



The rise and fall of Furnished Holiday Lettings

Currently, income received from furnished holiday accommodation in the UK may be treated differently for tax purposes from other rental income. Providing they meet certain criteria, landlords can benefit from tax advantages if they make a loss on their earnings from the property or decide to sell the property. However, the 2009 Budget made significant changes to the rules on Furnished Holiday Lettings (FHL).

Since their inception, the Furnished Holiday Lettings rules have applied to furnished holiday accommodation situated in the UK only. The Government accepts that this may not be compliant with European law, and has therefore extended the rules to cover furnished holiday accommodation elsewhere in the European Economic Area (EEA). However, this extension will be short-lived as the FHL rules are to be repealed from 2010/11!

In the meantime there is an opportunity for those who have, or have had, qualifying FHL properties within the EEA (but outside the UK) to claim for at least one of the relevant reliefs or other treatments to apply. These include treatment of the FHL business as a trade for the following purposes:

- loss relief
- capital allowances
- Landlords Energy Saving Allowance (LESA)
- certain capital gains reliefs (such as taper relief, business asset roll-over relief, entrepreneurs' relief, relief for gifts of business assets)
- relevant earnings when calculating the maximum relief due for an individual's pension contributions.

The letting business must be available for commercial letting as holiday accommodation to the public for at least 140 days, and actually let for at least 70 days, during the relevant 12 month period (for individuals this will be the tax year to 5 April). Lettings to the same person for a continuous period of more than 31 days do not count. Such longer term occupation must not total more than 155 days in the relevant 12 month period.

The claim has to be made within the normal time limits. However, until 31 July 2009, HMRC will accept late amendments to:

- personal tax returns for the year ended 5 April 2007; and

- corporation tax returns for accounting periods ending on or after 31 December 2006.

It must be made clear that the claim or request is being made under the extended time limits for EEA FHL as announced at Budget 2009. The normal rules for late claims will apply to all other late claims and amendments.

If you think the new rules may affect you, please contact us and we will be happy to discuss your individual circumstances.