Taking a holiday?

Richard Lishman of money4dentists discusses the current issues concerning furnished holiday lettings for businesses

Although the letting of property in itself does not constitute a trade, the Furnished Holiday Letting (FHL) rules mean that landlords of furnished holiday properties are entitled to some of the tax treatments available to traders.

In the past, to qualify as a furnished holiday letting, a property must be let on a commercial basis, with the tenant making use of the furniture, and must be publicly available to let for at least 140 days and actually let for at least 70 days, in a twelve month period.

However, in the April 2009 Budget, changes were made to the rules for Furnished Holiday Lettings. In order to qualify as an FHL, a business would have to meet both the commercial condition and the letting conditions. This means the property must be let on a commercial basis in order to acquire profits and obtain tax reliefs. This is an important consideration when claiming loss relief if accounted for, for example, if losses arise over three years; it may prove challenging to validate that the property is being let commercially.

In addition to this, the Budget 2009 announced that the previous tax reliefs would be discontinued from 6 April 2010 (1 April 2010 for companies) and in order to benefit from the previous tax reliefs, businesses operating as FHLLs will need to prove that they are functioning as trades. Ironically, this was the situation that existed before Finance Act 1984.

Conversely, the new coalition government has announced that the Budget 2009 will not now take place. Instead, the previous FHL rules will apply during 2010/11. The government plans to consult over the summer on the change of the tax treatment of furnished holiday lettings from 6 April 2011.

The government has declared that the FHL rules need to be changed to comply with EU law. They are seeking to change the rules in a way that is consistent with deficit reduction and without compromising UK businesses.

The FHL rules granted the following tax conditions to lettings that qualify as a trade:

- Loss relief
- Capital allowances
- Landlords Energy Saving Allowance (LES)