

- + Chartered Accountants
- + Tax Specialists
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This factsheet covers the tax treatment of properties qualifying as furnished holiday accommodation. The legislation applies to properties located within the UK and the European Economic Area (EEA), providing they meet the qualifying conditions, although those in the EEA will need to be accounted for and taxed separately from 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 days in a year.

If it does not meet these criteria, the property will be treated as standard 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 EEA).

- 2 Where there was a genuine intention to let a property but the minimum 105 days is not achieved HM Revenue & Customs (HMRC) will allow a ‘period of grace’ election. The effect of this is to allow the property to qualify as a FHL for one or two consecutive years, provided it meets the other criteria.
If the property does not qualify after two consecutive periods of grace elections, it will cease to qualify as a FHL let thereafter.

- 3 Landlords with gross rental income of less than £150,000 can account for income and expenditure on a cash or accruals basis. The cash basis accounts for income and expenditure as the actual receipts and payments in the tax year, rather than by allocating them to a specific time period.

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 is claimed as the actual payment in that year.

- 4 Under the cash basis rents, including advance deposits, are taxed when received rather than by reference to the period to which they relate, which can result in the acceleration of tax liabilities. Accordingly, the majority of FHL landlords elect for the accruals basis to apply.

UK and overseas FHL businesses are separate to each other and can elect for different accounting methods. However, all properties within each business must be accounted for on the same basis i.e. all UK properties and all overseas properties.

- 5 Income from a FHL 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 (unless gross rental income is less than £1,000). It is essential to notify HMRC of a new rental business by 5 October, following the end of the tax year in which it commenced, 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, 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, furnishings and fittings used within the property as well as for equipment used in running the business.

The Annual Investment Allowance (AIA), which allows a full deduction for qualifying expenditure, has an annual limit of £1,000,000.

Careful consideration should be given to the timing of significant expenditure to ensure capital allowances are claimed in a tax efficient manner. We can provide assistance with this.

- 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.

Our 'Buy-to-let: Company or personal?' factsheet sets out some of the key differences.

- 12** For Capital Gains Tax (CGT) purposes, the property may be treated as a qualifying business asset. As such, any gain arising may be eligible for Business Asset Disposal Relief (BADR) or Rollover Relief. If the disposal qualifies for BADR, the gain is taxed at 10%, provided the lifetime limit is not breached. The lifetime limit is £1,000,000 per taxpayer, after taking previous disposals into account.

- 13** If the disposal does not meet the relevant conditions to qualify for BADR, the gains will be subject to the 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** In either case, a payment on account of any CGT due on the disposal of a residential property will be required within 60 days of completion.

- 15** 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.

- 16** VAT registered landlords are required to keep their records digitally and to submit updates to HMRC on at least a quarterly basis.

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

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We offer free initial consultations.



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