Chartered Accountants and Business Advisors

Furnished holiday lettings – is it worth qualifying?

Introduction

When it comes to taxing rental income, not all properties are equal. Different rules apply to properties which meet the definition of ‘furnished holiday lettings’ (FHLs). While the rules now are not as generous as they once were, they still offer a number of tax advantages over other types of let.

Advantages

Properties that count as FHLs benefit from:

- capital gains tax reliefs for traders (business asset rollover relief, entrepreneurs’ relief, relief for business assets and relief for loans for traders); and
- plant and machinery capital allowances on items such as furniture, fixtures and fittings.

In addition, the profits count as earnings for pension purposes.

What counts as FHLs?

For a property to count as a FHL it must meet several tests. It must be in the UK or the European Economic Area (EEA), it must be furnished and it must be let commercially (i.e. with the intention of making a profit).

The property must also pass three occupancy conditions. The tests are applied on a tax year basis for an ongoing let, the first 12 months for a new let and the last 12 months when the let ceases.

The pattern of occupancy condition

The total of all lettings that exceed 31 continuous days in the year cannot exceed 155 days. If continuous lets of more than 31 days total more than 155 days in the tax year, the property is not a FHL.

The availability conditions

The property must be let as furnished holiday accommodation for at least 210 days in the tax year. Periods where the taxpayer stays in the property are ignored as during these times the property is not available for letting.

The letting condition

The property must be commercially let as furnished holiday accommodation for at least 105 days in the year. Periods where the property is let to family or friends at reduced rate or free of charge are ignored as they do not count as commercial lets. Lets of longer than 31 days are also ignored, unless the let only exceeds 31 days as a result of unforeseen circumstances, such as the holidaymaker being unable to leave on time as a result of a delayed flight or becoming too ill to travel.

Second bite at the cherry

If seeking to secure FHL status, but the property does not meet the letting condition, all is not lost. Where the landlord has more than one property let as a FHL and the average rate of occupancy across the properties achieves the required 105 let days in the year, the condition can be met by making an averaging election.

A property may also be able to qualify if there was a genuine intention to meet the letting condition, but this did not happen and the other occupancy conditions are met by making a period of grace election.

Further details on making averaging and period of grace elections can be found in HMRC helpsheet HS253 (see www.gov.uk/government/publications/furnished-holiday-lettings-hs253-self-assessment-helpsheet).

Is it worth it?

While FHLs do enjoy favourable tax treatment, these are only available if the associated conditions are met. While FHLs, particularly in prime tourist locations, may be able to command high rental values in high season, the properties may lay empty for several weeks in the off season. By contrast, a longer term let will offer an element of security that multiple short lets may not provide. The decision as to whether striving to meet the conditions is worth it, is, as always, a personal one.

Recommendation

Good record keeping especially around occupancy is vital to demonstrate the properties meet the furnished holiday let definition. When disclosing the income and expenses to HMRC, if meeting the conditions, should be disclosed as Furnished Holiday Let.

If you have concerns, seek professional advice.

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