Taxation & Furnished Holiday Lets

Owning a holiday property provides you with a home-away-from-home to enjoy hours of fun with family and friends. But, have you also considered that it could provide a lucrative income for you to enjoy as you wish?

At the Original Cottages Family, we have experts based in our local offices across England and Wales - you can find our local agencies and offices **here**. With advice from these local experts, together with our extensive marketing programs, you can be sure that your holiday let will receive optimum bookings levels.

Whilst tax is not an exciting subject, it is something you will need to consider in order to optimise your income. We have put this guide together to help you make the right decisions and guide you through the taxation implications of owning or purchasing a Furnished Holiday Let.

Is my property a potential Furnished Holiday Let?

Any well-maintained property providing accommodation of good quality which is safe and fit for purpose, and is well equipped, has the potential to be a furnished holiday let. Properties come in all shapes and sizes and we are here to make the process of letting as simple and hassle free as possible.

In the eyes of the Inland Revenue, a furnished holiday let (FHL) is a fully furnished and equipped self-catering property which is marketed to customers for occupation as a holiday let.

Platform 1, Yorkshire

What are the financial advantages of a Furnished Holiday Let?

Apart from earning income, that is!

✓ **Capital allowances** can potentially be claimed on your property's furnishings, plant & machinery including any items 'embedded' within the property. This means the cost of furnishing and equipping your property can potentially be deducted from your pre-tax profits.

This is not an option for longer term rental properties (i.e. non FHL properties).

For more information on Capital allowances view the 2018 help sheet HS 252

✓ **Pension Contributions:** profits from your FHL property count as earnings for pension contributions. For more information view the 2018 help sheet HS 253

✓ **Splitting your profits:** if you own the property jointly with someone else the income for tax purposes will be split to the same proportion as your property ownership. However, because FHL's are treated as trades you can request flexibility over the proportional split

For more information please view PIM1030

✓ **Capital Gains:** FHL's are treated as a business asset, unlike longer term letting property which are considered an investment. This means that your FHL could qualify for either, entrepreneur's relief, rollover relief or holdover relief should you consider selling, gifting to family or investing in a new FHL. Do consult a professional accountant for detailed advice.

For more information on the individual reliefs, view the help sheet links below

- Entrepreneurs Relief 2018
- Roll-over relief
- Hold-over relief

Feathered Nest, Yorkshire

✓ **Business Rates:** A self-catering accommodation which is available for short-term lettings for more than 140 days in any given year, is liable to Business Rate property tax. As all FHL properties must be available to let for a minimum of 210 days, your property will therefore fall into this category and this is where the Small Business Rate Relief comes into play, with relief being as much as 100% (depending on where you live and how many FHL properties you own)

✓ For more information - Small Business Rate Relief

✓ **Offsetting Losses:** If you have made a loss on your FHL (expenses are greater than your income) you can reduce your tax bill by offsetting the loss against the profit from any other FHL you own in the same tax year.

✓ You can also carry the loss forward to offset against FHL profits you make in the future

✓ You can't offset your FHL rental losses against your earnings or profit from other sources

✓ **Allowable Expenses:** many of the expenses involved in letting an FHL are tax-deductible:

- Rates
- Insurance (property and public liability)
- Agents fees
- Cleaning
- Repairs
- Interest on a loan or mortgage used to purchase the property
- Costs of services, gardeners, window cleaners etc
- Gas & Electricity

As you can see, there are many financial advantages of owning a FHL, but to make the most of these, there are also some letting restrictions you should be aware of.

Prospect Cottage, Kent

Letting restrictions

Furnished holiday lets (FHL's) are covered by special tax rules. To qualify as an FHL during a tax year, your property must be:

✓ Let with a view to making a profit

✓ Be available for letting for at least 210 days of the tax year

✓ Let for at least 105 days of the tax year

✓ Not occupied by long-term tenants (i.e. those who stay for more than 31 days) for more than 155 days of the tax year

If at any point your property doesn't meet all the conditions it could still be counted as an FHL in certain circumstances.

For example, there is a two-year "grace" period which allows you to continue to treat the property as an FHL where lettings to tenants have fallen below the day counting limits set by HMRC as mentioned above.

Also, if you have more than one property, you may be able to use the average day count across all your properties in order the meet the FHL requirements.

If you don't meet all the criteria and none of the special provisions apply your property will be treated as a buy-to-let property rather than an FHL and your tax will be calculated differently.

In summary

This guide is intended as a high-level summary of the potential financial advantages of FHL's, based on the tax law in force/expected at the time of writing (June 2018). We hope this is a useful starting point for your tax considerations, but we do recommend that you obtain professional advice that is directly relevant to your circumstances.

Meanwhile, if you would like to request a Homeowner Guide click **here**, or to speak to one of our Property Recruiters, please email us at **hello@originalcottages.co.uk** or call us on 0333 2020 899, and one of our local experts will be in touch very soon.

Blue Tile Farm Barn, Norfolk