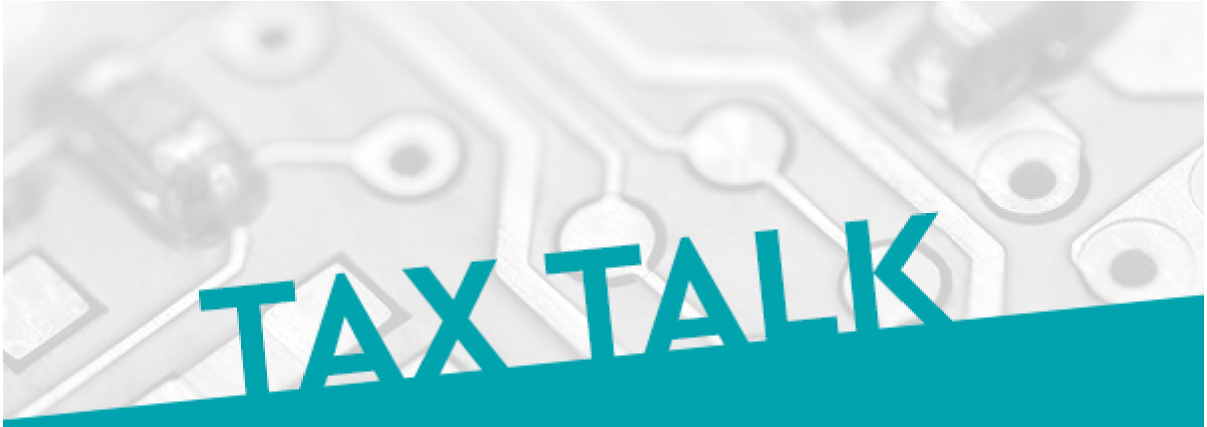

Welcome to our monthly Tax Talk email!

Introduced by our Senior CA Analyst, Dean Needham, Tax Talk offers a deep-dive view on different topics throughout the year.

In this edition we revisit a previous topic from last summer; Furnished Holiday Lets (FHLs).

The landscape for worldwide holidays has drastically changed since last summer, this year most people are looking at taking holidays a little closer to home to avoid the risks of travelling abroad.

With some of the most beautiful countryside & coastal spots in the world, combined with the self-contained nature of FHLs, this type of UK holiday accommodation has never been more appealing for UK holidaymakers.

Given the current climate, we suspect there will be a boom in this industry over the next 12 months; therefore owners of FHL's should consider the tax benefits they are entitled to and maximize their increased income.

While it is well known that capital allowances tax relief is available on hotels or bed & breakfast establishments; FHLs also have access to this relief under the correct conditions.

What is the definition of an FHL?

For a property to be classed as an FHL it must meet a very strict criterion set by HMRC. The reason for this is to allow HMRC to make a clear distinction between a residential property that is **occasionally** let out to holiday makers and friends & family (which does not qualify for tax relief) and a genuine commercial holiday letting activity.

The following must be met to class a property as an FHL:

1. The property must be situated in the UK or in the European Economic Area (EEA).
2. The property must be furnished.
3. The property must be commercially let (you must intend to make a profit).
4. The property must be available for commercial letting as holiday accommodation to the public for at least 210 days in the relevant 12-month period (the tax year).
5. Out of those 210 days, the property must actually be let out for 105 days or more as holiday accommodation.
6. Long term occupation (let for 31 days or more to a member of the public) must not exceed 155 days in the tax year. Any period of long term letting cannot be counted towards the 105 days of commercial holiday letting required to qualify.

Advantages - The seller's angle

In order to claim capital allowances on an FHL, we **must** establish that no prior capital allowances claims have been carried out by any prior owner(s) of the property. The fantastic bonus of FHLs is that invariably the property was previously used as a residential dwelling by prior owners, capital allowances are not available on residential dwellings, therefore the FHL owner can make an unrestricted claim.

This also allows claims on most FHLs to not fall foul of new HMRC legislation which restricts capital allowances claims on purchases after April 2014. As previous owners utilised the property as a residential dwelling, they do not meet the criteria set out in the 2014 legislation, again allowing an unrestricted claim for the FHL owner.

Advantages - Our client's benefit

Another trend among FHLs is that they are normally owned individually and not by a company. If the owner is a higher rate taxpayer a potential capital allowances claim can save them paying 40% tax on their FHL income! A saving not to be missed!

Other tax advantages

As well as capital allowances there are also other tax advantages to FHLs. If a loan is taken out to purchase the FHL, the full amount of interest paid in respect of the loan receives relief as a deduction from the rental income.

FHLs also qualify for certain capital gains relief that normal lettings do not. These include rollover relief, gift relief and entrepreneurs' relief.

The disadvantage

The only draw back of capital allowances claims on FHL properties is that capital allowances can only be utilised against FHL profits and any losses created by FHL capital allowances cannot be offset against any other income. Therefore, the FHL business, in isolation, **must** be profit making in order to benefit from a capital allowances claim.

Keep a look out

So, if you are going on a UK holiday this year in an FHL or know of someone who owns an FHL, ask if they have considered capital allowances on their property. With an estimated capital allowances claim on an FHL in the region of 25% of the purchase expenditure, there could be substantial tax relief just waiting to be claimed.

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