

A tax guide

to furnished holiday lettings



A TAX GUIDE TO FURNISHED HOLIDAY LETTINGS

Landlords who commercially let furnished holiday accommodation, "Furnished Holiday Lets" (FHLs), can benefit from a special tax regime that is not available to ordinary property rental businesses, provided they meet qualifying conditions.

The main advantage of FHLs is that they are treated like a trade for certain purposes, although the profits are nevertheless assessed as the income of a property business, so are not subject to National Insurance contributions (NICs).

If you let a property that qualifies as a FHL, the tax benefits are that:

- Capital allowances are available on equipment, fixtures and furniture used in the accommodation unlike normal residential property businesses;
- You can claim Capital Gains Tax (CGT) reliefs for traders
- The profits count as 'relevant UK earnings' for pension purposes;
- Married couples and civil partners are not automatically regarded as beneficially entitled to income from jointly-held property in equal shares;
- The restriction on relief for mortgage interest in relation to residential properties do not apply.

How to qualify as a FHL?

To qualify as a FHL your property must be situated in the UK or in the European Economic Area (EEA), it must be furnished and let on a commercial basis with the view to making profit and the following conditions need to be satisfied:

- Your property must be available for letting at least 210 days in the year (the "availability condition");
- You must actually let the property for at least 105 days in the year (the "letting condition"). Periods where the property is let to the same person more than 31 consecutive days (long term occupations) are excluded from this count, unless exceptional circumstances apply; and
- Long term occupations must not exceed a total of 155 days in the year.

These conditions will need to be looked at every tax year and the FHL status of your property may change depending on how many days it was available and actually let.

For new lets, the tests are applied to the first 12 months from when the letting began, rather than the day count in the tax year of commencement. Similar treatment applies when the FHL stops.

Where the letting condition is not met, it may be possible to still qualify by making a 'period of grace election'. This may be available where your property reaches the occupancy threshold in some years but not in others.

Alternatively, where you have more than one property you may be able to make an 'averaging election', which allows the letting condition to be averaged based on the rate of occupancy across all FHL properties.

How to calculate the profits of a FHL?

The rules for calculating profits of a property business are equally applicable to FHLs and are calculated by taking a deduction of your allowable expenses from rental income.

Examples of the tax-deductible expenses permitted for FHLs include:

- Agent management fees
- Business rates (self-catering and holiday let accommodation)
- Cleaning and laundry costs
- Finance costs, such as mortgage interest (not capital repayment)
- Insurance premiums
- Repairs and maintenance
- Travel costs
- TV subscriptions or other services
- Welcome packs

Where you use your FHL privately then an apportionment of these expenses may be required.

Capital Allowances

It may be possible to claim capital allowances on plant and machinery used in the accommodation, which will reduce the taxable profits of the FHL. Capital allowances are available for expenditure incurred on furniture, furnishing and equipment.

Examples of the items qualifying for capital allowances include:

- Furniture - sofa, table and chairs, beds, wardrobes and drawers.
- Furnishings - curtains, bedding, cushions and kitchen utensils/cutlery/crockery/glassware.
- White goods – oven, fridge and freezers.
- Appliances - microwave, kettle, toaster and television.

Capital allowances may also be claimed for fixtures and fittings that are 'attached to' the property, such as carpets, electrical and heating systems, kitchen units and bathroom suites.



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How are losses of a FHL treated?

Where the allowable expenses of your FHL exceed income, this will generate a loss.

The loss can be utilised against other FHL property profits, but cannot be used against profits of an ordinary UK property business. Any unused losses are automatically carried forward to offset against future profits of the same FHL business.

A UK FHL business is still part of a UK property business, therefore if you incur a loss in respect of an ordinary UK property business this can be offset against profits of your UK FHL business in the same or subsequent years.

Selling your property and Capital Gains Tax (CGT)

When a FHL is sold, CGT may be payable on any increase in value of the property above the original purchase price.

The current tax rate applied to residential property gains is 18%, or 28% if you are a higher rate taxpayer.

The following tax reliefs may be available for CGT purposes:

Business Asset Disposal Relief (BADR)	Where a FHL business ceases or is sold, BADR may be available. Any capital gain will be taxed at the reduced rate of 10%, up to £1 million lifetime limit. This relief is complex, and it is recommended tax planning is sought in advance of any sale to ensure that the relief can be claimed.
Rollover Relief	Capital gains made on business assets can be rolled over into a FHL business through rollover relief. The rolled over gains do not become chargeable until the replacement asset is sold.
Relief for gifts and similar transactions	If you gift a property, this would usually be treated as a deemed disposal at market value and CGT may be payable, even though you may not receive any cash proceeds. Gift Relief (also known as Holdover Relief) allows the gain to be deferred when a FHL is gifted. The original cost of the FHL is transferred to the new owner.

Jointly Owned Property

Joint owners of a FHL can choose how to split profits, whether this is in reference to a person's beneficial interest in the property, the actual work done in letting the property or other reasonable means. This includes married couples or civil partners.

VAT

Whilst residential letting income is exempt from VAT, holiday accommodation income may be subject to VAT, regardless of the FHL tax status.

You will need to register for VAT if your taxable turnover for VAT exceeds the compulsory registration threshold (currently £85,000). VAT will need to be added to the rents you charge.

Where your FHL business is VAT registered, you may be able to recover input VAT on any expenses incurred. If you are below the VAT registration threshold, voluntary registration may still benefit you.

Pension

The profits earned from FHLs are treated as "UK relevant earnings" for the purposes of pension contributions. This is useful if you wish to make pension contributions, but have limited earnings.

Stamp Duty Land Tax (SDLT)

The purchase of a FHL property in England and Northern Ireland for more than £40,000 is subject to Stamp Duty Land Tax (SDLT).

If you have an interest in more than one residential property, worth in excess of £40,000, the higher SDLT rates shall apply. These currently incorporate a 3% additional charge to the ordinary residential SDLT rates.

Annual Tax on Enveloped Dwellings (ATED)

ATED is an annual tax charge which may be payable by a company holding UK residential property valued in excess of £500,000. Companies can apply for exemptions, which include holiday accommodation open to the public, however an annual return is normally required. The charge does not apply to individuals.

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