



## TAX RELIEF OPPORTUNITIES FOR FURNISHED HOLIDAY LETTINGS



### Introduction

If your clients have operated an overseas holiday letting business, changes announced in the 2009 Budget now entitle them to the same benefits already enjoyed by owners of UK based holiday homes.

The details as set out in a HMRC Technical Note (refer to [www.hmrc.gov.uk/budget2009/furnished-hol-lets-1015.pdf](http://www.hmrc.gov.uk/budget2009/furnished-hol-lets-1015.pdf)) will allow certain holiday homes in the European Economic Area to be treated as if they fell under the Furnished Holiday Lettings (FHL) rules. Up to now, the FHL rules applied only to UK property and allowed the landlords to be treated as if they were carrying on a trade for tax purposes, allowing them to benefit from some generous tax advantages, including the following:

- Certain CGT reliefs.
- Loss relief, including 'sideways relief' against general income.
- Capital Allowances on plant and machinery.



### The opportunity

This briefing focuses on loss relief and Capital Allowances only. In simple terms, Capital Allowances can be used to reduce the taxable profits of the FHL business or alternatively, to create or increase a 'trading loss', which can then be used against the FHL owner's general income. Where Capital Allowances have not been claimed in the past, it is still possible to claim them in the current tax year or an earlier year, by amending a tax return within the self assessment rules. In the majority of cases, making such a claim will result in the owner receiving a significant tax refund.



What is not widely understood is that the term plant and machinery may include such items as fitted kitchens, plumbing, central heating etc (integrated plant and machinery), as well as loose furniture and equipment (FF&E). While the cost of the FF&E is easily identified from receipts etc, the integrated plant and machinery will require a specialist valuation to extract the qualifying costs from the overall purchase price of the FHL property.

Based on our case studies, between 10% and 30% of the purchase price of a holiday home may be classified as integrated plant and machinery. This is in addition to the FF&E that may already have been claimed.

### Example of the benefits available to clients

On a £250,000 purchase of a holiday home, there could be up to £75,000 on integrated plant and machinery and at the 40% tax rate, £30,000 in tax savings over time.



**Think about that - up to 12% of the purchase price can be recovered through tax savings - but only if you can act quickly!!**

There is a common misconception that claiming Capital Allowances on integrated plant and machinery reduces the base cost for CGT. This is not the case - in effect, the landlord gets double relief on the value of the integrated plant and machinery.



### What is a FHL? - qualifying criteria

The relief is subject to the following criteria being met:

- The property must be in the European Economic Area.
- It must be a commercial business intended to make a profit.
- The property must be available to let for at least 140 days a year.
- It must be let as short term holiday accommodation for at least 70 days.
- In a year not more than 155 days must represent longer term lettings (lets of more than 31 days).

If the property fails any one of the above, it will not qualify.

### How it works

If you have a property that meets all the qualifying criteria and would like an initial appraisal of your property and a fee quotation, please send us the following information:

- A brief description of the property (selling agent's particulars or a valuation report would be ideal), including photographs, or a link to the website where it is being marketed.
- Floor plans, if available.
- Date of purchase.
- Price paid for the property.
- Location, region and country.

Remember that the FHL rules are being withdrawn from April 2010, so there is a real need to act urgently in order to secure the tax benefits.

### About us

Davis Langdon's property tax team are the UK's largest consultancy advising on property tax reliefs, with a client base of many high street names and national companies. Established since 1935, the firm provides specialist expertise in Capital Allowances as a support service for many firms of accountants in the UK.

For further advice concerning any of the issues raised in this briefing, please call our helpline on 0800 526262, or alternatively contact us via our helpdesk at [fhl@crosherjames.com](mailto:fhl@crosherjames.com). Information on other property tax related topics can also be found on our website at <http://bankingtaxfinance.davislangdon.com>.

