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A guide to

TAX AND YOUR HOLIDAY PROPERTY

robinson+co

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

A key part of realising your holiday property's full potential is ensuring that it's tax efficient for you as an owner. We'd strongly suggest you seek professional taxation advice early in your letting journey to help you make the most of every benefit and opportunity available to you.

robinson+co is a specialist firm with particular expertise in holiday letting. Within this information booklet they've helped us summarise the types of benefits that might be open to you and some of the taxation matters you need to consider for your property.

It should be noted that in the Spring 2024 Budget the Chancellor announced that the favourable tax treatment FHL's currently benefit from will be abolished with effect from April 2025. It is important that you contact robinson+co as soon as possible for advice and guidance on how this may affect you and your property.

The benefits of being a trading business

As the owner of a holiday cottage, you'll probably have at least two properties to your name, and with that comes added complexity for your tax planning. Yet there are opportunities too. A professional tax advisor can provide you with dedicated specialist support on these matters, but as a general overview, there are some key points to understand.

Firstly, when you let furnished holiday accommodation, it's treated as a property letting business for taxation purposes. However, if the property can fulfil certain conditions, it is treated for most tax purposes as if it is a trading business. This allows owners of Furnished Holiday Let (FHL) businesses to access a wider range of tax relief options and ultimately keep more of their earnings than a standard residential landlord.

Once your property has qualified, the following benefits accrue:

For Income Tax purposes

- All the operating costs are generally allowable as deductions from income. This includes finance costs.
- Capital allowances are permitted on a wider range of capital expenditure
- Profits and losses can be allocated as agreed by the joint owners of the property. Also Income qualifies as relevant earnings for pension contributions.

For Capital Gains Tax purposes

- The property is treated as a business asset and may be taxed at lower rates than non-business assets (subject to certain conditions).
- Capital gains on FHL properties can be sheltered and rolled over into other replacement business assets thus deferring payment of Capital Gains Tax (see below).

For Inheritance Tax purposes

If a claim for Business Property Relief is successful, the value of the FHL property can be excluded from the deceased owner's taxable estate. Given that the rate of IHT is 40%, the tax savings could be very substantial. This is an evolving area of taxation (see later) and expert advice must be sought.

Qualifying as a trading business

To take advantage of these significant benefits an FHL property must fulfil a series of conditions to qualify as a trading business:

- The letting business must be operated with a view to realising profits (i.e. for commercial gain)
- The property should be available to the general public as furnished holiday accommodation for 210 days (30 weeks) in the tax year

- The property should be let as furnished holiday accommodation and actually occupied by the general public for at least 105 days (15 weeks) in the tax year
- Longer lets of more than 31 days are allowed but cannot exceed 155 days in total

If an FHL doesn't achieve the 105 days of occupancy required, then its owner may apply for a 2-year continuing qualification period following a year in which it did achieve the criteria (the 'period of grace election'). Additionally, if an FHL business includes more than one property, and the majority of these properties exceed the conditions, then an average can be taken to allow all of the properties to qualify (the 'averaging election').

Achieving these benefits

To make the most of these opportunities, you must operate your holiday let in a business-like fashion. This means claiming all allowable expenditure and maintaining contemporary details of all the expenses that are incurred. This will allow you to claim for the following operating costs:

- Business rates, insurance, water rates
- Gas, electricity and fuel that are related to the property, or a proportion if it's attached to your own residence. Any charges made should be declared as income
- Agency commission plus any other marketing costs
- Repairs, non-capital items, painting, decorating and general maintenance
- Crockery, cutlery, linen
- Administration overheads such as postage, paper, printed leaflets, brochures, etc.
- Phone bills and provision of broadband for the property (and any receipts from charges to be declared as income)
- If significant, a proportion of your own home expenses including telephone and broadband can be claimed
- Sundry expenses. Cleaning materials and consumables, provision of welcome packs, TV licence, refuse collection, window cleaning, leisure club membership, flowers and plants etc.
- Caretaker, gardener, cleaner (be wary of possible PAYE implications)
- Travel and subsistence. You may claim 45p per mile (plus 5p if a partner is making the same journey) for journeys undertaken for management purposes only. In addition, you can claim for reasonable subsistence costs (hotel, food) incurred whilst undertaking business journeys
- Interest and finance charges. Interest on loans for the purpose of acquiring or improving the property let together with arrangement fees and interest on HP agreements to buy furniture etc. These are allowed in full against the income and are not subject to the rules restricting such relief for landlords of other residential property.
- Accountancy fees and other professional fees

As long as certain conditions are met, new FHL businesses are able to claim these operating costs for up to 7 years before the business actually commences.

Additionally, you may deduct certain capital costs from your profits or enhance a loss. There are special rules around these claims and you should seek specialist advice to ensure you've captured all of the allowances that are permitted. In particular integral features can make up to 25% of the capital value of the property when purchased, presenting the opportunity for significant tax savings. Items include:

- All furniture, carpets, ornaments, pictures, white goods and electrical equipment
- Fitted kitchens and bathrooms
- Integral features (see above) such as electrical and lighting systems, cold water, water heating and ventilation systems
- Certain energy saving equipment
- Garden furniture and equipment
- Swimming pools (generally excluding the buildings in which they're housed)

As a property owner, you might already be aware that many of these benefits were withdrawn for residential landlords. Yet as an owner of furnished holiday accommodation, you can take full advantage of these opportunities - it's one of the reasons that holiday letting is so popular and potentially more profitable than longer term residential letting.

Other considerations

Capital Gains Tax

If your FHL property qualifies, then it will be treated as a business asset for Capital Gains Tax purposes. This is a very valuable attribute as gains of up to £1 million per person (lifetime limit on cumulative gains on all business assets) are taxed at only 10%, as opposed to 18- 28% which second homes or residential lets are subject to.

Capital Gains Tax on business assets can also be deferred indefinitely by re-investing the proceeds from the sale of one qualifying business asset into another. So, for example, the proceeds from the sale of a B&B or hotel could be re-invested into FHL property and this will defer the payment of any tax due on the original sale until the FHL property is sold and not replaced (which may be never). Furthermore the gift of a FHL property may qualify for holdover relief whereby the recipient of the gift pays CGT only when the FHL is sold in the future.

Inheritance Tax

In certain circumstances, your property could qualify for 100% Business Property Relief which would exempt it from Inheritance Tax. HMRC's view is that, most FHL businesses do not provide sufficient services to be classed as a business for Inheritance Tax purposes. This is at odds with the treatment of FHL property for all other taxes and therefore open to challenge. Provision of services and owner involvement is very important in any claim so it is imperative that you as the owner can demonstrate more than a passive involvement (even you use third parties services such as caretakers).

How can robinson+co help you?

Ensuring that your holiday let is tax efficient can be rewarding. As well as meeting tax compliance requirements, in the majority of cases, we also make significant tax savings for our clients which are far greater than our costs.

Our standard fixed fee service is specifically designed to help you keep more of what you earn. Once we have all your information, we'll prepare your FHL accounts, tax computations and either prepare or supply what you need to complete your Tax Return. This should take no more than 8 weeks for us to complete - and often it's much less!

Get in touch today

If you'd like to learn more about how you and your property could benefit from being tax efficient, then contact the robinson+co team:



01900 603623



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Alternatively, you can complete the contact form on our website robinsonco.co.uk

Our Fixed Fee Structure (inclusive of VAT)

One year's accounts, tax calculations and standard Land and Property schedule	£528
Extra property – each	£60
Tax Return – each	£165
Specific detailed tax planning services and advice	Enquire for more details

These fees are based upon all information being supplied at the same time. In a small number of cases, such as an HM Revenue & Customs enquiry or if your tax returns are complicated, an additional fee may be due - this will be agreed with you in advance.

Disclaimer

The information provided here is compiled solely by robinson+co and represents a brief summary of how FHL businesses are treated for taxation. Professional guidance should always be sought. Awaze Vacation Rentals Ltd. do not provide advice or guidance on taxation or financial matters and all queries relating to this brochure or any related matters should be directed to robinson+co.

