



Julia Casimo

Surprise changes to furnished holiday letting rules

Q. I own a holiday cottage in the Lake District. At the time I bought it, the previous owner explained that if I kept to certain rules then the property would qualify for tax advantages as a 'furnished holiday let'. Someone has just told me that this is going to change – what is the current situation?

A. The 'Furnished Holiday Lets' regime is a valuable tax break. To qualify the main rules are as follows:

- The Property must be in the UK, and must be furnished.
- It must be available for holiday letting to the public for at least 140 days a year, with no individual periods of letting exceeding 31 days.
- It must be actually let as a holiday let for at least 70 days a year (and these must be commercial lets not at cheap rates to friends and family).

If a property qualified then there was a more generous allowance for expenses which could be claimed, losses could be offset against other income, and most importantly when the property was sold, you paid a lower rate of Capital Gains Tax.

The Chancellor announced in the last Budget that with effect from 6 April 2010 this beneficial treatment would be withdrawn and holiday lets would be treated in exactly the same way as other residential property. This is a bad blow for many owners of holiday accommodation like yourself.

Q. Because of the large mortgage I took out, I do make a loss on the property every year, what does the change mean in practice for me?

A. Up to 5 April 2010, you can offset the property loss against your other income. If you are an employee this means you can claim a tax refund of PAYE tax at the end of each year. From 6 April 2010 the loss can only be set off against profits made by letting other properties, or carried forward for eventual offset.

There are some actions that may make sense now from a tax perspective. If you are planning expenditure, bringing it forward into the 2009/10 tax year will increase the loss you are still able to claim against other income. A sale or gift of the property now has the potential to trigger a tax charge at only 10% (by virtue of Entrepreneurs Relief) compared to the higher rate of 18% which will apply next year.

As always, good tax advice will be essential to maximise your position.

NB. Until the current rules are repealed, the Government has announced that properties in the European Economic Area can also claim for Furnished Holiday Lettings treatment, if the other criteria are met. A claim needs to be lodged with HMRC for this relief, which can be retrospective, going as far back as 2006/07, in which case the claim needs to be lodged by the end of July 2009.

As with many decisions you really do need to take independent financial and tax advice. If you would like our help call Julia on **0151 228 8977** at **John Kerr Chartered Accountants** 369-375 Eaton Road, West Derby, Liverpool L12 2AH. Authorised and regulated by The Financial Services Authority

