

## Furnished Holiday Lettings in the UK or EEA

Furnished holiday lettings (FHL) are treated more favourably for UK tax purposes than other property lettings. Qualifying FHLs can be located in the UK or European Economic Area (EEA). The EEA comprises the 27 member states of the European Union (EU) plus Iceland, Liechtenstein and Norway.

### Qualifying Conditions

In order to qualify as a FHL, the property must:

- be located in the UK or European Economic Area (EEA);
- be fully furnished and available for commercial letting to the public for 210 days or more each year;
- be let on a commercial basis as holiday accommodation to the public for 105 days or more each year, excluding periods of continuous occupation by the same person for more than 31 days; and
- not be let for periods of 31 days or more for more than 155 days during the year.

The above tests will be applied on a tax year basis in respect of a continuing let, but will be the first 12 months from the date when letting first began and the final 12 months ending on the date of the final letting.

There is nothing to prevent the owner, or their family, from occupying the property for part of the year, but any period for which it is occupied in this way will not be treated as “available for letting”.

If an investor owns a number of FHLs, the let day requirement can be averaged between the different properties in either the UK or EEA. It is not possible to mix UK and EEA properties so it may be necessary to make a separate averaging election for UK and EEA properties. All FHLs owned in the UK are taxed as one FHL business and all FHLs owned in other EEA states are taxed as a separate business. It is therefore necessary that separate records are maintained for each business.

Once a property qualifies as an FHL for one tax year, the owner may elect to treat it as continuing to qualify for up to two subsequent years even if it does not meet the 105 days letting condition in those years, provided there was a genuine intention to meet it.

### VAT Registration

Rental income from FHLs is a standard rated supply for VAT purposes. Therefore, the taxpayer must register for VAT if turnover from UK FHLs (and other business income) exceeds the registration threshold of £79,000. The standard VAT rate in the UK is 20%.

If the FHL is in another EEA state, it may be necessary to register for VAT in the country where the property is situated.

## Tax Advantages of FHLs

FHLs are treated as an active trade for some tax purposes (rather than a passive investment) and the benefits of this include:

- Capital allowances can be claimed on furnishings in the let property, as well as on plant and machinery used outside the property (such as vans and tools);
- FHL profits count as relevant income for pension purposes;
- Capital Gains Tax reliefs are available as the activity is treated as a trade (e.g. entrepreneurs' relief, business asset rollover relief and gift relief of business assets);
- Business property relief (BPR) may be available for inheritance tax purposes where services provided to holidaymakers are substantially more significant than the investment aspect of the property ownership. However, HMRC has tightened up its approach in this area in recent years so specific advice should be sought.
- Where the property is owned with a spouse, profits and losses can be split as agreed between the parties, rather than having to be split 50:50. This can provide a valuable tax planning benefit especially if one spouse is not fully utilising their personal allowance or basic rate band.

## Relief for Losses on FHLs

Prior to April 2011 it was possible to offset losses incurred on FHLs against the taxpayer's general income; however, this is no longer the case.

Losses of a UK FHL business can only be carried forward and offset against future profits of the same UK FHL business. Likewise, losses of an EEA FHL business can only be carried forward and offset against future profits of the same EEA FHL business.

## Summary

FHLs offer considerable tax benefits to UK resident investors, not least because these tax benefits also apply to properties that qualify as FHLs located in the EEA member states. The tax advantages of being treated as an active trade are significant.

For further advice or information regarding FHLs please speak to your usual Verfides advisor.

*This document has been prepared as a general guide and. Whilst every care has been taken in its preparation, Verfides cannot accept any responsibility for any person relying on this publication. Professional advice should be obtained before undertaking transactions and Verfides will be pleased to provide such advice where appropriate.*