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FURNISHED HOLIDAY LETTINGS

A Furnished Holiday Letting (FHL) is a special category of letting property. FHL have some significant tax advantages. However, before you can get these tax advantages, the property being let must meet a number of conditions.

1. What conditions must be met to qualify as a FHL?

In order for the property to be treated as FHL, the property must be:

- a) Commercially let. This means let with the view to making a profit.
- b) Let furnished
- c) Available for commercial letting at least 210 days a year
- d) Actually let for 105 days
- e) Not normally in the same occupation for over 31 consecutive days during a period of 7 months in the 12 month period

The period to be considered for the above test is:

- In the first period of letting: 12 months from the date of the first let; or
- In a continued/ongoing period of holiday letting: the tax year ended 5 April; or
- In the final period of letting: 12 months ending with the date of the last let.

2. What are the tax advantages if you meet these conditions?

Essentially, a furnished holiday letting (FHL) is treated as a trade. This in turn means:

- a) You claim capital allowances on the purchase of furniture or assets in the property. The rate of allowance on expenditure up to £200,000 on such assets is 100%. These fixed asset allowances are instead of a “renewals” basis (which applies to all other properties besides furnished holiday lets from 2016/17 onwards) whereby you only get tax relief when you replace a piece of equipment.
- b) Mortgage interest paid on a FHL property is fully allowable against the rental income (unlike with normal residential lets).
- c) Joint owners can divide the profits in any percentage they chose (unlike the case for married joint owners of normal residential lets).
- d) Any capital gain on the sale of a FHL may exceptionally attract Business Asset Disposal Relief (BADR – formerly called Entrepreneur’s Relief (ER for short). This means an effective capital gains tax rate of just 10% rather than 18% or 28%. To qualify, the activity undertaken by you to manage the FHL would need to be sufficient to argue that it is a “business”. If the management of the FHL is outsourced to a managing agent, it will be harder to obtain BADR.



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- e) You can pay pension contributions based on the profits you make from FHL.
- f) If you die owning a FHL, recent court cases indicate that it is now harder to obtain “Business Property Relief” (BPR) in respect of FHL, which would thus eliminate 100% of the value of FHL property from your estate. This means the full value of your FHL is now likely to fall within your estate and be subject to inheritance tax (IHT).

For BPR to apply, the following conditions would need to be met:

- (i) The property must have been held for at least two years at the date of death; and
- (ii) The amount of work undertaken to run the furnished holiday let should be sufficiently high to support an argument that the FHL is a business and “does not consist wholly or mainly (taken as more than 50%) of the making or holding of investments” Section 103(3) IHTA 1984.

3. Are only holiday properties in the UK eligible?

No. The favourable tax treatment of FHL applies to properties both in the UK and the European Economic Area (EEA). The EEA comprises all countries in the EC, plus Iceland, Liechtenstein and Norway.

4. What if I make a loss on my FHL?

Losses on FHL can only be carried forward and set against future profits from the same FHL business. Losses from a UK FHL cannot be set against a profit from an EEA FHL and vice versa.

5. What happens if I cannot let my FHL property for the required 105 days?

Fortunately there is a period of grace if you do not meet the letting condition. Provided you meet the number of days actually let condition in one year, you can elect that the property is treated as meeting the condition in the following two years.

You must make the election for the first of the two later years if it is to apply to the second year.

If after these later two years, you still cannot meet the requirement for the property to be let for 105 days in a year, the tax advantages in 2. above are lost. Instead of getting capital allowances on fixed assets, you must use the renewals basis when you replace equipment.

6. VAT Issues

- a) If you are a VAT registered sole trader and if the FHL property is owned by you in your sole name, you will also need to add VAT to your rental income. This is because all activities carried on by a VAT registered individual are subject to VAT. You could however avoid having to charge VAT by owning the property other than solely, i.e. in joint names or through an official partnership/LLP.

- b) If rental income from FHL lets exceed £85,000 (the current VAT registration threshold), you will need to register for VAT with effect from the month after the end of the month in which the rental income exceeded £85,000. Please see out separate factsheet on VAT issues, if this applies to you.

If you would like to discuss this factsheet in more detail, do contact us.

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