MARSLAND NASH
ASSOCIATES

Furnished Holiday Lets (FHL)

Furnished Holiday Lets have special qualifying rules and different tax treatments to normal lets in some ways.

There are some tax advantages to an FHL, the main one being under present rules a lower tax rate applies if the property increases in value and you then sell it, paying capital gains tax.

A further advantage is that the mortgage interest restriction that reduces relief on normal rental properties to basic rate does not apply, this means higher rate tax payers get <u>full relief</u> for FHL interest costs.

You must separate any income/expenses from an FHL from any long term rental properties income/expenses, so it would be worthwhile using a new bank account for all transactions on the FHL.

The following are the criteria that must be fulfilled for a property to qualify as an FHL.

- It must be available for rent to the public as holiday accommodation for at least 210 days in a year
- It must be let to the public as holiday accommodation for at least 105 days in a year
- It should not be occupied by long-term tenants for more than 155 days in a year. Long-term letting is defined as letting of more than 31 days.
- It must be furnished
- It must be situated in U.K or any other European country (EEA).

There are further issues to consider where there are multiple properties and only some of them meet the above criteria. Furthermore, a property can qualify for some years and not others, and a period of grace election is possible.

Costs

A disallowance would be made for personal use so records should be kept of owner occupation.

All usual costs are claimable, including management fees and costs of cleaning, turnaround etc, so full records must be kept carefully.

VAT

One important difference is that FHL's are not exempt from VAT, where as normal property long term rent is exempt. This means that if your FHL business exceeds £85k in a year (gross before any management fees) you must register and charge VAT, this is very unlikely with one property but may arise where multiple properties are owned. You must also consider if someone runs a business and also a FHL as the combined income counts towards the VAT limit. Therefore a taxpayer with a VAT registered trade and owning an FHL would have to charge VAT on FHL rents, but if they owned the FHL jointly with someone else it would not need to be VAT registered if under the limit.

Rates
FHLs are generally liable to business rates, not council tax so will need to be registered as such. It will likely benefit from small business rates relief if there is just one FHL (If rateable value < £15k).

IHT
HMRC's view is that an FHL generally is an investment in land rather than a business and therefore they do not normally qualify for business property relief (relief from Inheritance tax). In some cases an FHL may qualify but a high bar would need to be met in terms of services provided and management by the owners.

Capital Gains
FHL are considered as qualifying for Business Asset Disposal Relief (BADR) where they have been operated as an FHL in the two years before sale, so a gain on sale would under current rules qualify for a 10% rate, rather than a 18/28% normal rate, subject to £1m lifetime BADR allowance. There is also potential hold-over and roll-over relief on FHL gains.

Pension contributions
FHL's can count as relevant earnings for making pension contributions.

Losses
Any losses can only be carried forwards and set against the same (e.g. UK FHL) property business, and not offset against other income.

Capital Allowances
Furnished holiday let owners can claim capital allowances on fixtures and fittings and equipment. This means these costs can be deducted from the letting profits (normal lets cannot claim capital allowances).

Income splitting
If a married couple own a furnished holiday let jointly they can split the income as they wish. With normal jointly owned property lets any joint tenancy would need to severed and a declaration of trust/Form 17 completed in order for a married couple to vary the income split. If one spouse works or has income subject to higher rates of tax, then varying the split from 50/50 can be very tax efficient.