Evidence from the Association of Scotland's Self-Caterers on the Abolition of the Furnished Holiday Let Tax Regime

Founded in 1978, the Association of Scotland's Self-Caterers (ASSC) represents over 1,700 members, operating self-catering properties throughout Scotland, from city centre apartments to rural cottages, to lodges and chalets, to castles. Our vision is that the ASSC takes the leading role in advancing a vibrant and prosperous self-catering sector recognised as pivotal to the future of Scotland's tourism economy. Our purpose is to empower our diverse and professional membership, enabling them to deliver exceptional experiences to guests. Our focus is on supporting businesses and communities in the promotion of Scottish self-catering as a sustainable, inclusive and responsible form of accommodation.

Introduction

On 29 July 2024, the UK Government published draft legislation for consultation on the removal of the specific tax treatment for income and gains from furnished holiday lets (FHLs), effective from April 2025. We appreciate the opportunity to provide evidence on the proposed abolition of the FHL tax regime and express our significant concerns regarding its potential impacts. This submission follows our engagement with HM Treasury on 19th August 2024, where the ASSC and the Professional Association of Self-Caterers (PASC) presented the negative consequences this measure could have, not only on self-catering businesses but also on local economies throughout the UK. We welcome the opportunity to respond to this critical consultation.

The self-catering or holiday let sector plays a crucial role in supporting local communities across the UK. However, the tourism industry is still experiencing a slow recovery from the COVID-19 Pandemic and recent economic challenges. It is essential to avoid introducing measures that could destabilise this already fragile sector at such a critical time.

Traditional holiday lets are confronting unprecedented market challenges, compounded by an inconsistent approach to tax and regulation across all levels of government. This disjointed policy framework risks triggering a sharp decline in the sector. If the current approach continues, an overcorrection may occur, making it impossible to reverse the downturn in time.

We strongly urge the UK Government to reconsider the proposed abolition of the FHL tax regime. The pace of change is simply too rapid for the thousands of micro-businesses that have operated under this HMRC tax framework for up to 40 years. Transitioning to a new tax regime by April 2025 is a unrealistic expectation. Forcing these businesses out of the FHL regime will have immediate and severe consequences, many of which are unintended, yet will cause significant financial burden to businesses that cannot bear it.

The Self-Catering Sector

The holiday let sector is a vital component of rural and coastal economies, with furnished holiday lets generating £9.3m in Gross Added Value (GVA) to the UK economy and supporting 230,000 jobs nationwide.

Self-catering operators are **not passive landlords**, but traditional hospitality providers within the tourism sector. Their properties are **not second homes** but legitimate businesses that contribute significantly to both local and national economies. Self-catering is a **hands-on business** requiring substantial customer service, ongoing investment, and the maintenance of high standards to meet or exceed guest expectations.

FHLs and long-term rental properties differ significantly in their tax treatment, operational complexity, and financial commitments. Unlike private rentals, which are not subject to VAT and where tenants bear the cost of Council Tax, FHLs are treated as businesses, often incurring VAT and business rates. FHLs require constant oversight, with owners managing up to two or three changeovers per week, monitoring bookings, and responding to guest inquiries. They also necessitate substantial upfront investment in high-quality furnishings, unlike private rentals, which can be let unfurnished. While private landlords enjoy consistent monthly payments and simpler bookkeeping, FHL owners face fluctuating income and complex financial management. Furthermore, 39% of FHLs have planning restrictions that prevent their use or sale as private residences, making it inequitable to align their tax treatment with long-term rentals. Many farmers, encouraged to diversify into FHLs, are further restricted in their ability to sell, which adds to the operational and financial burden faced by FHL owners.

According to the Association of Scotland's Self-Caterers' (ASSC) 2024 Member Surveys, the self-catering demographic is made up of:

- **70% female**
- **80% over 50 years old**
- **60% live and operate in rural/island communities**
- **50% have operated their self-catering business for over 10 years**
- **55% have just one property**

Age and gender are critical factors in **pension planning** and **financial stability**, especially for individuals relying on the Furnished Holiday Lettings (FHL) regime. Women, in particular, face greater challenges in securing adequate pensions due to a combination of lower lifetime earnings, the gender pay gap, and career breaks often taken for childcare or caregiving responsibilities. These breaks reduce their contributions to pension schemes, resulting in smaller pension pots at retirement. The abolition of the FHL regime will **disproportionately affect women** who rely on the tax benefits of FHL income to supplement their pensions, as the loss of pension contribution tax relief will make it even harder for them to build financial security for their retirement.

For those who have meticulously planned for **long-term financial stability**—whether through pensions or property investment—policy changes like the FHL abolition can have a devastating impact. Sudden economic fluctuations or regulatory shifts can erode the financial foundations that individuals have carefully built, making it difficult for them to achieve a secure retirement. This is particularly concerning for older self-caterers, who may not have the time or ability to adjust their income streams before retirement.

Moreover, the importance of the **"grey pound"** cannot be overstated. Retirees contribute significantly to economic growth, as their spending supports various industries, from travel and hospitality to healthcare and retail. The "grey pound" plays a crucial role in sustaining local economies, especially in tourist destinations where self-catering accommodation is popular. The FHL abolition threatens to reduce the income and spending power of retirees who depend on this sector for part of their retirement income. Any policy that undermines the financial stability of retirees will not only affect their personal well-being but also have a wider impact on the economy by reducing their capacity to support local businesses and the broader economic ecosystem.

Why the Existing FHL Regime Works

We strongly believe that FHLs should continue to receive the same tax treatment as other commercial / hospitality businesses. The current FHL tax regime enables operators to invest in their properties, adapt to changing consumer demands, and contribute to the growth of tourism. The regime encourages the **investment and growth** needed to support the **recovery** of the tourism industry. Furthermore, it supports growth in line with Scotland Outlook 2030, enhancing the benefits of tourism across Scotland by delivering the best for our visitors, our businesses, our people, our communities and our environment.

The FHL tax regime, established 40 years ago, has fostered choice in how people invest and operate self-catering businesses. Abolishing the regime, without sufficient transitional provisions, would disproportionately harm **micro-businesses and livelihoods**, especially in rural and coastal areas.

The abolition of the FHL regime will have a profound **operational impact** on self-caterers, affecting everything from deductible expenses and capital expenditure planning to profit allocation, pension contributions, and the future treatment of income as property income. These changes require proactive planning, with many operators needing to reconsider their business models, investment strategies, and tax planning well ahead of April 2025.

The **abolition** of the FHL tax regime poses a **severe threat** to the future viability of the self-catering sector, particularly in **Scotland**, where many businesses depend on this framework to remain viable. This change will lead to properties being sold and many reverting to second homes, exacerbating **housing challenges** and reducing economic contributions to local areas. As noted by the **National Farmers' Union**, the abolition will also adversely affect **agritourism** and **farm diversification** efforts, which rely on holiday lets for income.

Impact on the Self-Catering Sector

The FHL regime is **not a tax loophole**; it was intentionally designed to address the unique characteristics of the holiday let business, allowing businesses to deduct legitimate expenses before being taxed. This regime is **fundamental** in fostering investment and supporting income generation within the sector.

By taxing businesses on more than their **net profit**, the proposed abolition will discourage further investment in properties and threaten the **quality of the self-catering accommodation**. This will, in turn, reduce the hiring of local tradespeople and potentially lead to job cuts.

The **ASSC Barometer Survey** (April 2024) highlights that **81%** of self-catering operators in Scotland will be **less likely to invest** in their properties if the FHL regime is abolished, with **50% reporting a significant decrease in likelihood**. This could result in a marked decline in the quality of accommodation across the UK, damaging the country's **reputation** as a top-tier tourism destination. 60% of businesses say that the abolition of the FHL regime will have a detrimental impact on their business with a further 10% saying it will be devastating.

This policy change would also exacerbate the impact of the already burdensome **Scottish Government's short-term let licensing and planning regulations**, and other planned regulatory and taxation interventions including the Visitor Levy, further threatening the sector, particularly in **rural, island, and remote communities**. At a time of ongoing **cost-of-living crises, higher energy bills, increased interest rates, and rising business rates**, the sector is already facing considerable financial pressures. The removal of the FHL regime will intensify these challenges, likely resulting in **business closures** and **job losses** across the sector, which currently supports **230,000 jobs** and contributes **£9.3 billion GVA** to the UK economy.

The claim that abolishing the regime will "level the playing field" between long-term and short-term property rental markets is misleading. FHL income will remain **subject to VAT**, whereas long-term rental income will not, illustrating a lack of parity.

Wider Economic Impact

The abolition of the FHL regime will have far-reaching effects, not only on the businesses themselves but on the wider economy. Every **£100** spent on FHL accommodation leads to an additional **£78** spent locally, supporting a broad range of businesses such as visitor attractions, pubs, restaurants, and farm shops. A reduction in self-catering businesses could therefore jeopardise the survival of many **community assets** and businesses that rely on tourism.

The **Centre for Economics and Business Research** has already identified a **£2.8 billion shortfall** in tourist spending and **3 million fewer overseas visitors** compared to pre-Covid levels, with **accommodation costs 35.8% higher** than in 2019.

A decline in quality due to lack of investment in the self-catering sector would negatively impact Brand UK, which already ranks **113th out of 119 countries** in **price competitiveness**, according to the **World Economic Forum's Travel and Tourism Development Index.** The abolition of the FHL regime could further diminish the UK's tourism competitiveness, diminishing Scotland's long-term appeal on the global stage.

Conclusion

The proposed abolition of the FHL tax regime is an **anti-growth** policy that will result in **reduced investment, job losses, and a decline in local economies**, particularly in **rural** and **coastal** areas. For the already hard-pressed self-catering sector in Scotland, this comes at a time of intense regulatory and financial strain, driven by **Scottish Government interventions** including **short-term let licensing and planning**, changes to **Non-Domestic Rates** and the introduction of **visitor levies**.

The **accumulative impact** of regulatory and taxation measures with no time to adjust will stifle growth, depress local economies, and further hollow out rural communities.

The UK Government must reconsider this course of action, taking into account the **serious unintended consequences** that could undermine the **tourism industry** and exacerbate housing challenges without providing any substantial policy benefits.

We urge HM Treasury to **pause** the abolition of the FHL regime, explore **alternative measures**, and engage in **comprehensive consultation** with key stakeholders, ensuring that any changes made are based on **real data** and a robust **business impact assessment**. The self-catering sector stands ready to work constructively with HMT to find a proportionate, targeted and justifiable solution to meet their policy objectives.

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