Larking Gowen

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Furnished holiday letting

Tax issues guide

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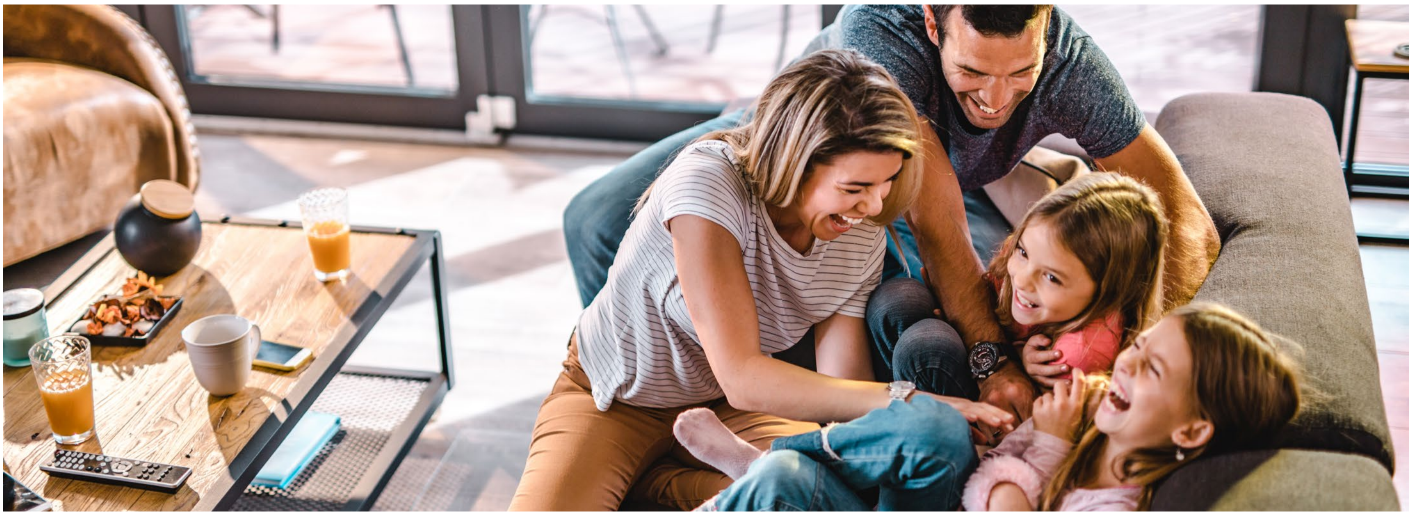
Contents

Qualifying as an FHL 3
Capital allowances 4
Offsetting losses 4
Joint ownership 4
Losing FHL status 4
Overseas properties 4
What expenses are allowed? 4
Changes ahead 4
Business rates and domestic rates 5
Registering for VAT 5
Leaving your FHL as an inheritance 5
Pensions 5
General Data Protection Regulation (GDPR) 5
Buying your property: individuals 6
Time limits for individuals 6
Selling your property: individuals 6
Making Tax Digital 6
Becoming a limited company 7
Annual Tax on Enveloped Dwellings 7
Buying a property: companies 7
Selling a property 7
Time limits for companies 7
Meet the team 8

Thinking of letting a furnished holiday property?

Caravans, lodges, flats and houses, amongst others, are all treated as FHLs if they meet the relevant criteria.



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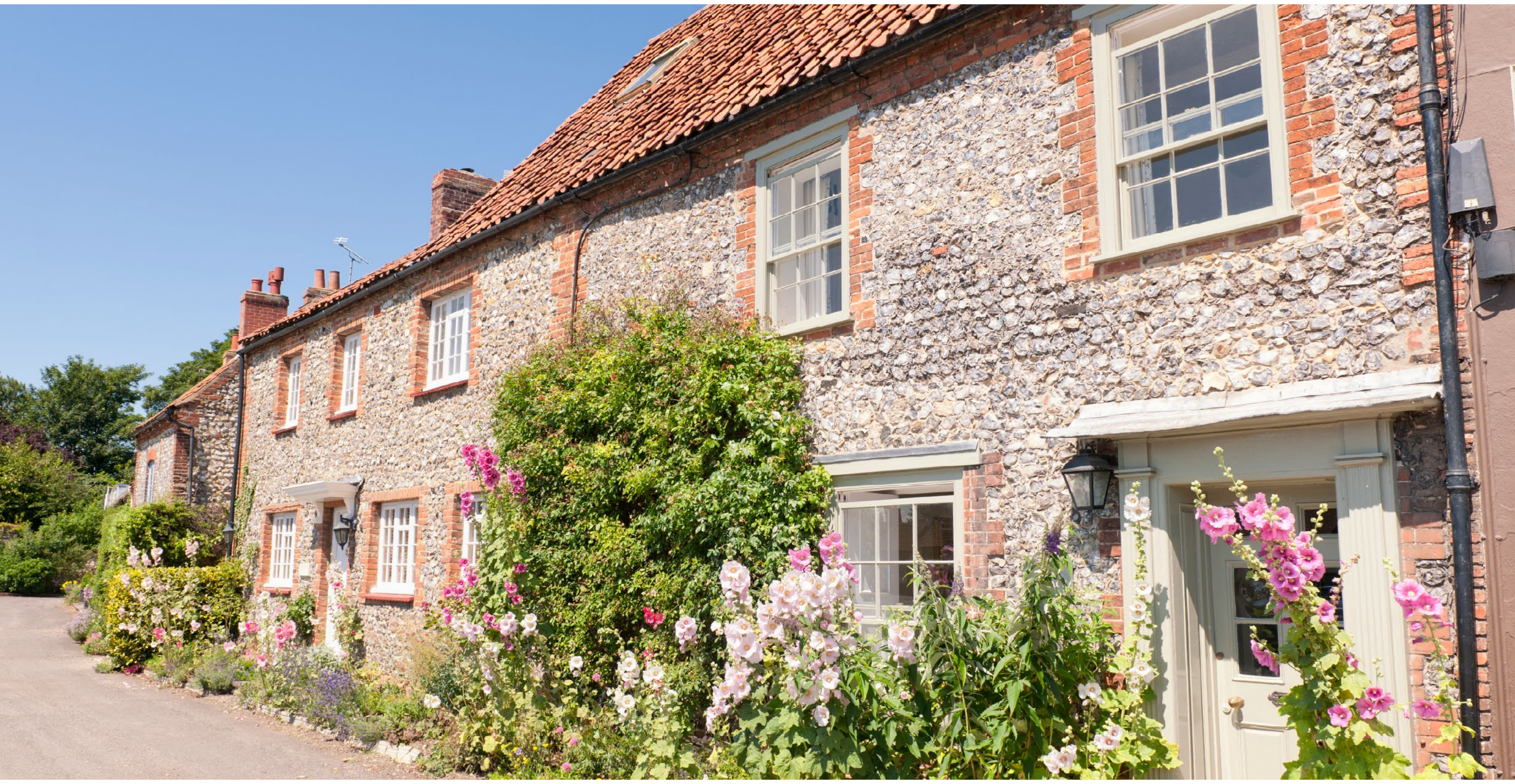


Let's get started

Qualifying as a Furnished Holiday Letting (FHL)

FHLs are covered by special tax rules. For some tax purposes, a holiday let and the income you get from it are treated as if they were a trade.

Only certain properties qualify as FHLs. To qualify as an FHL during a particular tax year, the property must be:

- Let with a view to making a profit.
- Available for letting for at least 210 days of the tax year.
- Not occupied by long-term tenants (i.e. those who stay for more than 31 days) for more than 155 days of the tax year. (These lets are also excluded from the criteria listed below.)
- Actually let for at least 105 days of the tax year.

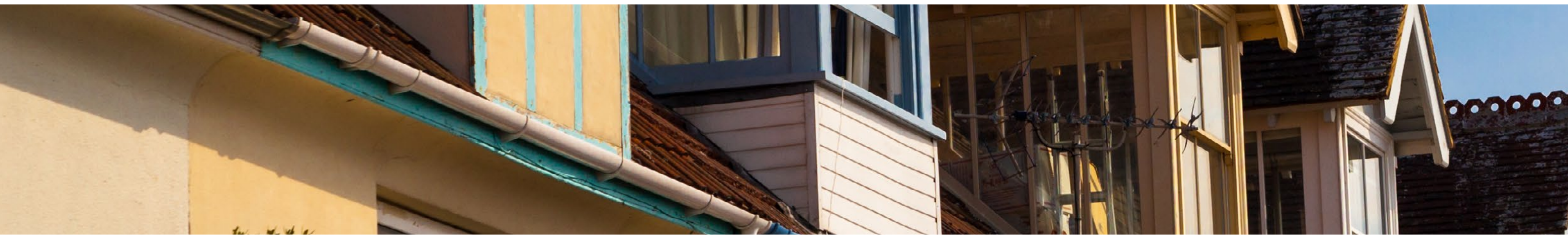
These rules apply not only to properties in the UK, but also to those across the whole of the European Economic Area (EEA). The EEA comprises the member states of the European Union plus Iceland, Liechtenstein and Norway.

The rules on FHLs are flexible, so even if your holiday let doesn't meet all the conditions, it could still be counted as an FHL in particular circumstances.

There's a two-year 'grace period' to allow you to continue to treat the property as an FHL where lettings have fallen below the day counting limits set by HM Revenue and Customs (HMRC).

If you have more than one property, you may be able to use the average day count across all of the properties in order to meet the FHL requirements.

> "At Larking Gowen, we see ourselves as more than purely chartered accountants. We'll look after your tax and finance issues, with a friendly one-to-one service you can count on.
>
> If you think your FHL status is at risk, get in touch with us to see how we can help."



Capital allowances

Where a landlord lets an FHL, it may be possible to claim capital allowances on plant and machinery, including any items 'embedded' within the property.

When buying a property, you need to consider capital allowances very carefully.

It's important not to miss out on potentially valuable opportunities to claim deductions for both current and past expenditure.

We can help you identify any capital allowances that you could claim, in most cases to be actioned during the purchase phase, so don't leave it too late in seeking advice.

Offsetting losses

If you made a loss on your FHL (your expenses were more than your income), you can reduce your tax bill by offsetting the loss against the profit in the same tax year from any other FHLs you own.

You can also carry the loss forward to offset against FHL profits you make in the future.

You can't offset your FHL rental losses against your other earnings, or profits from other sources, including buy-to-let profits.

If you have FHLs in the UK and the EEA, these are treated as separate businesses.

Joint ownership

If you own standard let property with someone else, the income for tax purposes will be split in the same proportions as your ownership. So if you're a taxpayer and you own 50% of the property, you'll pay tax on 50% of the profits.

However, because FHLs are treated as trades, there are opportunities to split the profits in proportions that are different from your ownership. We can help you with this.

Losing FHL status

If you don't meet all the criteria, and none of the special provisions apply to you, your property will be treated as a buy-to-let property rather than an FHL. This will affect the way your tax is calculated and could increase the tax levels incurred.

Overseas properties

If you own property overseas, the income tax and capital gains tax treatment may have changed. Get in touch with us if you require specialist advice in this area.

Changes ahead

For now, FHLs continue to be treated as a trade but HMRC may target further restrictions.

These may include further limitations on finance relief, inheritance tax and loss reliefs. Further changes may be ahead, hence the need for regular specialist advice.

What expenses are allowed?

Many of the expenses involved in letting an FHL are tax-deductible. They are:

- Rates
- Insurance
- Agents' fees
- Advertising
- Cleaning
- Repairs and replacements
- Interest on a mortgage or other loan used to purchase the property (but not the repayments), subject to limitations
- Gardening and maintenance
- Accountancy fees
- Capital allowances

You may also be able to claim an allowance for travelling to the property, so make sure you keep a record of any visits you make.

Business rates and domestic rates

If your FHL property has been available to let for at least 140 days over the current and previous tax years and actually let for at least 70 days in the last 12 months, it should be valued for business rates. (There are different rules for properties in Scotland and Wales.)

It is possible that you could be eligible for rates relief and we will be happy to help you with this.

If this criteria is not met, domestic rates will be applied and no relief will be available.

Registering for VAT

Holiday letting is subject to VAT so it will count towards your taxable turnover for VAT registration purposes. If you're still below the registration threshold, you should consider whether a voluntary registration could benefit you. If you register for VAT, you can claim back the VAT on your expenses, but you must add VAT to (or include it in) the rents you charge.

Registering for VAT makes financial sense for some property owners. We can help you decide if it's right for you.

If you invest significantly in an FHL, you should seek advice as the Capital Goods Scheme provisions may apply.

Leaving your FHL as an inheritance

FHLs represent part of your estate for inheritance tax purposes. There is a relief from inheritance tax for business assets, but it's an extremely contentious area for FHLs and has proved to be difficult to claim. The relief is given at 100% and so is extremely valuable where available.

We can help you understand the rules on whether or not your FHL will qualify for this relief.

Pensions

Profits from your FHL count as earnings for pension purposes, which therefore provides an additional planning opportunity.

For individuals

Buying your property

When purchasing a residential property as a second home or buy-to-let, additional Stamp Duty Land Tax (SDLT) of 3% is usually payable on top of the existing rates. This surcharge affects the purchase of residential property in England and Northern Ireland. (There are different rules for properties in Scotland and Wales.)

For non-residents buying property in England and Northern Ireland, there is an additional 2% surcharge, although this may be reclaimable in some circumstances.

Time limits for individuals

If you fail to comply with the following deadlines then HMRC penalties and interest may be levied:

- Submit a Stamp Duty Land Tax (SDLT) return: 14 days.
- Submit a Capital Gains Tax (CGT) return: within 60 days of completion on a sale, where capital gains tax is due.
- Register for self-assessment: six months from the end of the relevant tax year.
- Submit a self-assessment tax return: by 31 January after end of tax year (if filing online) or by 31 October (if filing on paper).
- VAT registration, if applicable, is required by the end of the month, following the month in which the threshold was reached.

Selling your property

When you sell your property, you'll have to pay capital gains tax on any increase in value since you bought it. Gains are currently taxed at 18%, or 28% if you pay income tax at higher rates.

An FHL business is treated as a 'trade' for tax purposes, which gives access to the valuable 'business asset disposal relief'. This reduces the rate of capital gains tax to 10%, subject to meeting the qualifying conditions, on which you should seek advice.

If you reinvest the money from selling your FHL in another holiday letting, you may qualify for 'rollover relief', which lets you defer paying capital gains tax until the new property is sold.

Having established the gain on the property, individuals can utilise their annual capital gains tax exemption to help reduce the gain.

If you give your property away, you may be able to 'hold over' the gain until a future sale by the recipient.

It's best to get professional advice before you consider disposing of your property, so you fully understand the tax implications.

There may be some additional relief for capital gains tax where at some point the FHL had been your only or main residence.

If you sell a property, you may need to deliver an additional return to HMRC and pay any capital gains tax due within 60 days of completion. Penalties and interest may be levied if this deadline isn't met.

Making Tax Digital

HMRC are making major changes to the way in which all taxpayers submit information to them. Business owners, including property landlords, will have to keep their records digitally and file quarterly reports with HMRC. This will involve using software or apps to record income and expenditure and which can submit information to HMRC at least once every three months.

If your income is in excess of the VAT registration threshold (currently £85,000), these changes were introduced from April 2019. For those with a turnover of between £50,000 and the VAT registration threshold, the introduction date is from April 2026. For those with a turnover of between £30,000 and £50,000, this will apply from April 2027.

We work with bespoke software providers, so can help you with these changes and recommend software that's easy to understand and use.

For companies

Becoming a limited company

Most FHLs are run by individuals, or in partnership.

However, you can also operate your FHL through a limited company, and it may be worth doing this for tax purposes.

We can advise you on whether it's worth incorporating your business.

Or, if investing for the first time, whether a limited company would be an option.

Annual Tax on Enveloped Dwellings

Annual Tax on Enveloped Dwellings (ATED) is a tax payable where a high value residential property situated in the UK is held by a 'non-natural person' (broadly speaking, a company).

Where the value of the property is in excess of £500,000 then registration is required and a tax charge will be levied upon the company each year.

There are various exemptions available, which can reduce the tax charge to nil, and we're happy to advise on these.

Buying a property

When purchasing a residential property via a limited company, additional Stamp Duty Land Tax (SDLT) of 3% is payable on top of the existing rates.

If you plan to use the property personally, a flat higher rate SDLT charge of 15% may apply, so if this is part of your plan, please seek advice.

For non-resident companies buying property in England and Northern Ireland, there is an additional 2% surcharge (on top of all other residential rates of SDLT including the 3% higher rate surcharge).

Selling a property

Tax rates for companies vary depending on profit levels and the number of entities controlled.

In basic terms, the rate is 19% for profits below £50,000, rising to 25% with marginal rate implications.

We recommend you take advice to confirm your circumstances.

Time limits for companies

If you fail to comply with the following deadlines then HMRC penalties and interest may be levied:

- Submit an SDLT return: 14 days.
    - by 30 April if your property is within the scope of ATED on 1 April.
    - within 30 days of acquisition if your property comes within the scope of ATED after 1 April.
    - for a newly built property, within 90 days of the earliest of the date:
        - your property becomes a dwelling for Council Tax purposes.
        - it is first occupied.
- Corporation tax return: 9 months and 1 day after the end of the accounting period.
- Comply with Companies House filing deadlines.
- VAT registration, if applicable, is required by the end of the month, following the months in which the threshold was reached.

Need help?

If you have any queries about anything covered in this guide, please get in touch with your usual Larking Gowen contact.

You can find contact details on the Our People section of the Larking Gowen website.

Alternatively, call 0330 024 0888 or email **enquiry@larking-gowen.co.uk**.

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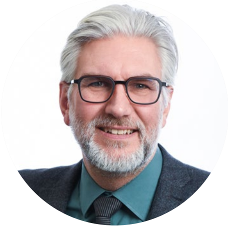
Meet the team

Rental property specialists

Larking Gowen's specialist team is highly experienced in the commercial and residential letting sector.

We provide accounting services for hundreds of businesses and individuals throughout Norfolk, Suffolk and Essex.



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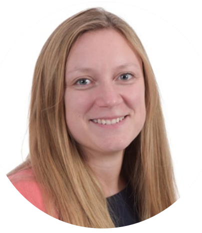

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