

The logo consists of the letters 'M+A' in a bold, white, sans-serif font, centered within a solid yellow square.

Partners

Furnished Holiday Property Tax

Factsheet 2017/18

- + Business Advisers
- + Tax Specialists
- + Chartered Accountants

This factsheet covers the tax treatment of properties qualifying as furnished holiday accommodation. The legislation applies to properties located within the European Economic Area (EEA), providing they meet the qualifying conditions, although these will need to be accounted for and taxed separately from any UK properties.

- 1 To qualify as a furnished holiday let (FHL) for tax purposes, the property must be:
 - + Available for commercial letting for 210 days in a year;
 - + Actually let commercially for at least 105 days;
 - + Not let for periods of longer term occupation (more than 31 consecutive days to the same person) for more than a total of 155 day in a year.

If it does not meet these criteria, the property will be treated as furnished property and therefore subject to different tax treatment. Generally, properties are considered individually, but for “actually let” days it is permissible to average across properties, so that a more successful let can compensate for a less successful one. (However, it is not possible to average lettings of UK FHLs against those in the rest of the EEA).

- 2 If a property does not achieve the “actually let” days, HM Revenue & Customs (HMRC) will accept that the taxpayer can elect for the property to be treated as if it had qualified for one or two years. This will apply if, despite their best efforts, the owner has been unable to let the property for the required number of days but the property would otherwise have qualified.

- 3** For the majority of landlords, from 6 April 2017 income and expenditure will be accounted for on the basis of actual receipts and payments in the tax year (referred to as the cash basis) rather than by allocating them to a specific time period (accruals basis).

For example, landlord's insurance may renew on 6 July; on the accruals basis 9/12 of the renewal premium would be claimed in the tax year in which paid, for the period 6 July to next 5 April and 3/12 would be carried-forward to be claimed in the subsequent tax year. Under the cash basis, the full annual premium will be claimed as the actual payment in that year. This applies to all property rental businesses with gross income of less than £150,000.

- 4** The cash basis will be the default basis, although it will be possible to elect for the accruals basis to apply, should that be in the landlord's favour.
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- 5** Income from a furnished holiday let will usually be split between joint owners of the property in proportion to ownership, although they are free to choose a different arrangement, for example to reflect their respective activity in managing the property.

Married couples and those in civil partnership, who are living together may wish to consider whether it is appropriate to execute a declaration of trust to document or vary their beneficial ownership proportions. Seek professional advice on these issues.

- 6** HMRC should be informed when letting commences and tax returns for all of the property owners should be prepared. It is essential to notify HMRC of new sources of rental income by 5 October, following the end of the tax year, to avoid late notification penalties.
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- 7** For most tax purposes the property will be treated as a "business". The profits will be treated as relevant UK earnings for UK pension purposes.
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- 8** Losses are carried forward for set-off against future taxable profits from the same furnished holiday letting business. They cannot be set against other taxable income of the year, nor UK or EEA losses against profits from the other.
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- 9** Tax deductible expenses include council tax or business rates, insurance, utilities, agent's fees, cleaning, repairs and advertising. Interest on loans to purchase the property is also deductible (but not any capital repayments). The restriction to interest deduction for residential property being phased in from April 2017 does not apply to furnished holiday lets.

Where the property is used by the owner, their family or friends for a non commercial rent, any qualifying expenditure must be restricted by the private use proportion on a just and reasonable basis.

- 10** Capital allowances can be claimed for qualifying expenditure on items such as furniture and fittings (subject to a maximum annual investment allowance of £200,000). The allowance covers items such as furniture, furnishings and fittings used within the property as well as for equipment used in running the business. Landlords considering significant investment in capital items for their properties should take advice in order to optimise the tax relief available.

11 Rental profits will be added to the owner's other income and taxed at their marginal rate of income tax (currently 20% for basic rate tax payers or 40 % / 45% for higher rate and additional rate payers depending on taxable income levels). In some circumstances, it might be beneficial to trade via a limited company - seek professional advice.

12 For capital gains tax purposes, the property may be treated as a qualifying business asset. As such, any gain arising may be eligible for Entrepreneurs' Relief (ER) or Roll-Over relief. If the disposal qualifies for ER, the gain is taxed at 10%.

13 If the disposal does not meet the relevant conditions to qualify for Entrepreneurs' Relief, the gains will be subject to the Capital Gains Tax (CGT) rates for residential property, so 18% where the gain falls within the basic rate band and a higher rate of 28% for gains which exceed the basic rate threshold.

14 It will be necessary to register for VAT if annual rental income, together with any other VATable sales, exceeds the registration threshold of £85,000. VAT issues relating to property are complex and professional advice should be sought.

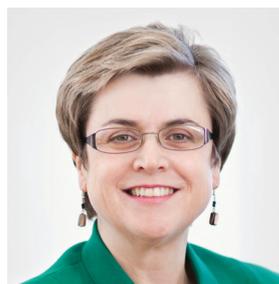
15 You may have seen the media coverage of HMRC's plans for Making Tax Digital. This is due to be phased in from April 2018, although much of the details is yet to be confirmed. Landlords will be required to keep their records digitally and to submit updates to HMRC on at least a quarterly basis. Please see our current Making Tax Digital factsheet for further information.

This is a brief summary, for further information please contact our experts:

Clare Goodswen - Partner

Tessa Morgan - Senior Tax Manager

We offer free initial consultations.



Clare Goodswen - Partner

☎ 01603 227600

✉ clare.goodswen@mapartners.co.uk



Tessa Morgan - Senior Tax Manager

☎ 01603 227600

✉ tessa.morgan@mapartners.co.uk

MA Partners LLP

7 The Close Norwich
Norfolk NR1 4DJ

☎ 01603 227600

✉ enquiries@mapartners.co.uk

www.mapartners.co.uk



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MA Partners LLP

7 The Close Norwich
Norfolk NR1 4DJ

Also based in Attleborough, Cromer,
Swaffham and Watton

☎ 01603 227600

✉ enquiries@mapartners.co.uk

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