

FHL Transition Checklist

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What changed for furnished holiday let owners after the FHL tax regime ended

2026/27 EDITION · EFFECTIVE FROM 6 APRIL 2025

From 6 April 2025, the Furnished Holiday Lettings (FHL) tax regime was abolished. FHL properties are no longer treated as a trading-style business for tax purposes — they're taxed under the same rules as any other UK (or overseas) property letting business. This checklist covers the five changes that matter most and what to check before your next tax return.

1 Mortgage interest — now restricted, not fully deductible

- Finance costs (mortgage interest, arrangement fees) can no longer be deducted in full against rental profit.
- Relief is now given as a 20% tax credit against your tax bill — the same restriction (Section 24) that's applied to standard residential landlords since 2020.
- Higher and additional-rate taxpayers feel this most: relief is capped at the basic rate regardless of your actual tax band.

2 Capital allowances — no new claims on furniture or equipment

- You can no longer claim capital allowances on new furniture, white goods or equipment bought for the let from 6 April 2025 onwards.
- Instead, use the normal property-income “replacement of domestic items relief” — broadly, the cost of replacing (not the first purchase of) furnishings.
- An existing capital allowances pool survives: you can still claim writing-down allowances on expenditure incurred before 6 April 2025, just nothing new goes into the pool.

3 Capital Gains Tax — standard property rates and reliefs withdrawn

- Disposals are now taxed at standard residential CGT rates: 18% (basic rate) or 24% (higher/additional rate), instead of the more favourable rates that applied to FHLs as a trading asset.
- Business Asset Disposal Relief (10%, up to a £1m lifetime limit), Rollover Relief and Holdover Relief are all withdrawn for FHL disposals from 6 April 2025.
- Anti-forestalling rules can still apply reliefs to unconditional contracts entered into before 6 March 2024 (announcement date) even if completion falls after the cutoff — check the exact dates if you're mid-sale.

4 Losses — no longer ring-fenced to the FHL

- Any FHL losses brought forward are reclassified as ordinary UK (or overseas) property losses from 6 April 2025.
- They can now be set against profits from your wider property letting business — not just against future profits of the same FHL — which can actually help if you have other rental income.

5 Married couples and civil partners — income splitting changes

- You can no longer split FHL income to the partner who does most of the day-to-day management.
- The default from 6 April 2025 is a 50:50 split, unless you hold unequal beneficial ownership of the property and make a Form 17 declaration to HMRC.

Form 17 elections are not backdated — they take effect only from the date HMRC receives the form, so acting promptly matters if your ownership split isn't 50:50.

6 Pension contributions — earnings test change

- FHL profits no longer count as “relevant UK earnings” for pension annual allowance and tax relief purposes.
- If you were relying on FHL profit to support personal pension contributions, check your relevant earnings from other sources before paying in for 2026/27.

Quick action checklist

- Review your mortgage/finance cost claim — switch to the 20% tax credit calculation
- Check what's in your existing capital allowances pool — stop adding new purchases to it
- Before selling, confirm which CGT rate and reliefs now apply to your disposal
- If you're not 50:50 owners, consider a Form 17 election and date it correctly
- Re-check your relevant earnings for pension contribution purposes this year
- Keep records of the FHL-period figures separately — HMRC may query the transition

This checklist is general guidance only and does not constitute tax or financial advice. Rules referenced apply to individuals and partnerships in England, Wales and Northern Ireland letting UK or overseas property; always confirm your own position with HMRC guidance or a qualified accountant before acting, especially around CGT disposals and Form 17 elections.

Sources: GOV.UK — Changes to the tax treatment of Furnished Holiday Lettings; HMRC Property Income Manual; Finance Act 2025 abolition provisions. Checked 2026. Full guide and related calculators: paytoolkit.co.uk/downloads/fhl-transition-checklist/