



Furnished Holiday Lettings

Furnished Holiday Lettings (“FHL”) are becoming increasingly popular as a holiday home can be turned into a profitable business attracting various tax reliefs.

For a property to be classed as a FHL it must meet each of the conditions below.

Qualifying conditions:

1. The property is located in the UK or another EEA country.
2. It is let with the view to make a profit.
3. It is furnished to a standard that allows everyday occupancy and visitors are entitled to use the furniture.
4. It is available to rent for at least 210 days of the tax year (‘continuing let condition’).
5. It is let for at least 105 days of the tax year, however, days let to family or friends, or at a non-commercial rent will not be counted (‘letting condition’).
6. Each rental should not exceed 31 days, this may only be extended in the event of unforeseen circumstances, such as illness.

For new lettings the rules apply to the first 12 months from when the letting began.

What if a condition isn’t met?

If condition 5 is not met there are two elections available to help you reach the threshold but if the other conditions are not met the property cannot be classed as a FHL:-

Averaging election

An election can be made to average the rate of occupancy for all of qualifying properties.

An averaging election can be made up to one year after 31 January following the end of the tax year.

Period of grace election

If a property was marketed in the usual way but it was unable to meet the letting condition it is possible to make a period of grace election.

To make an election you must be able to show:-

- You had a genuine intention to let the property.
- It was marketed to the same or a greater level than in previous successful years.

- If lettings were cancelled these were due to unforeseen circumstances. Such as adverse weather conditions or the recent Coronavirus restrictions.

A period of grace election can be made for more than one year but if the threshold is not met by the fourth year the property will not qualify as a FHL.

Tax reliefs

- Tax relief is available for the general running costs and upkeep of property. Qualifying expenses include:-
 - Advertising
 - Insurance
 - TV licence and WI-FI
 - Mortgage interest
 - Heat and light
 - Decorating and general repairs
 - Accountancy
 - Cleaning
 - Garden expenses
 - Business Rates*

**If the property is classed as a FHL it should be registered for business rates rather than Council Tax.*

- Capital allowances are available on items such as furniture, equipment and fixtures. Items are often purchased prior to, or in the first year of trading so a loss will often arise in the first year. This loss is available to carry forward to set against future FHL profits but cannot be set against other sources of income.

- Capital Gains Tax reliefs may be available and these include:

- Entrepreneurs Relief
- Business Asset Rollover Relief
- Relief for gifts of business assets
- Relief for loans to traders

- Profits from FHL’s are earnings for Pension purposes.

Assistance

If you would like to discuss your current situation or find out more information please contact one of our team who will be happy to assist you.

For a free initial consultation please contact:

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