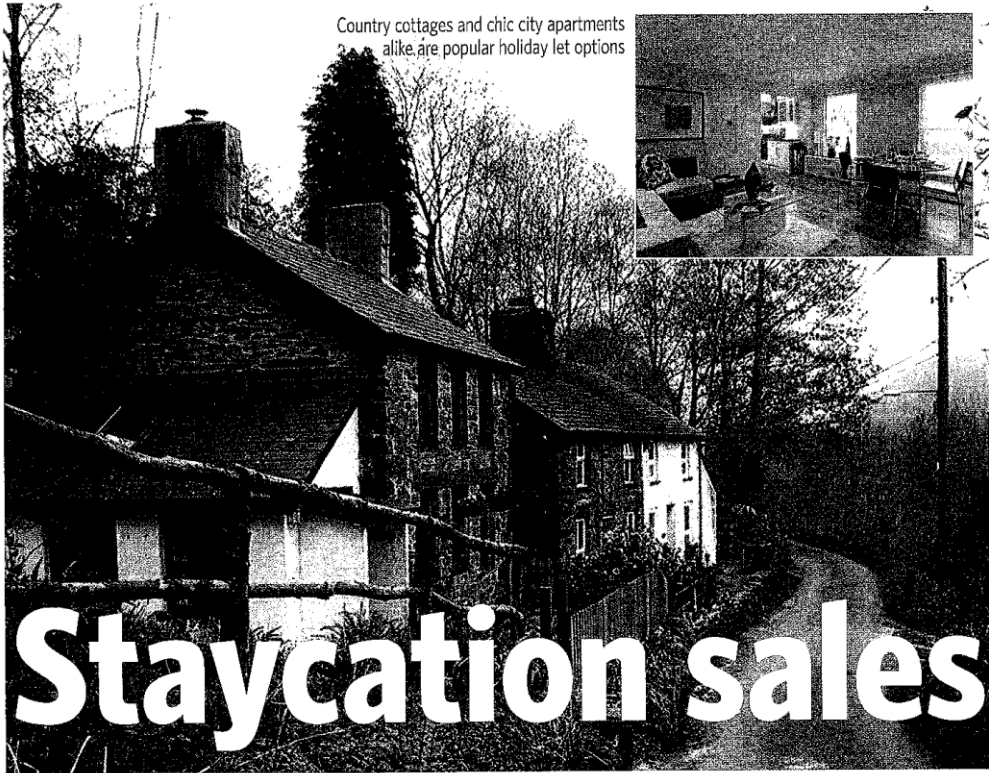


Country cottages and chic city apartments alike are popular holiday let options



Staycation sales

Over recent years the traditional furnished holiday letting has evolved to meet changing holiday preferences.

Whilst the country cottage still attracts a significant following, chic city centre apartments and wings of historic buildings are now also desirable holiday options.

Figures from the Office of National Statistics and the British Tourist Authority last year indicated more people holidaying in Britain. These weren't just overseas visitors, cash-strapped Brits opted for 'staycations' in response to a weak pound, reduced disposable income and the increased risk of delays overseas trips involve. My own visit to Turkey was lost to the ash cloud, and industrial action seems like an annual requirement for air traffic controllers in some countries!

Tax advantages

Furnished holiday lettings businesses have enjoyed advantageous UK tax treatment for a number of years. The

Stuart Dey explores the sales potential of properties for furnished holiday lettings

Government has, however, recently announced a tightening of the rules for these businesses. Whilst there are still tax advantages to be had, they are not quite as wide ranging as they once were and it's getting harder to meet the conditions to qualify as a furnished holiday letting.

Importance to agents

Those estate agents who are up to date with the rules will be in a stronger position to better advise clients - whether existing owners considering putting their property on the market because of the tax changes, or investors looking to buy property to use as furnished holiday lettings. This knowledge may help to improve the marketability of some properties and ensure a sale doesn't flounder when a potential purchaser suddenly assesses the impact of the new rules.

Meddling from Brussels?

Unfortunately the old UK rules for furnished holiday lettings didn't comply with EU law, as properties in the UK were treated favourably compared to overseas properties, which could not count as furnished holiday lets.

Rather than suddenly abolish the scheme the Government temporarily extended it (for 2009/10) to cover property anywhere in the EEA (EU countries plus Iceland, Liechtenstein and Norway), before then planning to abolish it altogether.

In June 2010, however, the UK Government announced that it would not repeal the furnished holiday lettings scheme but instead would tighten up the rules.

Furnished holiday lettings losses after 6 April 2011 cannot be set against other income to reduce the overall tax bill,

and from 6 April 2012 it will be harder for properties to qualify as furnished holiday lettings.

Qualification criteria for holiday lettings businesses

The Inland Revenue's criteria for these businesses are as follows:

- **Commercial basis:** The furnished holiday letting business must be carried on commercially, and with a view to a profit.
- **Long term lettings:** The total periods of 'longer term occupation' (ie a letting to the same person for longer than 31 continuous days) must not exceed 155 days during the relevant period. The relevant period is normally the tax year.
- **Availability:** The property must be available for commercial letting as holiday accommodation to the public for at least 140 days (210 days from 6 April 2012) during the relevant period.
- **Occupancy:** The property must be commercially let as holiday accommodation to members of the public for at least 70 days (105 days from 6 April 2012) during the relevant period. A letting for a period of more than 31 days to the same person is not a letting as holiday accommodation for the purposes of this condition.

Despite the changes, furnished holiday letting businesses do still hold a number of tax advantages. The main benefits, which estate agents should flag to clients considering such a business venture, are as follows:

Capital gains benefits

Furnished holiday lets can benefit from Business Asset Rollover Relief. This means that, if a gain (arising from when the property is sold or given away) is reinvested in a replacement asset, the tax on the disposal can be deferred until the replacement is sold. That replacement does not have to be another holiday let, as a range of business assets are allowed. It could be used in a completely unrelated new business.

Furnished holiday lets may also qualify for Entrepreneurs' Relief, under which the effective rate of Capital Gains Tax on the sale of the property reduces from 28% to 10%. The new Entrepreneurs Relief 10% lifetime limit

is now £10million.

Other capital gains advantages include relief for gifts of business assets, relief for losses on loans to traders and exemptions for the disposal of shares by companies with a substantial shareholding.

Income tax

Furnished holiday letting business profits are calculated slightly differently from normal rental income. Capital allowances (for depreciation) and the landlords' energy saving allowance are both available. Capital allowances can be claimed in respect of equipment, such as white goods, purchased for the property.

Losses sustained in UK furnished holiday letting businesses can still be set against later years' furnished holiday lettings profits generated in the UK. If, however, the business incurs losses from elsewhere in the EEA (EU countries plus Iceland, Liechtenstein and Norway) these can't be set against UK profits.

Inheritance tax

It has been suggested that Inheritance Tax Business Property Relief might be available if the taxpayer is actively involved in the business. This would mean that the value of the property is effectively excluded from the owner's estate for inheritance tax purposes, potentially saving tax at 40% on death. However, the level of service the proprietor needs to provide to qualify for Business Property Relief is often impractical, and detailed advice should be obtained.

Pensions

Furnished holiday letting income counts as earnings for the purposes of obtaining Income Tax Relief on pension contributions.

Averaging

A landlord may elect to average the letting periods of two or more of his properties and the 70/105 day rule can be relaxed in some circumstances.

Summary

From next April, properties will need to be available for letting and actually let more than is currently the case. The reduction or loss of tax advantages may prompt some owners to sell. Other owners will increase their efforts to achieve let periods. Agents who raise these issues may find they have more properties to sell or are administering more rental income.

Despite the reduction of the tax incentives, potentially valuable advantages remain. With interest rates and other investment yields so low, owners of furnished holiday lettings look set to benefit from investors and entrepreneurs looking for alternative investment opportunities and the current trend towards 'staycations'. ■

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