

Furnished Holiday Lettings

Factsheet

November 2023

Criteria

The tests are normally applied to the tax year (6 April to 5 April) however, the criteria are tested against the first 12 months of trade on commencement and the last 12 months of trade on cessation.

This means that some days may be used to assess eligibility in multiple tax years.

- **Minimum availability: 210 days**
- **Minimum occupancy: 105 days**
- **Maximum occupancy: 30 days continuous let (except under exceptional circumstances)**

Income Tax

- Deductions under the Capital Allowances schemes are available for capital expenditure which would not be allowable deductions in ordinary lettings accounts e.g. fixtures and integral features.
- Mortgage interest is deductible in full against FHL profits (compared with ordinary rental where relief is restricted to a 20% tax credit).
- Expenses in the 7 years leading up to the commencement of trade, which relate wholly to the FHL trade, may be deducted as though they were incurred on the first day of trading.
- Expenses which are incurred regardless of the volume of lettings (e.g. Council Tax) must be restricted for any private use of the property by the landlord. Expenses which relate wholly to lettings (e.g. agent commission) may be deducted in full.
- Profits may be split between joint owners on the most tax efficient basis, regardless of actual ownership proportions.
- FHL profits are Net Relevant Earnings for the purpose of calculating maximum personal pension contributions on which tax relief may be claimed.

FHL as a Trade

The key difference between an FHL and a normal long term let is that an FHL business is treated as a trade rather than an investment.

This means that the tax treatment under many of the UK taxes is different from an ordinary letting, and often, more favourable.

Capital Gains Tax

- Disposal of residential property is liable to CGT at the residential rates of 18% and 28% depending on your marginal rate of Income Tax. However, FHL properties are a business asset and therefore might attract Business Asset Disposal Relief (BADR), if sold within 3 years of ceasing to trade, and are taxed at 10%. BADR qualifying criteria and lifetime limits must be met.
- If you were to gift a property it would be deemed to be sold at its market value and this may give rise to a gain; Gift Relief is available in respect of FHLs which shifts the gain to the recipient on their subsequent disposal.
- Business Asset Roll-Over Relief (ROR) may be available when an FHL is disposed of; this allows a proportion of the capital gain arising on disposal to be rolled over into the cost of a new business asset, such as another FHL property.

Inheritance Tax

An FHL may qualify under Business Property Relief (BPR) if it can be shown that the landlord provides a considerable number of services and activities in carrying out the trade. This is unusual, but if achieved the value of the property on which IHT is charged is effectively reduced to £nil.

VAT

If total gross income from an FHL exceeds the VAT threshold, the landlord must register for VAT and charge VAT at 20% on all bookings.