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Client Briefing Note

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Furnished Holiday Lets

As you may be aware a new tax regime affecting properties let as Furnished Holiday Lets (FHL) is being phased in over the next two years.

The letting of FHL properties is treated as a trade for some tax purposes and FHLs benefit from tax advantages compared to other let properties. These advantages allow owners to claim capital allowances on items such as furniture, furnishings and integral fixtures. They will also enjoy Capital Gains tax reliefs such as business asset rollover relief, Entrepreneurs' relief, relief for gifts of business assets and relief for loans to traders. Any profits count as earnings for pension purposes.

The conditions to be met in order to become a qualifying holiday home are changing in April 2012. Currently to qualify a property must be available for letting to the public on a commercial basis for 140 days a year and must actually be let for 70 days. Any 'long-term lets' (over 31 days) do not count towards the occupation conditions and must not exceed 155 days a year.

It is possible for owners to average their properties as they can elect to apply the letting conditions to the average rate of occupancy of all FHL properties.

From April 2012 the qualifying conditions are more restrictive, a property must be available to be let for at least 210 days a year and must actually be let for 105 days. Again, long-term lets do not count towards the occupation conditions and must not exceed 155 days a year.

Owners will have the opportunity to make an election for a period of grace, which can cover two years. This allows a previously qualifying property to be treated as qualifying if it fails the conditions, provided there is an intention to meet the occupancy threshold.

When a property ceases to be a FHL the income will become property income and will be aggregated with other non FHL property income. The FHL business will be treated as ceasing and taxpayers may be required to calculate any balancing allowances or charges for capital allowance purposes. This may present significant problems as any assets, on which capital allowances have been claimed, would be treated as being disposed of at market value. This could result in substantial tax charges. If the property later qualifies, the assets can be treated as being reintroduced at market value.

Prior to April 2011, it was possible for owners to claim to use any losses generated from their FHL business against other income provided certain conditions were met. They could also carry losses back and claim terminal loss relief on cessation of trade.

This loss relief was restricted from 6 April 2011 and now losses arising from FHL's can only be set against losses from the same business. If a property fails to meet the qualifying test and has losses carried forward these will not be allowable against any future non FHL letting income, even if it is derived from the same property.

If you consider your business may fail to meet the new tests it may be beneficial to review your situation and take appropriate action. If a sale is considered, it will be advisable to review the qualifying conditions for Entrepreneurs' relief in relation to your property at an early stage.

If you require further information please contact Mairi Drummond or Mark Thompson on 01573 224391 or email mairi.drummond@renniewelch.co.uk or mark.thompson@renniewelch.co.uk.

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