



FURNISHED HOLIDAY LETTINGS – A WINDOW OF OPPORTUNITY

Many people have taken advantage of the generous tax breaks available to owners of UK property used in a furnished holiday letting (FHL) business. Unfortunately, these rules are being repealed with effect from 6 April 2010 and from that date, the activity will be taxed just like any other property letting activity. The following benefits will therefore be lost.

- Relief for any letting losses against other income and gains (including loss carry back, giving rise to possible prior year tax refunds)
- Rental income from FHLs being classified as relevant earnings for the purposes of paying pension contributions
- Capital allowances (a tax write off of up to 100%) for capital expenditure on furniture and plant or machinery used for the purposes of the FHL business
- Roll over of capital gains on certain assets into furnished holiday lets, giving rise to potential refunds
- Entrepreneurs' Relief on sale (the potential for capital gains to be charged at 10% rather than the normal 18%)
- Business property relief for inheritance tax purposes (i.e. an effective exemption).

What is a Furnished Holiday Letting (FHL)?

To qualify as a furnished holiday letting for any tax year, a property must be:

- Available for commercial letting to the public generally as holiday accommodation for at least 140 days in the tax year
- Be let for at least 70 days
- Any longer-term occupancy (a period of more than 31 consecutive days during which the accommodation is occupied by the same person) must not exceed 155 days.
- There may also be issues regarding VAT registration and reliefs from inheritance tax for owners to consider.

Overseas Holiday Lets

Historically, FHL properties had to be in the UK, but the Government has reluctantly accepted that the beneficial treatment for UK FHLs should be extended to appropriate lettings in the European Economic Area for the four year period to April 2010.

There may be opportunities for owners of qualifying properties in the EEA to reclaim tax or consider a more favourable tax treatment (e.g. for capital gains on sales of lets in that period).

A Window of Opportunity!

The Chancellor has given one year's notice of the existing rules being abolished and FHL owners must consider carefully how to capture the best aspects of the present rules while they last.

Things to consider include:

- Accelerating revenue costs and capital expenditure.
- Selling or crystallising a disposal to get a 10% tax rate.
- Rolling over a capital gain into the purchase of a qualifying property.

There are a lot of other changes in the Budget statement of 22 April, which may also need to be considered.

FHL owners need to take careful advice and perhaps accelerate expenditure, consider transfers to trust or deferral of tax on other capital gains made.

A deadline of 31 July 2009 may apply to some of the opportunities relating to overseas properties.

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