

Landlords with a furnished holiday let (FHL) can benefit from certain tax advantages; therefore it is important to identify income or losses made from a FHL, rather than a buy-to-let property.

How does a property qualify as a Furnished Holiday Let?

All of the following must be satisfied:

Conditions

- The property needs to be fully furnished.
- The property must be in the UK or a European Economic Area (EEA) state.
- The property must be available for commercial letting to the public for at least 210 days in a tax year
- Of those 210 days, the property must be let for 105 days or more.
- The property must not be occupied by long term tenants (those staying more than 31 days) for more than 155 days during the tax year.

My property does not meet the conditions this year – now what?

The rules for FHLs are flexible, so in certain circumstances (even if your property does not meet all of the above conditions) it could still qualify.

If a property is not let for enough days, a taxpayer can make a 'period of grace' election to treat the property as continuing to qualify as a FHL for the first year the condition is not met, and also the year after if necessary. However, there must be a genuine intention to meet the letting condition.

It may also be possible to average the day count across multiple properties, where a taxpayer owns more than one FHL.

Losing FHL status

If you do not meet the above criteria and the above special provisions do not apply, then the property will be treated as a buy-to-let, which will affect the tax treatment.

Tax Advantages

1. Profits from an FHL are treated as earned income, which is important if the landlord wishes to make pension contributions (as the amount you can pay in is dependent upon the level of earned income).
2. FHLs can also qualify for the following capital gains tax reliefs, whereas buy-to-let properties cannot:
 - Rollover relief
 - Gift relief
 - Entrepreneurs' relief

Profits from joint property are usually taxed in the same proportions as the underlying ownership; however, there is a degree of flexibility in this area for FHLs. If you need advice, please contact one of our specialists.

Capital Allowances

Capital allowances may be claimed for capital expenditure incurred in respect of a FHL business, on plant and machinery and also integral features within the property. This means tax relief can be claimed for expenditure on furniture, heating, power and plumbing systems, alarms, etc. The Annual Investment Allowance (currently £200,000) is available.

These allowances are not available for other residential property income.

Loss Relief

If your expenses exceed your income, the resulting loss can be carried forward for offset against FHL profits of future years. You cannot usually offset FHL losses against your earnings or income from any other sources. However, if part of the loss arises from a claim for capital allowances, then it may be possible to relieve this against your other income.

UK FHL and overseas FHL businesses (EEA only) are treated separately for tax purposes.

Capital Gains Tax

When the property is sold, you will pay capital gains tax on the uplift in value since you purchased it, with relief for costs of sale and costs of purchase too. If capital items (e.g. furnishings) are sold with the property, and separately identified, then this element of the proceeds will be dealt with under the capital allowances regime. This can be advantageous where there are FHL losses brought forward.

Sales of residential property are not eligible for the 8% reduction in capital gains tax rates for sales from 6 April 2016, therefore the applicable rates are currently 18% for the proportion of the gain falling within the basic rate band and 28% thereafter. However, if the sale meets the qualifying conditions for entrepreneurs' relief, the rate of tax is reduced to 10%. Other reliefs may be available (see point 2 above).

Other taxes to consider

In addition to the above, you will need to consider the following taxes:

- **Stamp Duty land Tax (SDLT):** when purchasing the property there is likely to be an additional 3% surcharge on top of the current rates.
- **VAT:** Holiday letting is subject to VAT; therefore you may need to consider VAT registration depending on your level of turnover. Particular care is required if you have another VAT registered business.
- **Inheritance Tax (IHT):** FHL businesses form part of your estate for IHT purposes. Business Property relief at 100% may be available; however this is a contentious area. Please contact one of our specialists for advice.

For further information, advice and guidance please contact one of our specialists in the property investors group:

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This is a general illustrative guide only and individual professional advice should be obtained on specific issues. Information is believed correct at time of publication in February 2017, but may alter.

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