

Furnished Holiday Letting

Following the Budget on 22 April 09, the tax rules on Furnished Holiday Lettings (holiday lets) are changing from 2010-11.

Current rules:

- Holiday lets receive favourable treatment to 'normal' rented property, which includes tax relief for losses (can be offset against other income), discounts on Capital Gains Tax and potential Inheritance Tax relief.
- Income from holiday lets situated in the UK is treated as trading income provided the property satisfies certain conditions as follows:
 - The business is carried on commercially with a view to profit.
 - Property must be available for letting as holiday accommodation to the public for 140 days a year.
 - Property must be let to members of the public for at least 70 days.
 - The lets must be short term and not longer than 31 days.
- Income from holiday lets outside the UK but in the European Economic Area (EEA) does not qualify for the above treatment; it is instead taxed under different overseas property income rules and you don't get the Capital Gains Tax and Inheritance Tax reliefs.
- This difference is not compliant with European law and so the Government has decided to repeal the holiday letting rules from 2010-11. There are transitional rules until this time as shown below.

Temporary rules until 5 April 2011:

- HMRC will regard the holiday letting rules as applying to holiday letting property both in the UK and in the EEA.
- If a property in the EEA satisfies all the conditions it will be a qualifying holiday let for tax purposes.

New rules from 5 April 2011:

- The holiday letting rules will be repealed and the property income from the holiday lets will be taxed under the property income rules.
- Overseas holiday lets will again be taxed under the overseas property income rules.

Planning point - time to sell? It is possible that you will qualify for Entrepreneurs' Relief in a sale of the furnished holiday let before 5 April 2011 (the first £1 million of gains on the sale of a trade asset is taxed at 10%, not the usual 18%). If you are thinking of selling your property or would like more information please contact your usual Milne Craig contact.

These rules do not affect those who let furnished holiday lets outside the EEA.