Keens Shay Keens Limited
CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

FURNISHED HOLIDAY LETTINGS – TAX BENEFITS

If you acquire or own a suitable property that can qualify for Furnished Holiday Letting (FHL) there are significant tax benefits available compared with the rules for residential property lettings.

Loan interest relief and other finance costs

If your property qualifies for FHL, there is no restriction to loan interest relief. For residential property the relief will be fully restricted to a 20% tax credit from 6th April 2020.

For a 40% taxpayer this can mean a £1,000 reduction in their tax bill on £5,000 annual loan interest.

Capital Allowances are allowable

You can maximise your FHL rental income potential by splashing out on your furnishings and be able to claim tax relief on the costs. The initial costs of furnishings and white goods are not tax deductible for residential lettings.

Maximise your tax advantaged Pension Contributions

The profits generated from a FHL property count as 'relevant earnings' for pension contributions.

Enhanced Capital Gains benefits on sale

The sale of a FHL property can qualify for Capital Gains Tax Entrepreneur's Relief (CGTER). CGTER reduces the capital gains tax charge to 10% compared to the top rate of 28% that can apply to residential let property.

Additional flexibility is also provided as the sale of an FHL property can also benefit from Roll-over relief and Hold-over relief for capital gains tax purposes.

Are there any disadvantages?

Whilst there are some valuable tax advantages for FHL over residential lettings there are some issues that you do need to be aware of.

Stamp Duty Land Tax (SDLT)

If you already own a residential property, the 3% additional SDLT surcharge will still apply as it does for the purchase of a residential buy to let property.

VAT

If your turnover from FHL property exceeds the VAT threshold, you will need to become VAT registered. If you run a separate business, and you are a VAT registered individual, your FHL income may be subject to VAT also.

Personal use

You have purchased a FHL property, you have kitted it out to a high specification, and its located in a desirable location, well of course you want to take some advantage of this. There is nothing to stop you and your family etc. making use of the FHL property provided that the commercial letting is sufficient to satisfy the qualifying conditions. You will need to keep a record of such personal use as some of the expenses may be restricted for your personal use.

Raising Finance

Not all lenders will be comfortable about lending for the purchase of a FHL property. If you purchase a property in a more traditional holiday location, you may find that the local regional lenders are more accommodating.

You should bear in mind that the reason why the tax benefits arise for FHL is because the taxman views this type of letting as more like a business. If you approach your project with a similar mindset you should do your research and draw up a business plan and this could help you raise the necessary finance for the project.

Failing to qualify for FHL

If your property fails the FHL letting conditions, then it will cease to qualify for the FHL treatment and will be taxed under the residential property letting rules.

Further Guidance

We can provide further guidance on all aspects of your property letting business including FHL. We can advise you on all the tax matters and assist in drawing up a professional business plan for your project.

Contact Paul Southward if you have any queries.