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Abolition of the Furnished Holiday Lettings (FHL) Tax Regime

The Issue

The rise of short-term rental properties has created challenges for towns and cities. However, these issues are not mirrored across the country. This means that policies which could be beneficial for urban communities would be disastrous for rural and coastal areas, as well as the individual livelihoods of people who rely on holiday rental properties.

Traditional holiday lets are not owned by people trying to make a 'quick buck'. Many of our members has owned their holiday lets for more than a decade and rely on them for their financial well-being. Moreover, significant numbers of farmers that have diversified to ensure broader viability of their farming business.

Whilst we are supportive of finding a pathway to a fairer self-catering market there are 'ready to go' policies that will help deliver this such as Statutory Registration. Abolishing FHL only hurts those who are running long-term micro-businesses in rural and coastal areas.

Our Ask

We recognise that the abolition of FHL is now inevitable. However, we are strongly arguing for a pause of 12-months to allow businesses to plan effectively. The Finance Bill indicates the vast majority of the FHL allowances will be abolished as of 4 April 2025. This is far too soon:

1) It is well ahead of most other tax changes in the Budget that come in for the 2026/2027 tax year.
2) It is a far shorter period than the 4 years that long term landlords were given to adjust to **just one** tax change when mortgage interest rate relief was phased out (see further below).
3) Many businesses will have taken bookings up to two years in advance. Therefore, they cannot simply sell up if these measures make their businesses unviable like long term landlords could.

The Finance Bill's Parliamentary journey may not be completed until January, that will mean owners have less than four-months to adapt to a new tax regime. These are small businesses. Just to secure the tax advice will cost thousands of pounds, and then there will be significant costs to exit the FHL regime and enter a new one. This is going to cripple these businesses that operate on small margins. And for those diversified farmers, it is yet another costly hit on top of the inheritance tax changes.

We have a draft amendment for the Finance Bill we would welcome being laid that would help the sector transition effectively. Sent in a separate document.

Different treatment

When Buy to Let landlords faced one change to restrict mortgage interest relief this was done over a phased period of 4 years as follows.

Year	% of costs deducted from profits	% of costs available as a basic rate deduction
2017-18	75%	25%
2018-19	50%	50%
2019-20	25%	75%
2020-21 onwards	-	100%

At this time buy to let landlords were only facing one tax change (not multiple tax changes that FHLs face).

Additionally, this phased tax restriction for long term let landlords was introduced during a period of historic low interest rates (0.25% in April 2017, peaking at 0.75% August 2018 to March 2020 and falling to 0.1%). So, the practical effect of this tax change was nowhere near as significant as it is now.

Buy to let landlords could close their business within two months serving section 21 notices if the tax changes made their businesses unviable.

FHL businesses take bookings up to two years in advance. Therefore, they do not have the option to cease business and sell without breaching existing contracts and incurring significant financial costs, including cancellation fees. They also do not have the option of increasing future rental prices for bookings already taken whereas long term landlords could increase rents for future periods to cover the additional tax cost.

FHL businesses are also facing challenges with historic high utility bills (which they pay unlike long term landlords). As such, any perceived incentive to join the sector already has its counterbalance. Visitor demand can only financially support a limited number of accommodation businesses, and the self-catering sector has already reached its ceiling, likely in 2022.

Broader Solution

PASC UK's broader solution is a Statutory Registration scheme, which responsible participants in the sector, like our members, would welcome and would help push out bad actors.

This initiative has broad support from the sector and tourism bodies, can operate with little to no cost to the taxpayer.

This measure would provide effective regulation for the sector, without the immediate need for further regulation in the form of planning changes or punitive tax measures such as abolishing the Furnished Holidays Letting (FHL) tax regime. Coupled with the new law requiring platforms to annually report to HMRC the operators of holiday lets, the property and address, type of property, nights it was let, income received and commission paid etc, this will enable enforcement of existing legislation such as health and safety, tax, anti-social behaviour and London's 90 day holiday letting limit.

Key Points About the Sector

Traditional holiday lets provide the bedstock for many visitor economies. They responsibly and sustainably contribute £9.3bn in economic activity and support the employment of 230,000 people across the UK - providing the infrastructure vital for many towns and villages to sustain employment.

Regulations and tax policies which make it impossible for our members to continue to operate will not only damage their livelihoods but will have a knock-on impact on growth and employment in many poorer parts of our country, directly affecting the ability of the new Labour Government to deliver its mission for growth.

The sector is already facing:

- A tourism tax in Scotland and Wales.
- Poorly implemented licensing scheme in Scotland, causing the loss of badly needed visitor accommodation, particularly in Edinburgh
- New Council Tax premiums.
- Use of Article 4 by local authorities.
- New planning restrictions in Wales and Scotland.
- The 182-day business rates threshold in Wales.

Abolishing the 40 year old FHL regime, alongside the above disincentivising regulatory pressures across the UK, will lead to business operators not investing and indeed selling, most frequently to 2nd home owners, who contribute far less to broader local economies and jobs than our increasingly in demand part of the tourism sector which maintains the staycation boom, spreading visitors around the UK freely spending at pubs, restaurants, shops and activities.

A PASC UK survey of 7,400 owners has shown that:

- 42% of businesses have operated for 10 years or more, and 61% more than 6 years, pre-dating the perceived “Airbnb Boom”.
- Only 5% of businesses consider a local resident as the most likely buyer of their property.
- 39% of FHL businesses think the most likely buyer of their property would be a second homeowner.

It is also important not to see the holiday let sector in a silo, many other businesses such as restaurants, cafes and pubs rely on holiday lets to drive their footfall. Every £100 spent on accommodation results in a further £78 spent in the wider economy.

We estimate that a modest 20% reduction in FHLs could result in a loss of £1.9 billion in gross value added and 46,000 jobs (Reports | PASC UK.)

Traditional self-catering properties, holiday let for 105 days a year as required to use the FHL regime, are also vastly different from second homeowners or private landlords. They are running a professional business, often on a full-time basis. To the right is a graphic to highlight the key differences.

	Long-term rental	Furnished Holiday Let
Typical stay	4.4 years	2-7 days
Staff	None	Cleaners, gardeners, laundry, weekly maintenance
Cleaning	No	Each changeover
Laundry	No	Each changeover
Waste management	No	Regular commercial waste and recycling
Exterior maintenance	No	Lawns, gardening, window cleaning
Welcome pack	No	Each changeover
Utilities / Water	Tenant pays	Owner pays
Council tax / Business rates	Tenant pays	Owner pays
VAT	No	Yes (if above threshold)
Services	None	Wi-Fi, TV, Streaming services
Marketing	Advert every 1-2 years	Dedicated website, online booking, multiple social media outlets, Google ads, Facebook marketing
Guest interaction	Infrequent	Daily emails to current and prospective guests
Direct owner involvement	Several days a year	Several days each week