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Furnished Holiday Lettings (2018)

HMRC Online Services

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detail all in one place



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Contents

- Accommodation that qualifies as an FHL
- Occupancy conditions
- Averaging election
- Period of grace election
- Using both averaging and period of grace
- Property closed for part of the year or only part of the property let
- Property stops being an FHL
- What you can do with losses
- Useful Links



HM Revenue
& Customs

There are special tax rules for rental income from properties that qualify as furnished holiday lettings (FHLs).

If you let properties that qualify as FHLs:

- You can claim Capital Gains Tax reliefs for traders (Business Asset Rollover Relief, Entrepreneurs' Relief, relief for gifts of business assets and relief for loans to traders)
- You are entitled to plant and machinery capital allowances for items such as furniture, equipment and fixtures.
- The profits count as earnings for pension purposes.

To benefit from these rules, you need to work out the profit or loss from your FHLs separately from any other rental business.

Accommodation that qualifies as an FHL

To qualify as an FHL your property must be:

- In the UK or in the European Area (EEA) – the EEA includes Iceland, Liechtenstein and Norway.
- Furnished – there must be sufficient furniture provided for normal occupation and your visitors must be entitled to use the furniture.



The property must be commercially let (you must intend to make a profit). If you let the property out of season to cover costs but did not make a profit, the letting will still be treated as a commercial.

All your FHLs in the UK are taxed as single UK FHL business and all FHLs in other EEA states are taxed as a single EEA FHL business. You will need to separate records for each FHL business because the losses from one FHL business cannot be used against profits of the other.

Occupancy conditions

Accommodation can only qualify as an FHL if it passes all 3 occupancy conditions.

How to use the occupancy conditions

For a continuing let, apply the tests to the tax year – that's from 6 April one year to 5 April the next.

For a new let, apply the tests to the first 12 months from when the letting began. When your letting stops, apply the tests to the 12 months up to when the letting finished.

1. The pattern of occupation condition

If the total of all lettings that exceed 31 continuous days is more than 155 days during the year, this condition is not met so your property will not be an FHL for that year.

2. The availability condition

Your property must be available for letting as furnished holiday accommodation letting for at least 210 days in the year (140 days for the tax year 2011 to 2012 and earlier).

Do not count any days when you are staying in the property. HM Revenue and Customs (HMRC) do not consider the property to be available for letting while you are staying there.

3. The letting condition

You must let the property commercially as furnished holiday accommodation to the public for at least 105 days in the year (70 days for the tax year 2011 to 2012 and earlier).

Do not count any days when you let the property to friends or relatives at zero or reduced rates as this is not a commercial let.

Do not count longer-term lets of more than 31 days, unless the 31 days is exceeded because something unforeseen happens. For example, if the holidaymaker either:

- falls ill or has an accident, and cannot leave on time
- has to extend their holiday due to a delayed flight

If you do not let your property for at least 105 days, you have 2 options (known as elections) that can help you reach the occupancy threshold:

- The averaging election – if you have more than one property
- A period of grace election – if your property reaches the occupancy threshold in some years but not in others.

Averaging election

Example



Emma lets 4 UK holiday cottages in 2017 to 2018 for the following number of days:

Cottage 1	Cottage 2	Cottage 3	Cottage 4	Cottage 5
120 days	125 days	112 days	64 days	421 days

If Emma uses averaging, all 4 cottages will meet the letting condition (421 days ÷ 4 = 105). Without averaging, cottage 4 wouldn't qualify.

You can only average across properties in a single FHL business.

You cannot mix UK and EEA FHL properties together.

Time Limit

You make an averaging election up to one year after 31 January following the end of the tax year. For example, if you are filling in your tax return for 2017 to 2018, you must make your election by 31 January 2020.



Period of grace election

You may genuinely intend to meet the letting condition but were unable to. If this happens, you may be able to make a period of grace election that allows the property to qualify as an FHL as long as the pattern of occupation and availability conditions were met.

To make an election, you must be able to show that you had a genuine intention to let the property in the year. For example, where you've marketed a property to the same or a greater level than in successful years, or where the lettings are cancelled due to unforeseen circumstances, including extreme adverse weather.

You can make an election where the property met the letting condition in the year before the first year you wish to make a period of grace election (either on its own or because of an averaging election). If your property again does not meet the letting condition in the following year, you can make a second period of grace election (as long as you made an election in the previous year).

If your property does not reach the threshold by the fourth year, after 2 consecutive period of grace elections, it will no longer qualify as a furnished holiday letting.

How to make an election

You can either:

- Use your Self-Assessment 'UK Property' pages
- Make it separately, up to one year after 31 January following the end of the tax year – for example, if you are filling in your tax return for 2017 to 2018 you must make your election by 31 January 2020

Using both averaging and period of grace

If you have more than one property, you can use both averaging and period of grace elections to make sure that a property continues to qualify as an FHL.

Example

Emma has 4 cottages that she lets as furnished holiday lettings. In some years cottage 3 does not meet the letting condition.

	Year 1	Year 2	Year 3	Year 4	Year 5
Cottage 1	Qualifies	Qualifies	Qualifies	Qualifies	Qualifies
Cottage 2	Qualifies	Qualifies	Qualifies	Qualifies	Qualifies
Cottage 3	Qualifies	Averaging	Period of grace	Period of grace	Qualifies
Cottage 4	Qualifies	Qualifies	Qualifies	Qualifies	Qualifies

Emma uses averaging in year 2 and period of grace in year 3 and 4 to make sure that cottage 3 qualifies for the whole period.

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



If your property is only used as an FHL and is closed for part of the year because there are no customers, you can deduct all the expenses, such as insurance and loan interest, for the whole year, provided you do not live in the property.

If you let part of the property as a FHL, or where you use the property privately for part of the year, you need to apportion your receipts and expenses on a reasonable basis.

Property stops being FHL

Your property will no longer be FHL if the:

- Property is sold
- Property is used for private occupation
- Letting condition isn't met even with the averaging and period of grace elections

If your property does not qualify as an FHL or stops being a qualifying FHL, the special tax treatment will no longer apply. You'll need to work out any balancing allowances or balancing charge for capital allowances. For more help on this and for other information on capital gains and relief visit www.gov.co.uk to find their help sheets.

What you can do with losses

If your UK FHL business makes a loss, you can set the loss against your UK FHL profits of later years. Similarly, if your EEA FHL business makes a loss, you can set the loss against your EEA FHL profits of later years. You can't set the losses of one FHL business against the profits of the other if you've a UK and an EEA business.

Useful Links

www.gov.co.uk



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