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# Your ICAS experts for today



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# Topics for today



- Background to the proposed changes
- Spring Budget 2024 announcement
- Draft legislation published in July
- Things for you to think about when advising your clients
- Request for comments on draft legislation – your chance to feed back
- Q & A



# Background to the proposed changes

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# Background to the proposed changes



- FHL rules have been in place since 1984
- Several tax advantages of FHL where meet qualifying criteria:
  - Capital allowances on furniture and equipment
  - Business Asset Disposal Relief – 10% CGT rate
  - Holdover Relief on gifts of FHL property
  - Rollover Relief
  - Relevant earnings for pension contributions
  - Not affected by restriction for finance costs
  - Not affected by special rules for jointly held property held by spouses/civil partners
- FHL rules nearly scraped from 6 April 2010 but reprieve on change of government – not this time!



# Spring Budget 2024 announcement

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# Spring Budget 2024 announcement



- Spring Budget 2024 announced abolition of FHL regime
- Income Tax changes to tax effect from April 2025
- Capital Gains Tax anti-forestalling rule to take effect from 6 March 2024 – limited details
- Uncertainty caused significant confusion about how the changes would impact clients



# Draft legislation

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# Draft legislation



- Draft FHL legislation published following new Chancellor's statement to House of Commons on 29 July 2024
- HMRC published briefing paper, TIIN and explanatory note
- Government seeking feedback on draft legislation by 15 September 2024

# Draft legislation



What's changing:

- Income Tax
- Corporation Tax
- Capital Allowances
- Capital Gains Tax
- Loss relief



What's not changed:

VAT

- VAT Notice 709/3: *If you supply holiday accommodation, or a site for such accommodation, you must account for VAT at... the standard rate... on any charges that you make regardless of the length of occupation or description of the charges*
- Existing VAT treatment applies regardless of whether accommodation qualified as FHL



What's not changed:

## Inheritance Tax

- HMRC manual IHTM25278 states HMRC's view that FHL will in general not qualify for BPR (Pawson 2013 case)
- Significant additional services required over and above FHL
- Does not affect "Balfour" situations



## Income Tax changes from 2025/26:

- Section 189 Finance Act 2004: FHL income no longer relevant earnings for pension contributions
- Section 127 ITA 2007 (UK properties) and Section 127ZA ITA 2007 (EEA properties) will be omitted from legislation



## Income Tax changes from 2025/26:

- Section 272B ITTOIA 2005: FHL properties no longer exempt from restriction on finance costs
- Section 311A ITTOIA 2005: replacement of domestic items to be allowed for FHL properties



## Corporation Tax changes from 1 April 2025:

- Section 65 CTA 2010 (UK properties) and Section 67A CTA 2010 (EEA properties) will be omitted from legislation
- Section 250A CTA 2009: replacement of domestic items to be allowed for FHL properties
- Transitional rules for year ends straddling April 2025 – treat as separate notional accounting periods



## Capital Allowances changes:

- Section 13B CAA 2001 no longer apply from 1 April 2025 (companies) or 6 April 2025 (unincorporated businesses)
- FHL business will no longer be a “relevant qualifying activity” for Capital Allowances
- Capital Allowances pool will continue in respect of qualifying expenditure before 1/6 April 2025





## Capital gains changes:

- Holdover Relief – Section 165A TCGA 1992 to be updated to remove reference to FHL as trading
- Section 241 TCGA 1992 (UK properties) and Section 241A TCGA 1992 (EEA properties) to be updated to remove special FHL tax treatment for:
  - Rollover Relief
  - Holdover Relief
  - Business Asset Disposal Relief
  - Relief for loans to traders
  - Substantial Shareholding Exemption (SSE) disposals by companies
- Several minor consequential changes to remove FHL from other tax legislation



# Draft legislation



## Capital gains changes:

- Most changes take effect from 1 April 2025 (companies) or 6 April 2025 (individuals)
- Anti-forestalling rule if purpose to avoid new rules
- Applies to transactions between 6 March 2024 and above dates (known as pre-commencement period)
- Affects claims to Rollover Relief, provisional Rollover Relief, Holdover Relief and Business Asset Disposal Relief
- Does not apply to genuine commercial transactions or transactions between parties that are not connected persons per Section 286 TCGA 1992
- Need to make statement that conditions met to avoid anti-forestalling rule applying



## Losses:

- FHL losses are currently treated as separately from any other property business
- Going forward losses will be amalgamated with other property business
- UK and overseas property businesses still treated separately





# Things to think about when advising your clients

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# Things to think about when advising your clients



Plan ahead for the April 2025 changes:

- Accelerate expenditure eligible for Capital Allowances
- Pension contribution before 5 April 2025?
- Take advantage of Capital Gains Tax reliefs?
  - beware of anti-forestalling rules
- Jointly owned property owned by spouses
  - Form 17 if beneficial interest other than 50:50
- Can the business become trading by other means?
- Does a change in tax rules mean a change in portfolio?





# Requests for comments on draft legislation

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# Requests for comments on draft legislation



We want to know your thoughts:

- How will draft legislation affect your clients?
- Consultation closes on 15 September 2024 – let us know before then
- Let us know in the comments box
- Can email your comments to [tax@icas.com](mailto:tax@icas.com)



# Your questions answered

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# Further information and guidance



ICAS website: **[icas.com/professional-resources](https://www.icas.com/professional-resources)**

Technical Helpdesk: **Contact us on [icas.com](https://www.icas.com)**

X: **@ICASaccounting**

LinkedIn: **ICAS – The Professional Body of CAs**

# What's coming up



## Online

5 September	Periodic review amendments to UK GAAP: What does this mean for me? (in person option on 18 September in Edinburgh)
17/18 September	ICAS Insolvency and Restructuring Conference (sponsored by Sweeney Kincaid)
26 September	Making Tax Digital for Income Tax: Get your practice ready

## In person

4 September	The Two Ethels: Celebrating Pioneering Women in Tax and Accountancy
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