



Furnished Holiday Lets – Tax Changes

How do they affect owners?

In the 2009 Budget, the Government announced that special rules for taxing furnished holiday lets (**FHLs**) were to be abolished with effect from 6 April 2010.

In the meantime, until 6 April 2010, the existing FHL rules have been extended to include qualifying properties not just in the UK, but also anywhere in the European Economic Area.

The Current Rules

Under the current rules, the letting of qualifying holiday accommodation is treated as a trade for tax purposes. This has a number of advantages such as:

- allowing losses from the FHL business to be set off against other income;
- the profits being treated as relevant income for pensions purposes;
- the ability to claim capital allowances on furniture;
- the potential to reduce the rate of capital gains tax on sale from 18% to 10%, or to defer any capital gain arising on a sale or transfer of the property.

The letting of holiday accommodation will qualify for this treatment if it meets the following conditions:

- the property is let on a commercial basis;
- it is available for letting as holiday accommodation for at least 140 days in the tax year, and is actually let as such for at least 70 of those days; and
- if the same person occupies the accommodation for a continuous period of more than 31 days, then the aggregate of all such long-term occupancy must not exceed 155 days in the tax year.

What do the changes mean for you?

If you let furnished holiday property situated outside the UK, but in the European Economic Area, and the letting meets the conditions outlined above, you should review your tax affairs to see if there are claims for tax reliefs you can now make for previous years which you could not make at the time.

After 6 April 2010, for individuals, partnerships and companies who let furnished holiday property in the UK or in the European Economic Area, the changes will generally mean that:

- the losses from the FHL business can no longer be set off against other income – the losses can only be set off against profits from that business;
- the profits from the FHL business will no longer be treated as relevant income for pensions purposes;
- you will no longer be able to claim capital allowances in respect of furniture – instead you will be able to claim as a deduction from profits a wear and tear allowance of an amount equal to 10% of the net rent from letting the property;
- you will not be able to reduce the rate of capital gains tax from 18% to 10%, or to defer any capital gain arising, on a sale or transfer of the property.

Notwithstanding the changes to the tax treatment of FHLs, where the intention is to let for short periods totalling 140 days or more you will remain liable for business rates rather than council tax.

What should you do?

It will be possible to retain the current tax advantages after 5 April 2010, if you can show HMRC that you are, in fact, carrying on a trade rather than a property business. In order to show this you would need to provide services over and above those normally provided by a landlord – such as regular cleaning of rooms when they are let, and not just between changes of tenant, the regular supply of clean linen, the regular provision of meals – similar to those provided by hotels.

In the meantime you should consider:

- the timing of expenditure, maximising expenses such as repairs (and therefore losses) in the current tax year if you have other income or gains in 2009/10 and 2008/09 that you can off set against the losses;
- reviewing existing borrowings to ensure that they will be tax efficient;
- transferring properties with large unrealised gains or development value to the next generation before 5 April 2010 and holding over the gain.

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