

FURNISHED HOLIDAY LET INFORMATION

A Furnished Holiday Let, also known as a FHL, is a certain type of rental property classification in the UK and Ireland (and other European countries). This classification provides certain tax advantages to holiday let owners. There are specific requirements a property needs to meet in order to be classed as a FHL, such as its availability, actual bookings and level of furnishings.



Owning a holiday let can be very advantageous. Not only does it provide enjoyable holidays for your family and friends, it also provides a potentially lucrative additional income. In this post, we explore the many advantages of becoming a Furnished Holiday Let (FHL) and explain what this means for you when it comes to tax.

What are the advantages of a Furnished Holiday Let?



Holiday Let Tax Deductible Expenses

Capital allowances can be claimed on your FHL property. This means the cost of kitting out your cottage to a luxury standard (and in return, increasing your potential rental income) can be deducted from your pre-tax profits. This isn't an option available for long-term rental properties.

Make tax-advantaged pension contributions

Income generated from a FHL property is classed as 'relevant earnings' which means you can make tax-advantaged pension contributions.

When you sell your property

If you should come to sell your FHL property, you are able to claim certain **Capital Gains Tax (CGT)** reliefs. These are unavailable to long-term rental properties and include:

- Entrepreneur's Relief
- Roll-over Relief
- Hold-over relief
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Split the profits between your husband/wife

If you share the ownership of your FHL with your husband or wife, profits can be flexibly distributed between you both for tax purposes. With long-term rental properties, profits would be distributed according to the official ownership split (eg. If you owned 50% of the property, you would share 50% of the profits). With a FHL property, you can portion the profit however you decide.



Council Tax for Holiday Lets

A self-catering accommodation which is available for short-term lettings for more than 140 days in any given year, is subject to **Business Rate property tax**. Since all FHL properties must be available to let for a minimum of 210 days, they fall into this category. However, this isn't necessarily bad news as you can claim **Small Business Rate Relief**, which can be up to 100% (dependent on what area you are in). Therefore, goodbye to council tax!

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What are the potential disadvantages of a Furnished Holiday Let?

If your turnover from your FHL property portfolio exceeds the VAT threshold, you will need to become VAT registered. If you own an individual FHL property, to exceed the current VAT threshold you will need to let your property for over £1,500pw, for the entire year (52 back-to-back bookings). Be sure to do the maths, but you'll most likely need multiple FHL properties before VAT becomes something you would need to consider.

If you run a separate business and are a VAT registered individual, your FHL property income may be subject to VAT also.

Losses cannot be offset against other taxable income

Losses from a FHL business cannot be offset against other income, instead, FHL losses are carried forward and offset against future profits. These losses can accumulate and be carried across multiple years.



What are Furnished Holiday Lettings allowable expenses?

When it comes to expenses, your FHL property is treated similar to that of a business. This basically allows you to offset expenses against your revenue. Two crucial points are:

1. Expenses claimed must be against commercial use only. If you, your family or friends use your property, your expense will be partly considered as 'private use'. This means you will need to calculate what percentage of the expense is commercial. For example, if you use the property privately for 3 months of the year, 75% of your expenses will be considered as commercial.
2. Expenses must not be capital. For example, one-off payments for the purchase or construction of the property, or for its fixtures (capital allowances could cover these expenses).

Here are some examples of allowable expenses:

- Utility bills or refuse collection
- Interest on loans associated with the property
- Advertising or letting agency fees
- Products bought for the property (cleaning products and welcome packs)
- Maintenance and cleaning costs



How to qualify to be a Furnished Holiday Let

If your property is in the UK and Ireland, your property can qualify as a Furnished Holiday let if it meets the following criteria:

Furnishings are essential

Although this may seem a little obvious, it is part of the requirements. The rules do not specify to what extent your property must be furnished, but if you aim to provide everything you would expect from a self-catering holiday cottage, then you'll be on safe ground (don't forget, some of these expenses can fall under Capital Gains Tax relief). An experienced holiday letting agency will be able to advise you on how to best achieve this.

Intend to make a profit

The property must be let commercially with the intent of making a profit. It's your 'intent' that counts and if you're able to produce a business plan or if you've made your property available through a professional letting agency then this will be easier to prove.

Be available to let

For the first 12 months of being a FHL, your property will effectively be in a 'probationary' period. During this time, the potential and actual availability of your property will be reviewed and for your FHL status to become a more permanent feature, your property must:

- be available for 210 days (30 weeks),
- be let commercially as a holiday property for 105 days (15 weeks)

- If occupied for more than 31 days by the same person/people, there must not be more than 155 days (total) of such longer lettings.

Days you, your friends or family spend in the property, for free or at a discounted rate, do not count towards the total occupation requirements.

While this final requirement may seem rather strict, there is some reasonable flexibility if you are:

- **Unable to meet the required occupation figures (as a whole)**
These figures can be averaged out across multiple FHL properties – however, properties in the Republic of Ireland are considered separate to the rest of the UK.
- **Unable to meet the actual occupation figure (after your 'probationary' period)**
If during the previous year you met the occupation requirements, a period of grace can be granted (for a maximum of two consecutive years). This means you will retain your FHL status, providing you meet the occupation requirements going forward.

* At the time of updating (24th January 2019), Paladin has taken all reasonable care to ensure that the information contained in this article is accurate. However, no warranty or representation is given that the information is complete or free from errors or inaccuracies. Generic information is contained within this article and each individual's tax affairs are different, further advice should be sought from an accountant.