CAPITAL ALLOWANCE REVIEW SERVICE

Abolishment of the *FHL Regime* Explained

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Navigating the *End of* FHL Capital Allowances

The Furnished Holiday Lettings (FHL) tax regime, which provided beneficial tax treatment for short-term holiday lets, was abolished on **6th April 2025 for income tax** and **1st April 2025 for corporation tax**. This guide aims to clarify the implications of this change, including the conditions for claiming capital allowances, the impact on tax reliefs, and common questions answered.

Concept of the *FHL Regime*

To qualify, your client must have spent capital...

Buying

Building

Renovating

their furnished holiday let

Further Qualifying Criteria

To qualify as an FHL, a property must satisfy specific conditions set out by HM Revenue & Customs (HMRC). The requirements are as follows:

- **Availability:** Available for short-term letting for at least 210 days per year.
- **Occupancy:** Must be commercially let for at least 105 days per year.
- **Pattern of occupation:** The total of all lettings that exceed 31 continuous days is not more than 155 days during the year.

Types of Capital Allowances Claimable

✓ Annual Investment Allowance (AIA)

✓ Writing Down Allowance (WDA)

Application of the *Abolishment*

With the end of FHL capital allowances, accountants must adapt their approach. While existing allowance pools remain eligible for writing-down allowances, new qualifying asset purchases will no longer qualify. It's essential to finalise claims accurately and support clients in adjusting their tax strategies under the new property business rules.

Action Points

- Review and process all outstanding FHL capital allowance claims within the remaining time frames available.
- Obtain accurate details for property expenditure.
- Maintain accurate records for existing allowance pools.
- Advise clients on the tax impact of losing FHL allowances.

Your Questions Answered

1. Can I claim capital allowances against expenditure incurred after the abolition?

No, you can only continue to claim existing capital allowances pools against property income.

2. Do claims need to be completed by 31st March for companies and 5th April for individuals?

No, it's important that clients have spent capital and the FHLs are active before the abolishment date.

The last possible personal tax return that can include new capital allowances is the 2024/25 tax year, we would therefore suggest calculating and submitting a capital allowance claim by the 31st January 2026. Technically, it would still be possible to submit a claim by the 31st January 2027; however, this would require an amended tax return to be submitted with the capital allowances included. For Limited Companies, it is slightly different, in so much as the last possible tax return that can include a new capital allowances claim for an FHL would have to be in the tax return that the 31 March 2025 deadline falls into.

A capital allowance claim for an accounting period may be made, amended or withdrawn at any time up to 12 months after the filing date for the company tax return for the accounting period. Along with the additional 12 months to submit an amended return, this means that in most cases the time limit is 2 years after the end of the accounting period (FA98/SCH18/PARA82).

3. If my client has already purchased or started renovating a property, will they still be able to claim any allowances after the abolishment?

It will only be possible to claim capital allowances if the property was active as a Furnished Holiday Let (FHL) before the abolishment dates.
If the spend was incurred before the abolishment dates but the FHL was not "live" on the 31st March or 5th April 2025 (depending on how the property is held), capital allowances will not be available against any of the costs to buy, develop, or renovate the FHL.

4. Why claim capital allowances if they can't be used after the abolishment date?

Claims made before the deadline can still reduce taxable profits in future years, providing an opportunity for significant tax savings. Recently, there have been important updates to the availability of claiming capital allowances against various types of property income. Once capital allowances are included in your tax return, they can now be applied to offset profits from all property income, including residential properties.
If property profits are forecast, it's vital to claim all eligible capital allowances against costs to maximise tax relief and improve overall financial outcomes.

5. What costs can be considered?

We would encourage a review of all FHL costs, including costs to buy, build, and renovate, and wouldn't limit a review to recent costs only. There is often no time restriction as to how far back a capital allowance review against costs can be made.

6. What happens to my client's existing capital allowance pools after the abolishment? Can they still claim them in future tax years?

Yes, existing capital allowance pools can still be used to offset taxable profits on property income in future tax years. The abolishment affects new claims for expenditure incurred after the cutoff date, but previously accumulated allowances remain available until exhausted.

7. Will I need to adjust my clients' accounts or amend prior tax returns due to the abolishment?

No, the abolishment does not affect previous tax returns or the ability to amend a previous open tax return for a new qualifying claim.

Adding Value *Beyond* the Paper Trail

26% claimed

A key difference that we can offer is adding value to the work of a good but non-specialist accountant, as an accountant's review normally begins and ends with analysing invoices and following the paper trail.

We will visit the property and identify the embedded items that are not available within the paperwork.

Case Study

Our client purchased land at Waternish, Isle of Skye, in May 2014 and built a luxury holiday cottage. The property includes three spacious en-suite bedrooms, a dining room, living room and kitchen.

The claim is based on the build costs of around £276,000 and additional chattels costing £11,000. The expenditure, incurred by an individual personally, spanned from 2015 to 2017. Both general pool and special rate pool allowances were available. The claim generated a repayment of tax paid and secured tax savings that will be used against the income generated from this furnished holiday let (FHL).

Claim Results

- Total Cost
  £287,000
- Capital Allowances identified
  £75,572
- Total Tax Savings
  £16,670

What the client thought...

"You helped me to achieve a good tax refund, higher than what was expected. I want to thank you for the great service you have given me and I have recommended you to quite a few of my contacts."

Tom Wilkinson | Managing Owner

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Contact us now

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