxes on chargeable gains for trading business assets
- no longer including this income within relevant UK earnings when calculating maximum pension relief

After repeal, former furnished holiday let properties will form part of the person's UK or overseas property business and be subject to the same rules as non-furnished holiday let property businesses.

The following specific transitional rules will apply:

Part P&M claim, part replacement of domestic items

- businesses with FHL properties will no longer be eligible for more beneficial capital allowances treatment but will instead be eligible for 'replacement of domestic items relief' in line with other property businesses — where an existing FHL business has an ongoing capital allowances pool of expenditure, they can continue to claim writing-down allowances on that pool — any new expenditure incurred on or after the operative date must be considered under the property business rules

Losses now for part of one property business

- under current rules a loss generated from a FHL property business can only be carried forward and utilised against future profits of that same FHL business — after the changes, former FHL properties will be part of the person's UK or overseas property business as appropriate — that property business will then include the amalgamated profits and losses of all the properties in that business

Losses from FHL business to be c/fwd to property business

- persons may have losses to carry forward from their FHL business after repeal — losses generated from this FHL business will be permitted to be carried forward and be available for set off against future years' profits of either the UK or overseas property business as appropriate

ALL GOING: Rollover, BADR, s165 holdover, loans to traders, SSE

- under current rules FHL properties are eligible for roll-over relief, business asset disposal relief, gift relief, relief for loans to traders, and exemptions for disposals by companies with substantial shareholdings — after the changes eligibility for the reliefs will cease — however, where criteria for relief includes conditions that apply in a future year these specific rules will not be disturbed where the FHL conditions are satisfied before repeal

But BADR still available in some cases

- in relation to business asset disposal relief, where the FHL conditions are satisfied in relation to a business that ceased prior to the commencement date, relief may continue to apply to a disposal that occurs within the normal 3-year period following cessation

See below

- there is also an anti-forestalling rule — this will prevent the obtaining of a tax advantage through the use of unconditional contracts to obtain capital gains relief under the current FHL rules — this rule applies from 6 March 2024

Commencement date =
CT = 1 April 2025
IT / CGT = 6 April 2025

Summary of impacts

Exchequer impact (£ million)

2023 to 2024	2024 to 2025	2025 to 2026	2026 to 2027	2027 to 2028	2028 to 2029
+0	+0	+35	+140	+180	+245

These figures are set out in Table 5.1 of Spring Budget 2024 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Spring Budget 2024.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

There is no impact on individuals as this measure only affects businesses. By removing the furnished holiday let rules, all income from property will be treated the same for tax purposes.

The changes will achieve a parity of treatment for taxpayers. This measure is not expected to impact on family formation, stability or breakdown.

Customer experience is expected to stay broadly the same as the changes do not alter how individuals interact with HMRC.

Equalities impacts

We have considered whether any protected characteristics may be affected and anticipate that none will be significantly impacted.

Impact on business including civil society organisations

This proposal is expected to have a negligible administrative impact on businesses operating FHLs. Businesses will no longer calculate profits for furnished holiday lettings separately. Reporting will be simplified for those with ordinary property income and furnished holiday let income.

One-off costs could include familiarisation with the changes. There are not expected to be any ongoing costs. Continuing savings may be seen if businesses have to complete fewer calculations.

Customer experience is broadly expected to stay the same as the changes do not significantly alter how businesses interact with HMRC.

This measure is not expected to impact civil society organisations.

Operational impact (£ million) (HMRC or other)

Changes will be required to HMRC's IT systems to support implementation of this policy, plus a small increase in full-time equivalent (FTE) required to support customer transition. These changes are currently estimated to cost in the region of £6m overall.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected from tax returns.

Further advice

If you have any questions about this change, please contact Robert Nott by:

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