Finance Bill 2024-25: Property taxes

OMB Property Tax



18 February 2025

The CIOT provided a briefing to Parliamentarians on the property taxes clauses in Finance Bill 2024-25.

Furnished holiday lettings

Clause 25 and Schedule 5 provide for the abolition of the furnished holiday lettings (FHL) regime with effect from 1 April 2025 for companies and 6 April 2025 for other businesses.

Our overriding concern is that abolition of the FHL regime reopens the complexity of a dividing line between a trading and an investment (letting) business and may lead to costly disputes and litigation about where the line is drawn. We support a statutory ‘bright line’ test to remove uncertainty.

Following abolition, eligibility for capital gains tax reliefs, such as rollover relief and business asset disposal relief, will cease. It will be important that taxpayers thinking of disposing of their FHL business are fully aware of the time limits in which they are

operating as action may need to be taken ***before*** 6 April 2025 to secure reliefs. We suggested the guidance issued to date by HMRC might be helpfully supplemented ***before*** April to remove uncertainties.

The availability of the subsidiary exemption where the conditions for the main substantial shareholding exemption were satisfied before 1 April 2025 also needs to be confirmed. The exemption could be relevant; for example, where a holding company has a subsidiary that held FHL properties, and the holding company is selling that subsidiary on or after 1 April 2025.

A married couple or civil partners who jointly own an FHL can allocate profits between them to take advantage of lower marginal tax rates. Post-abolition, jointly held FHLs will be within the normal '50:50rule' for income tax purposes unless the couple make a valid election to split the income unequally using Form 17. That declaration cannot be backdated.

We think that providing the ability to backdate a declaration at least for the tax year 2025/26 would allow taxpayers to fix their position. It is a relatively small administrative easement that would assist taxpayers.

Sharia-compliant ('alternative') refinancing

Clause 35 and Schedule 7 removes liability to capital gains tax on the refinancing of a residential or commercial property using alternative finance. This issue affects refinancing using a Sharia-compliant structure of properties that do not qualify for capital gains tax private residence relief, such as rental properties, second homes and commercial properties. It applies to refinancing entered into on or after 30 October 2024.

We suggested that the clause is amended to exempt taxpayers from a capital gains tax liability on inherent gains realised on alternative finance transactions ***before*** 30 October 2024, as successive governments have supported and legislated for a level playing field between conventional finance and Islamic finance.

Similarly, clauses 54 and 55 make changes to the annual tax on enveloped dwellings regime to ensure that alternative property finance arrangements operate effectively. There are still other areas of the tax code (some stamp duty land tax reliefs, for example) that do not provide a level playing field for alternative finance arrangements. It would be preferable if these were also addressed in legislation at

the same time, rather than the current piecemeal approach.

The CIOT's briefing was quoted extensively during the Finance Bill Public Bill Committee debates in the last week of January (see tinyurl.com/3zncjya2). A summary of the Public Bill Committee debates can be read at: tinyurl.com/25662xd5

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