

Furnished Holiday Lettings – Finance Bill 2011 Onwards



In a Nutshell

- Special Tax Rules for the owners of Furnished Holiday Lettings continue to exist,
- The eligibility rules have changed, but many properties will continue to qualify,
- Significant levels of taxation relief (Capital Allowances) could be available to landlords.

General Background

The former Furnished Holiday Lettings (FHL) tax legislation provides advantageous treatment for a FHL property comparative to a 'normal' residential rental property. If a FHL landlord met certain criteria, it was possible to treat the FHL business as a 'trade' rather than an ordinary property business. Accordingly, loss relief, capital allowances and capital gains tax reliefs were not restricted as they may have been for an ordinary property business.

The previous Government attracted European Union criticism for these advantageous rules which were only available to UK properties. Quite simply, EU law determined the UK rules to be discriminatory to free movement of capital provisions and as such the rules must be applied to properties through the EU.

The Labour Government therefore were forced to widen FHL rules to include properties throughout the European Economic Area, but in an attempt to curb a multitude of expensive claims by taxpayers, they subsequently announced plans to abolish the rules altogether.

However, following a period of consultation, the Coalition Government has decided not to repeal the legislation but instead amend the rules:

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- FHLs in the UK and European Economic Area* will be eligible for the special tax rules.
- Qualifying properties must have been available for let to the public for 210 days during a tax year (previously 140 days) from April 2012.
- Qualifying properties must actually have been let for at least 105 days during a tax year (previously 70 days) from April 2012.
- Tax losses from the FHL business may only be offset against income from the same business (previously a taxpayer could use such losses against general income) from April 2011.
- A period of grace will be introduced to allow properties which don't meet the 'actually let' requirement for one or two tax periods to continue to qualify.
- The advantageous capital allowances and capital gains tax rules which have applied to FHLs will continue to exist.

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Capital Allowances Mechanism

UK capital allowances legislation specifically disallows a taxpayer from claiming capital allowances for use in a dwelling house; importantly however this rule does not apply to FHLs.

A taxpayer may claim capital allowances on items within the FHL property – this would include loose items such as furniture and electronic goods but also fixtures and fittings such as electrics, kitchens, bathrooms, central heating and air-conditioning.

Therefore, significant capital allowances (which equate to valuable income or corporation tax relief) may be available not only on purchases of FHL properties, but also on the refurbishment or renovation of these properties.

Summary

Furnished Holiday Lettings rules have been a source of much debate over the past few years, but it now appears the Chancellor is prepared to put an end to the uncertainty. Although the rules remain specific and complex on occasion, significant taxation relief will continue to be available particularly with respect to capital allowances claims.

The Role of Capitus

Capitus has a wealth of knowledge and experience within the capital allowances field and our mix of accounting, taxation and surveying knowledge allows us to maximise the taxation relief available whilst providing support and advice throughout the claiming process.

Please contact Aubrey Calderwood at calderwood@capitus.co.uk or call 028 2564 7022 for further information.

** European Economic Area includes Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.*