Price Bailey
CHARTERED ACCOUNTANTS

Furnished holiday lettings and tax

A brief guide to the taxation of furnished holiday let properties.

Qualifying as a 'furnished holiday let'

Special tax rules are put in place for furnished holiday lets (FHLs), which can mean that your holiday let and any income you receive from it are treated as if they are a trade.

However not every property will qualify as a FHL. To qualify as a FHL your property must be:

- Available to be let for at least 210 days in the year
- Actually let for at least 105 days in the year
- Let with a view to making a profit
- Not occupied by tenants who are staying for longer than 31 continuous days, though there are some exceptions to this rule
- Furnished
- Situated in the UK or the European Economic Area (EEA).

These rules will need to be looked at on a year-by-year basis, and the status of a FHL can change. In some cases however, it is possible to apply for a 'grace period' where the letting condition has not been met. It is also possible to average the days of letting where more than one property is let.

If a property loses its FHL status it will be treated as a buy-to-let property and the tax treatment of the property income will be different.

Allowable expenses

Here are some examples of the tax-deductible expenses permitted for a FHL:

- Insurance
- Letting agents' fees
- Cleaning
- Repairs
- Rates
- Interest on a mortgage used to purchase the property.

Allowances for travelling to the property may also be claimed, so it is important to keep details of any visits you make.

Capital allowances

It may be possible to claim capital allowances on plant and machinery such as large furniture used for the letting of the FHL. Capital allowances may also be claimed for any items that are 'embedded' e.g. fixtures and fittings within the property.

Joint ownership

By default, income received from the property is split based on the proportion of your legal ownership. If you jointly own a FHL with someone else you will pay tax on your share of the profits.

For FHLs however, joint owners can choose how to split profits.

Offsetting losses

Where expenses exceed the income in a given tax year, a loss is crystallised. The loss can be offset against any profits in the same year from any other FHLs you own. Any unused losses will be automatically carried forward and offset against any future FHL profits of the same business.

FHLs in the UK and EEA are treated as separate businesses. FHL rental losses cannot be offset against buy-to-let rental profits, employment income or any other income.

Buying your property

From 1 April 2016, Stamp Duty Land Tax has increased for purchases of 'additional' residential property. There is no relief against this for the purchase of a FHL, unless the owner holds no other residential property.

Selling your property

Capital gains tax will be due on any increase in value of your property since your original purchase. The current tax rate for residential property gains is 18%, or 28% if you are a higher rate tax payer.

As a FHL is treated as a trade, the gains on the property can qualify for entrepreneurs' relief. If the property qualifies for this relief, the gain will be taxed at the reduced rate of capital gains tax of 10%. This relief is complex and planning is often required in advance of any sale to ensure that it can be claimed.

'Roll over' relief may be available if you reinvest the money you received from the sale of your FHL in another business. This will let you defer paying capital gains tax until you sell the second property.

If you gift your property, this would usually be treated as a deemed disposal at market value for capital gains tax purposes. However, you may qualify to 'hold over' the gain. This effectively transfers the base cost of the property to the transferee, thereby 'freezing' the gain until the eventual sale of the property.

VAT registration

Holiday letting receipts are subject to VAT and so the income you receive should be taken into account when calculating your taxable turnover for VAT registration purposes. If you are over the VAT registration threshold you will be required to add VAT to the rents that you charge and you will be able to recover the VAT on any expenses. If you are below the VAT registration threshold, voluntary registration may still benefit you.

Annual Tax on Enveloped Dwellings (ATED)

ATED is an annual tax charge which may be payable by a company holding UK residential property worth £500,000+. Companies can apply for exemptions (which include the letting of property), but in most cases an annual return is still required.

Pensions

Any profits that you receive from your FHL are treated as earnings for pension purposes.

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