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Furnished holiday lettings

This helpsheet is designed to help you fill in the *UK property* pages of the Self Assessment tax return where you think you may have income from a furnished holiday letting (FHL). This could be either in the UK or the European Economic Area (EEA). It provides a guide to straightforward situations, but does not cover all cases. You can get advice from your tax advisor and we will also be pleased to help. You can also consult our Property Income Manual, which explains the rules in more detail, at www.hmrc.gov.uk

The special rules for FHLs have changed for 2011–12. Please use this helpsheet for 2011–12. For earlier years use the FHL notes to the *UK Property* pages of the tax return for the relevant year.

The rules will change again for 2012–13 and this helpsheet gives details of those changes to help you with your forward planning.

Introduction

Profit from properties that meet the qualifying tests (see page 3) for furnished holiday lettings is taxed following the rental business (property income) calculation rules.

However, FHLs are treated as trades for some tax purposes and therefore have some tax advantages over other lettings. The advantages under the special rules are:

- entitlement to plant and machinery capital allowances on furniture, furnishings, etc. in the let property, as well as on plant and machinery used outside the property (such as vans and tools)
- Capital Gains Tax (CGT) reliefs for traders – Business Asset Rollover Relief, Entrepreneurs' Relief, relief for gifts of business assets and relief for loans to traders
- profits count as earnings for pension purposes.

You need to work out the profit or loss from these furnished holiday lettings separately from any other rental business to make sure that the special advantages are restricted to the furnished holiday lettings that meet the qualifying tests.

What accommodation can qualify as furnished holiday lettings?

To qualify as a furnished holiday letting the accommodation must be in the UK or European Economic Area (EEA) and commercially let. There does not have to be a formal lease.

The EEA comprises the 27 states in the European Union (EU) plus Iceland, Liechtenstein and Norway. Letting outside the EEA does not qualify.

'Commercial' means let on a commercial basis and with a view to making a profit. Close season lettings may produce no profit but normally help towards the cost of maintaining the property. This letting can still be treated as commercial. On the other hand, lettings to friends or relatives at zero or nominal rents are not commercial.

Accommodation is 'furnished' if the visitor is entitled to the use of furniture. There should be sufficient furniture provided for normal occupation.

After you have decided that your accommodation meets these criteria, you will need to see if the property then passes the qualifying tests (see page 3).

Special treatment for furnished holiday lettings

Capital allowances

FHLs are treated as a trade for the purposes of giving capital allowances. FHL businesses are entitled to capital allowances on the furniture, white goods, etc. within the property but non-FHL businesses do not qualify for these capital allowances. For more information on capital allowances – what items qualify and how to calculate the allowance – see Helpsheet 252 *Capital allowances and balancing charges*.

The 10% wear and tear allowance that you are entitled to if you have an ordinary rental business is not available as an alternative. There are no capital allowances for the cost of the property itself or the land on which it stands.

Capital Gains Tax (CGT)

CGT rules are applied to FHLs as if they were a trade. You can get more information on how CGT rules apply to FHLs in the following helpsheets.

Helpsheet 275 *Entrepreneurs' Relief*

Helpsheet 290 *Business Asset Rollover Relief*

Helpsheet 295 *Relief for gifts and similar transactions*

Helpsheet 296 *Debts and Capital Gains Tax* (This helpsheet includes information on relief for loans to traders – here the relief is for the person who makes the loan to you.)

Pensions relief

FHL profits count as relevant UK earnings for pension purposes. Please see page TRG 17 of the tax return guide SA150 *How to fill in your tax return* for more on this.

Where your property is situated – UK or EEA

From 2009–10 properties in EEA countries other than the UK have qualified as FHLs. All the properties you own in the UK are taxed as one FHL business and all the properties you own in other EEA states are taxed as a separate business. You will therefore need to keep separate records for each business. Please see the *UK Property* pages and the accompanying *notes* for help in filling in the tax return if you have properties in the EEA or in both the EEA and the UK. EEA properties will be entered on a separate EEA FHL page of the *UK Property* pages. Where your income from land and property abroad is taxed on the remittance basis (see below) please see page UKPN 1 of the *UK Property notes*.

If you are a:

- UK resident beneficiary of a trust, or
- a UK beneficiary who has an interest in the residue of an estate, or
- you are a UK resident partner of a partnership that is managed and controlled outside the UK

and you pay tax on the remittance basis, you are taxable on the amount of your foreign income and gains that is remitted to the UK. Remittance basis beneficiaries (or partners) must show any remitted distributed income from land and property abroad on the *Foreign* page and not the *UK property* pages of their tax return.

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The remittance basis is an alternative tax treatment that is available to those people who are resident in the UK and who are:

- not domiciled in the UK, or
- not ordinarily resident in the UK.

Helpsheet 264 gives more information about the remittance basis.

Qualifying tests for 2011–12 and for 2012–13 and later

Please note that for 2011–12 the old availability and occupation tests apply. The new tests apply for 2012–13 and later.

All three of the following tests must be satisfied if a letting is to qualify.

1. **The availability condition (availability test/threshold)** – during the period (normally the tax year – see page 4), the accommodation is available for commercial letting as holiday accommodation to the public for at least 140 days (210 days for 2012–13 onwards).
2. **The letting condition (occupancy test/threshold)** – during the period (see page 4), the accommodation is commercially let as holiday accommodation to the public for at least 70 days (105 days for 2012–13 onwards).
3. **The pattern of occupation condition** – the accommodation must not be let for periods of longer-term occupation (see page 4) for more than 155 days during the year.

Please see the section on *period of grace* on page 4 if you have not reached the 70 day occupancy threshold in 2011–12.

Period to which the tests are to be applied

The period you need to apply the tests to is as follows:

- for a continuing let, apply the tests to the tax year itself
- for a new let, if the let was not a FHL in the previous year, apply the tests to the first 12 months from when letting began
- when the property stops being let as a FHL, apply the tests to the 12 months ending on the date letting finished.

Please see the section on page 8 for information on what happens when a property stops being a FHL.

Example 1

David has let a FHL property since 2010. For 2016–17 the tests are applied to the tax year 2016–17 itself.

Jacqueline buys a property on 1 January 2016 and lets it as a FHL from 1 March 2016. To work out whether the letting qualifies for 2015–16 the tests are applied to the 12 months from 1 March 2016. For 2016–17 the tests are applied to the tax year itself. This means that some availability and occupancy days can count twice – those from April to February.

Hasmukh has let a FHL property for many years, but letting stops on 30 September 2016 and the property is sold on 1 December 2016. To see if 2016–17 qualifies, the tests are applied to the 12 months ended on 30 September 2016. Again some days can count twice.

If you don't know your final figures at the time the tax return is completed (as may be the case of 'Jacqueline' in Example 1) see page TRG 25 of the tax return guide SA150 *How to fill in your tax return*.

Availability threshold

A property that is owner-occupied for part of the year cannot be treated as available for letting while it is owner-occupied. However, an owner can move out of their home during the holiday season and return to live there when the season is over.

Occupancy threshold

There are two elections you can make to help you reach the occupancy threshold. If you have more than one property the 'averaging' election might be helpful and if you have a property that reaches the occupancy threshold in some years but not in others you could use a 'period of grace' election to help you to reach the threshold.

Averaging

Where someone has a number of properties/units of accommodation that are let as FHLs:

- each of them must separately reach the availability threshold and the pattern of occupation condition, but
- if some are individually let for less than 70 days (105 days for 2012–13 onwards), you can elect to apply the letting condition to the average rate of occupancy of the properties/units
- you can only average across the properties in a single business – you can't mix UK and EEA properties.

Time limit for averaging elections

The time limit for making a claim is one year from 31 January following the end of the tax year. Unlike the period of grace election (see below) you don't have to put 'X' in box 19 of the *UK Property* pages.

Example 2 – the averaging rule

Emma lets four UK holiday cottages in 2014–15 and all would otherwise qualify as FHLs. The actual letting periods are:

	Number of days let
Cottage 1	120
Cottage 2	125
Cottage 3	112
Cottage 4	64
Total	421

Average $421/4 = 105$

By electing for averaging the four, all will qualify. Without averaging, cottage four would not qualify.

Period of grace

In addition to the option to use averaging to help meet the occupation threshold, there is also the possibility of making an election for a period of grace.

A period of grace election allows you to treat a year as a qualifying FHL year where you genuinely intended to meet the occupancy threshold but were unable to meet it. In the year before the first year you want to be treated as a qualifying FHL year, the property must have reached the

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occupancy threshold, either on its own or because of an averaging election (see below). If, in the following year the property still doesn't meet the occupancy threshold then, providing an election has been made for the earlier year, that year can also be treated as a qualifying FHL year.

Example 3 – period of grace

Nalini lets a property in Italy and it would otherwise qualify as a FHL. The actual lettings periods are:

Year	Days	Election	Qualifies
2014-15	110	None needed	Yes
2015-16	73	Yes	Yes
2016-17	80	Yes	Yes
2017-18	106	None needed	Yes

Nalini qualifies in all four years.

If the property still doesn't meet the required letting level in the fourth year (after two years being treated as qualifying), then that property is no longer a FHL property.

Genuine intention to let

The property must meet the availability threshold (and the pattern of occupation test). You must be able to show that there was a genuine intention to let the property in the year for which a period of grace election is made. For example, where you have marketed a property to the same or a greater level than in successful years, this might be used as evidence of a genuine intention to let.

If the lettings are cancelled due to unforeseen circumstances, for example, because of extreme adverse weather conditions or an outbreak of foot and mouth disease, then it is likely that you would be able to say that there had been a genuine intention to let.

Start date

The first year that you can make an election for is 2011–12. You must therefore have met the old 70 day occupancy threshold in 2010–11 and have failed to meet that threshold in 2011–12 (the new 105 day threshold doesn't come in until 2012–13).

How to make an election

If you have had a genuine intention to let, as described above, then put 'X' in box 19 of the *UK Property* pages. You can also make the election separately up to one year after the normal Self Assessment filing date for the tax year – 31 January. You cannot make an election for the second year if you haven't made one for the first year.

Interaction between averaging and period of grace

If you have more than one property, sometimes both averaging and period of grace elections may be used to ensure a property continues to qualify. The next example shows how this works.

Example 4 – averaging and the period of grace

Jas has three properties which he lets as FHL properties. In some years property B doesn't meet the occupancy threshold.

	1st year	2nd year	3rd year	4th year	5th year
Property A - reaches occupancy threshold	Yes	Yes	Yes	Yes	Yes
Property B - reaches occupancy threshold	Yes	No	No	No	Yes
Property C - reaches occupancy threshold	Yes	Yes	Yes	Yes	Yes
Treated as qualifying	All qualify	Averaging election B qualifies	Period of grace B qualifies	Period of grace B qualifies	All qualify

If he makes elections for averaging and then for the period of grace, property B will be treated as qualifying throughout the whole period.

Longer term occupation/Pattern of occupation

Longer term occupation is a letting of more than 31 days. You can let the property out for periods longer than 31 days in one stretch but none of the days will count towards your qualification. However, if the total of all or any 'longer term occupation' lettings is more than 155 days in the period/tax year, your property will no longer qualify as a FHL for that period.

You can let to the same person more than once as long as each let is less than 31 days. All of these lettings together can total more than 31 days and still count as FHLs.

Where there are exceptional and unforeseen circumstances, a letting might exceed 31 days and yet still count towards the occupancy test. These could include a holidaymaker who falls ill or has an accident, and so cannot leave the accommodation on time. There might also be exceptional instances where holiday visitors unexpectedly need a longer vacation. For example, delayed flights.

Example 5 – longer term occupation

Dan lets to four different families in 2014-15.

Family	Days	Letting qualifies	Total days of family A, B and C
A	28	Yes	
B	30	Yes	
C	25	Yes	
B	29	Yes	
D	32	No	
Total days	144		112

The property would qualify because it is let for 112 days and the total period of longer term occupation doesn't exceed 155 days.

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How to calculate profits and losses and other points

Rental business

FHLs are treated as trades to give them access to some trade tax advantages. However, they are not actually trades. Normal rental business calculation rules therefore apply. However, the position may be different where material services are provided. This will be unusual and more guidance can be found in the Property Income Manual.

Please see page UKPN 3 of the *UK Property notes* for more information on rental businesses and how to calculate profits or losses.

Because of tax advantages that FHLs get, you need to work out the FHL profit or loss separately from any other rental business.

VAT and Inheritance Tax

Where furnished holiday lettings satisfy the qualifying tests, this does not provide any automatic qualification for Inheritance Tax Business Property Relief as this Inheritance Tax relief has its own rules. A supply of holiday accommodation by a registered VAT trader will generally carry VAT at the standard rate whether or not it is holiday accommodation that meets the qualifying FHL tests, but this may not be the case for off season letting. See www.hmrc.gov.uk/thelibrary/vat

Class 4 National Insurance contributions (NICs)

Since the profit is taxable as rental income, Class 4 NICs is not payable.

Basis periods

The basis of assessment is the tax year ended 5 April, as for all property income. Where you don't draw up your accounts to 5 April see page UKPN 2 of the *UK Property notes*.

One business/separate businesses

All of the FHL properties that you let on your own are treated as one business. If you are in partnership all the properties you let in the same partnership are treated as one business. You can't amalgamate the properties you own individually with any you own in partnership.

If you have an EEA FHL business all the properties in non-UK EEA states form one EEA business. You can't amalgamate a UK and an EEA business.

If you own a property jointly (either with a spouse or civil partner or with someone else) rather than in partnership, then your agreed share of profits from that property will form part of your FHL business if you own more than one property.

Property closed for part of the year or only part of the property is let

Where a property is kept solely for letting as furnished holiday accommodation, but is in fact closed for part of the year because there are no customers, you can deduct the whole of expenses such as insurance, interest, etc. provided there is no private use.

Where only part of a property is let as furnished holiday accommodation, receipts and expenditure should be apportioned on a reasonable basis. It will be necessary to apply a similar apportionment when you dispose of the property for the purposes of CGT reliefs.

Capital allowances – private use

If plant and machinery on which capital allowances are claimed is partly used for private purposes (for example, outside the holiday letting season), only an appropriate fraction of the capital allowances will be due, as with any capital allowances claim where there is private use.

What to do with losses

If you make a loss in your FHL business, calculated following the rules in the *notes* to the *UK property* pages (see page 6), you can set it against FHL profits of a later year. A loss in a UK FHL business can only be carried forward against a profit of the same UK FHL business. Likewise, a loss in an EEA FHL business can only be carried forward against the profits of the same FHL business. You can't set the losses of one FHL business against the profits of the other if you have a UK and an EEA business.

Losses made on an individual FHL property may be set against the profits of other FHL profits in the same FHL business. However, losses of a FHL business can't be set against the profits of a non-FHL rental business.

What happens when a property stops being a FHL

This can happen in a number of ways. These include:

- a property is sold
- a property is used for private occupation
- the occupancy threshold is not met and no averaging or period of grace election is made
- the occupancy threshold is not met following an averaging and/or a period of grace election
- one or more of the other requirements are no longer met.

Income and expenditure from a property that no longer qualifies as a FHL becomes UK or non-UK property income. It will be added together with any other non-FHL property income.

Capital allowances (CA) – you will need to calculate any balancing allowance or charge – see 'Ceasing your business' on page 16 of *Helpsheet 252 Capital allowances and balancing charges*. If the property continues to be used as an ordinary rental property, then you will still need to make the cessation calculations and then treat the furniture, etc. as being brought in and used in a new property rental business.

Capital Gains – see *Helpsheets 275, 290, 295 and 296*.

Losses – if a FHL property has only ceased temporarily to qualify, the losses can be carried forward against any future FHL profits providing, for example, that the gap is not usually more than three years and that there have been no, for example, substantial alterations to the property. The losses can only go forward over a gap if it can be shown that the same let/business is being carried on.

Entering furnished holiday lettings on your tax return

You will find the boxes for FHLs near the beginning of the *UK Property* pages of the tax return. Please read the separate guidance notes that belong to these boxes at the same time.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at www.hmrc.gov.uk