Tax guide for furnished holiday lettings

Furnished holiday lettings (FHL) are becoming more popular as investments across the UK. The likes of Airbnb and online travel agents simplified the market and opened it up to a global audience of potential tenants. These lettings, when in the right location, also have the benefit of being able to generate significant more in rental income during peak periods than traditional assured shorthold lettings.

Furnished Holiday Letting are also taxed differently to traditional residential lettings, bringing the potential for additional tax reliefs. These same reliefs generally also apply to furnished holiday lettings within the EEA region.

This short guide is intended to highlight the main differences in tax for furnished holiday lettings, explain how these apply and outline some of the tax benefits available.

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What is a furnished holiday let?

To qualify as a holiday let, there are three conditions that must be met:

- The property must be available to let for at least 210 days per year
- The property must be let for at least 105 days
- The property cannot have any periods of longer-term accommodation, classed as 31 days or more at a time, to the same tenant

To qualify as a furnished holiday let, there must be sufficient furniture provided for normal occupation and visitors must be entitled to use this furniture.

The property must be commercially let (you must intend to make a profit and can't let the property out to friends or family below market rent). However, If the property is let out of season to cover costs but didn't make a profit, the letting will still be treated as commercial.

All furnished holiday lets held personally by an individual in the UK are taxed as a single UK FHL business. The profits on FHL count as earnings for pension purposes, meaning pension contributions can be made from these earnings.

Averaging Election and Period of Grace

If you don't let your property for at least 105 days, there are two options (known as elections) that can help you reach the occupancy threshold, the Averaging Election (if you own more than one FHL) and a Period of Grace Election. You can apply both, if you have more than one FHL. This may be particularly useful if your Hoilday Let(s) siffered during the Covid-19 pandemic.

The Averaging Election

If more than one property is let as a FHL and one or more of these properties doesn't meet the condition of being let for at least 105 days, you can elect to apply the average rate of occupancy across all properties you let as FHLs. To satisfy this, the average needs to be at least 105 days across all properties. You can only average across properties in a single FHL business.

Period of Grace

If you had genuinely intended to meet the letting condition, i.e. had the property available to let and actively marketed it, but failed to secure enough short term lettings, you may be able to make a Period of Grace Election. This election would allow the property to qualify as an FHL.

A genuine intention to let the property in the tax year needs to be proven. This may include marketing a property at least the same, if not at a higher level than previous years. It could also include lettings cancelled at short notice, due to unforced circumstances.

An election can be made, following a year where the FHL did meet the correct criteria (including an averaging election). An addition-al election can be made the following year. If it fails to meet the criteria after this, it will no longer qualify as a furnished holiday letting.

Tax allowances for Furnished Holiday Lettings

Capital Allowances

This can be a generous tax relief for furnished holiday lettings. The relief can be claimed on capital expenditure via capital allowances. These include moveable items, such as furniture, white goods, electrical goods, carpets and soft furnishings.

For a temporary period, up to 31 December 2021, the first £1 million of capital expenditure can qualify for 100% tax relief under the Annual Investment Allowance rules (this limit will then reduce to the first £200k)

What is often overlooked is that capital allowances can also be claimed on Plant and Machinery, fixed into the property itself.

These include integral plant or fixtures, including sanitaryware and integrated kitchen equipment. A second type includes items such as electrics, central heating, air conditioning or cooling and the water system.

When a property is purchased, it can be elected that a percentage of the purchase price is attributed to these items. This can be up to as much as 10 to 25% of a purchase price in some instances. This can then be set against future profits and in many instances, the result can be that no taxable profit is declared for several years.

Super Deduction Tax Relief

Introduced in Budget 2021, this new 130% Super-deduction First Year Allowance (FYA) reduces tax by around an extra third for expenditure on new main pool plant and machinery. Landlords and Investors were originally excluded form this relief (initially only available for trading companies), however, an amendment to the Finance Bill means that landlords and investors can now claim Super deduction tax relief for qualifying plant and machinery, where the property is held within a company

Capital Gains tax reliefs for traders

A range of Capital Gains Tax Relief for traders is available for furnished holiday lets, including:

Business Asset Rollover Relief: This relief allows the deferment of any Capital Gains Tax (CGT) due when certain assets are disposed, if they are replaced by new qualifying assets. This relief allows the postponement of paying CGT until these new assets are disposed.

Entrepreneurs' Relief: If you are a sole trader or business partner and you have owned the business for at least two years before the date it is sold, you may be entitled to Entrepreneurs' Relief.

This relief reduces the amount of Capital Gains Tax (CGT) on the disposal of qualifying business assets on or after 6 April 2008. This is subject to meeting certain qualifying conditions and can reduce the capital gains rate down to as little as 10% (for ordinary residential property this is either 18% or 28%).

Relief for gifts of business assets and relief for loans to traders: This may be available for gifts of business assets for FHL (gifted in the true sense or sold below market value). In this situation, you would not be liable for Capital Gains Tax and the burden would be transferred to the purchaser/ beneficiary of the gift.

Losses: If your FHL business makes a loss, these losses can be set against your FHL profits for later years.

Trading Expenses

Income from an FHL is treated as trading income. Therefore, trading expenses in running an FHL can be offset, these include a wide range of items, which can include:

- Accounting fees
- Building, contents and public liability insurance
- Cleaning and laundry
- Letting agent/online travel agent fees
- Marketing/advertising costs
- Mortgage or loan Interest in full (restrictions against the deductibility of finance costs against a residential letting property do not apply to an FHL)
- Repairs and renewals, including general maintenance expenses
- Travelling expenses (provided it relates purely to running the FHL)
- Utility bills

Council Tax and Business Rates

It is worth noting that property classified at Furnished Holiday Lets (or properties let as holiday lets for at least 140 days a year) are not liable for Council Tax, instead being liable for Business Rates.

These can generally qualify as small businesses and are entitled to small business relief of 100% of the business rates payable if the properties have a rateable value of less than £12,000. Furthermore, properties with a rateable value between £12,000 and £15,000 are also entitled to relief on a sliding scale, in-line with the government's small businesses rates relief policy.

In 2018, Chartered Surveyors Colliers analysed the potential rates bills of 7,300 holiday homes in Cornwall and found that over 98% of these had a rateable value of less than £12,000 and are therefore not liable to pay any business rates at all.

Summary

Purchasing a property to use as a furnished holiday letting can bring increased revenue and the added advantage that it does not necessarily need to be rented out all year round.

When rented as furnished short-term holiday lettings (less than 31 days at a time) for at least 105 days a year (and available for at least 210) the property is classed differently for tax purposes, which can bring with it many tax reliefs and additional benefits.

These tax reliefs can be complicated to understand and interpret, however, when applicable and fully utilised, these can have a significant impact on a furnished holiday lettings business. If you are considering purchasing a property or have already begun letting a furnished holiday property, early advice on these tax issues can reap great rewards.

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Why Alexander & Co

At Alexander & Co, we have a specialist property tax team that can assist you in weighing up all your options and working out the best solution for you.

Our property experts have a wealth of knowledge in this field and have worked with companies, entrepreneurs, individuals, trusts and organisations in the commercial and residential sectors for many years. If you are looking for a chartered accountant and tax advisor with the right property know-how, then Alexander & Co are here to help.

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