

TAXATION OF FURNISHED HOLIDAY LETTING PROPERTIES

Frequently Asked Questions

How is rental income taxed?

If you let out all or part of a property, how you are taxed on the rent depends on the type of letting.

What are Furnished Holiday Lets?

Furnished Holiday Letting is similar to other letting but the tax treatment can be more advantageous than for ordinary letting.

If the property is available for **commercial** letting for at least 140 days per year; is actually let for at least 70 days per year; and for at least 7 months of the year is not normally let to the same occupant for more than 31 consecutive days - it should qualify as Furnished Holiday Letting.

Commercial is generally meant as "let on a commercial basis and with a view to the realisation of profit". A significant level of borrowing can on occasion result in a letting being clearly non-commercial and in these circumstances, some of the tax advantages may not be available.

What are the advantages?

From an income tax point of view, the loss relief provisions are more generous; deductions against income are available for capital allowances on the purchase of equipment and furnishings; and the income is treated as earned income for pension purposes.

From 6th April 2008 capital gains are taxed at 18%. However, a property which qualifies as a Furnished Holiday Let may qualify for the new Entrepreneurs Relief which effectively taxes the gain at 10%. In addition, business asset rollover relief may be available on disposal; and finally on death, the property may qualify for 100% Business Property Relief and be excluded from the value of your estate for the purposes of Inheritance Tax, although HMRC have recently reconsidered their approach to this and have updated their manual. Relief for BPR should no longer be relied upon, but could be available in certain circumstances.

What expenses can I offset against the rental income?

Expenses incurred in connection with the letting are available to reduce the profit from the rental business. These include advertising, agents' and management fees, accountancy, insurance, cleaning, repairs and maintenance, and utility bills. Tax relief on furnishing and equipping the property depends upon the type of letting and your accountant will advise on this. A restriction is made to reflect any period of private use.

What happens to expenses when not let?

Where a property is kept solely for letting as furnished holiday accommodation, but is in fact empty for part of the year because there are no customers, provided there is no private use, expenses should be allowed in full against that year's letting income.

Can I claim mortgage interest as an expense?

Interest paid on loans used to buy the land or property, or for improvements or alterations, repairs etc, will be deductible, together with the incidental costs of arranging loan finance. An apportionment will be made where there is private use or mixed borrowing.

Do I have to let HMRC know?

You need to advise HMRC that you are now in receipt of property income and need to complete the property income supplementary pages of a self-assessment tax return. This is particularly important if you do not currently submit a self-assessment return at all. There is a separate box within the property pages for income from a furnished holiday let.

Do I have to pay business rates?

Business rates are payable if the property is available for short term letting for 140 days or more in a year. Business rates may actually work out cheaper than council tax due to the relief available for small businesses.

To apply for business rates just phone the council tax offices and advise them of the situation. Any council tax paid during the change over period will be offset against business rates. Be warned that direct debit arrangements are not carried across from one to the other.

NB if you currently receive a 10% council tax deduction for a second home, be careful when you send back the annual form asking you to confirm if the property has been available for short term letting, as if you tick 'NO', this could jeopardise the more favourable tax treatment.

Do I have to register for national insurance?

Property lettings will rarely be regarded as self-employment for national insurance purposes and therefore Class IV national insurance will not be payable.

However, if the extent of your involvement in managing the lettings and looking after the properties is substantial, which may of course be the case for furnished holiday letting, Class 2 contributions can apply and advice should be sought. If you are self employed, you will already be paying these.

What about VAT?

Holiday accommodation is standard rated for VAT. If you have a significant portfolio of properties, your total turnover may exceed the compulsory registration threshold. Also, if you have a business, income from furnished holiday letting may be caught by an existing VAT registration in the same name. The income would be aggregated in considering the registration threshold.

Where can I get more information?

www.hmrc.gov.uk
www.mybusinessrates.gov.uk

Record Keeping

Remember to keep records of your rental receipts and expenses for at least six years, whatever type of letting it is.

Nikki Fothergill (FCCA)

I am a qualified Chartered Certified Accountant with many years experience as a partner in both small and medium sized London practices. I now run a small accountancy practice in South Devon set up in 2004, specializing in providing tax and accounting services to private clients and small businesses, especially those involved in holiday letting.

The questions raised in this fact sheet are those which, in my experience, are most commonly asked by people letting property for the first time, and I have also attempted to cover certain issues not always considered, such as national insurance and business rates.

I hope you find this useful, but please call me if you have any queries. There is no charge for general meetings, and all work is subject to a fixed price agreed in advance.

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