



# Income from Property

## Furnished Holiday Letting

If you receive income from more than one property in the UK it is treated as a single property business, however income and expenses relating to furnished holiday lets must be recorded separately, as special rules apply.

Profits from qualifying furnished holiday lets are treated as earnings for pension purposes and the property qualifies as a business asset for capital gains tax. You may also be able to claim capital allowances on items such as furniture and furnishings in the let property, as well as on equipment used outside the property, like vans and tools.

### What is a qualifying holiday let?

A qualifying holiday let must be furnished accommodation in the UK or European Economic Area (EEA) and must meet the following conditions:

1. The property must be available for letting on a commercial basis for at least 210 days in any tax year (the availability test); and
2. The property must be let on a commercial basis for at least 105 days in the year (the occupancy test); and
3. If the property is occupied by the same person(s) for a continuous period of more than 31 days, the aggregate of all such long-term occupancy must not exceed 155 days in the tax year.

### What if the property does not pass the occupancy test?

If your property does not meet the occupancy requirement, there are two elections to consider that could help your holiday let to qualify, but your property must meet the availability test conditions before either election can be made. The time limit for making either election is 31<sup>st</sup> January after the end of the tax year to which it relates.

1. *Period of grace election*  
A period of grace election allows you to treat a year as a qualifying year where you genuinely intended to meet the occupancy threshold but were unable to meet it. Your property must have qualified as a furnished holiday let in the year prior to the election. The election is effective for up to two years.
2. *Averaging election*  
If you have more than one holiday letting property and each property has met the availability test, you can elect to apply the letting condition to the average rate of occupancy of the properties. NB You can only average the properties in a single business, ie you can't mix UK and EEA properties.

If you have more than one property, you can use both the averaging and period of grace elections to ensure that a property continues to qualify.

### Reporting the income and expenses

Profits from qualifying furnished holiday lets are taxed as rental income, so no National Insurance is charged and the period of assessment is the tax year, ie 6<sup>th</sup> April one year to the following 5<sup>th</sup> April.



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All UK holiday lets are combined into one trade, as are all EEA holiday lets. It is therefore important to record the income and expenses from each separately.

Rental income and expenses are usually calculated on the 'earnings basis', ie with adjustments for amounts in arrears and in advance. HM Revenue & Customs will, however, permit use of the cash basis which is based on actual receipts and payments, where the total gross rental income does not exceed £15,000 in the year.

The expenses being claimed must be 'wholly and exclusively' for the purpose of the business. The most common types of allowable expenses are:-

- repairs – including interior and exterior decorating and any repairs to furniture
- renewals – replacement of smaller items, such as cutlery, bed linen etc
- services and utilities – rates, water, heat & light, ground rents, insurance, gardening, cleaning etc.
- loan interest and costs – if you financed the purchase of property with a mortgage, the costs of arranging that finance and the annual interest on the loan, but not any capital repayments
- professional fees – property management fees, costs for renewing a lease, fees for evicting a tenant, accountancy fees etc.
- costs of letting – your costs incurred in letting the property such as advertising, telephone, travel etc

In addition, you can claim capital allowances on plant, machinery, fixtures and fittings – this means things like cars, vans, tools, computers, kitchen fittings, bathrooms etc. The rules for capital allowances are complex, especially if the property ceases to qualify as a furnished holiday let, so it is advisable to seek professional guidance for this area.

The income, expenses and any capital allowances must be reported on the land and property pages of a self assessment return form each year, with an adjustment for any private use of the property.

### Capital Gains Tax

When you sell a property, any gain you have made is subject to capital gains tax. A qualifying furnished holiday let is deemed to be a business asset for capital gains tax purposes, so there are therefore a few reliefs that can reduce the amount of tax that would otherwise be due:

- Entrepreneurs' relief – this reduces the amount of tax charged on the gain to an effective rate of 10% (subject to the lifetime limit, currently £10 million).
- Gift holdover relief – enables you to postpone the gain by effectively transferring it to the beneficiary if you gift the property (relief is prorated if any consideration is received)
- Business asset rollover relief – where you reinvest all or part of the proceeds of sale into another qualifying business asset
- Incorporation relief – if you transfer the property into a limited company



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The capital gains tax legislation is complex and care should always be taken when reviewing which reliefs can and should be claimed. If you are thinking of selling a property, it is always best to seek professional advice prior to the sale in order to ensure that the best tax planning strategy can be put into place where relevant.

#### VAT

If you are a VAT registered sole trader, you will normally have to charge standard rate VAT on the income from your holiday letting business. There are some exceptions for off season letting and if you think this may apply, you should seek professional guidance to ensure that you are compliant for VAT purposes.

#### Need help?

Waveney Tax Solutions can help with all aspects of income and capital gains tax relating to qualifying holiday lets. If you would like us to assist you, please call us on 01502 370620 or 07919 924273, or email us at [nina@waveneytaxsolutions.co.uk](mailto:nina@waveneytaxsolutions.co.uk).