

## **INCOME TAX: FURNISHED HOLIDAY LETTINGS**

Furnished holiday lettings (FHLs) are properties that meet certain qualifying conditions which bring with them several tax advantages:-

- Entitlement to plant and machinery capital allowances on furniture, furnishings etc. in the property.
- Capital Gains Tax (CGT) reliefs – Business Asset Rollover Relief, Entrepreneurs' Relief, relief for gifts of business assets and relief for loans to traders.
- Profits count as earnings for pension purposes.

A property can be situated in the UK or European Economic Area (EEA) and does not have to be located in a specified tourist area. For tax purposes:-

- The profit or loss from FHLs is calculated separately from any other property income.
- FHL properties in the UK must be kept separate from those overseas.

### **Qualifying criteria and tests**

Accommodation must be let on a commercial basis and with a view to making a profit. It must also be furnished, i.e. there is sufficient furniture for normal occupation, which the visitor is entitled to use.

Also, you must satisfy all three of the following tests:-

1. The availability condition – the accommodation is available for commercial letting as holiday accommodation to the public for at least 210 days.
2. The letting condition – the accommodation is commercially let as holiday accommodation to the public for at least 105 days.
3. The pattern of occupation condition – the accommodation must not be let for periods of longer-term occupation (a period of more than 31 days) for more than 155 days during the year.

These tests are applied to the relevant period of letting:-

- To the tax year for a continuing let.
- To the first 12 months of letting for a new let.
- To the last 12 months when the property stops being let as a FHL.

### **Averaging election**

If you have several qualifying FHL properties, each must separately reach the availability and pattern of occupation conditions. However, if some are individually let for less than 105 days, you can elect to apply the letting condition to the average rate of occupancy across the properties.

Note: you cannot mix UK and EEA properties for this purpose.

## **INCOME TAX: FURNISHED HOLIDAY LETTINGS**

### **Period of grace election**

The election allows you to treat a year as a qualifying FHL year where you genuinely intended to meet the occupancy threshold but were unable to meet it.

The election can only be made for a maximum of two consecutive years. In order to do so:-

- In the year before the election the property must have reached the occupancy threshold.
- If in the following year the property still does not meet the occupancy threshold then, providing an election has been made for the prior year, that year can also be treated as a qualifying year.
- If after two years of elections the property still does not meet the required letting level, then it is no longer a FHL property.

<b>Year</b>	<b>Occupancy threshold met?</b>	<b>Election needed?</b>	<b>Qualifying FHL property?</b>
<b>1</b>	Yes	No	Yes
<b>2</b>	No	Yes	Yes
<b>3</b>	No	Yes	Yes
<b>4</b>	No	N/A	No

The period of grace and averaging elections can be used together.

### **Other considerations**

- Recent court cases have cast doubt over whether all FHLs continue to qualify for Inheritance Tax Business Property Relief.
- Even though they are treated as deemed trades, the FHL profits do not attract Class 4 NICs since these are taxed as rental income.
- The rental income from FHLs is regarded as taxable turnover for VAT.
  - If you are already a VAT registered person then you must charge VAT on the rents.
  - If the rents of the FHL taken together with turnover from an unregistered business exceeds the threshold (currently £82,000) in a 12 month period then you should register for VAT
- Losses from FHLs can no longer be set against other income.
- Your local council may require you to register a qualifying FHL property for business rates.