

2009 Pre-Budget Report



PBRN24

9 December 2009

FURNISHED HOLIDAY LETTINGS

Who is likely to be affected?

1. Individuals, partnerships, trustees and companies who have income or capital gains from the commercial letting of furnished holiday accommodation.
2. Hoteliers and bed and breakfast proprietors are not affected.

General description of the measure

3. Legislation will be introduced in Finance Bill 2010 to withdraw the furnished holiday lettings (FHL) rules from 2010-11.
4. This will mean the tax treatment of FHL businesses will be the same as for other property businesses.

Operative date

5. For income tax the withdrawal will have effect for profits and losses arising on or after 6 April 2010.
6. For capital gains tax the withdrawal will have effect for disposals occurring on or after 6 April 2010.
7. For corporation tax the withdrawal will have effect for profits and losses arising in accounting periods starting on or after 1 April 2010, and for any capital gains arising on disposals occurring on or after 1 April 2010.

Current law and proposed revisions

8. In general, the letting of property is not a trade, and income from letting property is taxed under the rules for property businesses.

9. Under the FHL rules, those who let furnished holiday properties are taxed under the rules for property businesses, but if certain conditions are satisfied they are treated as if they are trading for specified tax purposes. This means that they can obtain more flexible loss relief, additional capital allowances, certain capital gains reliefs and relevant UK earnings treatment for pension purposes.
10. Until the repeal takes effect, the current FHL rules will also apply to those UK taxpayers with qualifying furnished holiday lettings elsewhere in the European Economic Area (EEA).
11. After the FHL rules are withdrawn, those who let furnished holiday accommodation (but whose FHL business is not actually a trade) will no longer be treated as if they were trading for certain tax purposes. Instead they will be taxed for all tax purposes under the normal rules for property businesses.
12. This change will affect the way in which losses from letting the property can be used for loss relief purposes. Any FHL losses incurred before 6 April 2010 (or in accounting periods starting before 1 April 2010 for companies), which have not been relieved at that date, will be treated as losses carried forward from a property business. Such losses may be set against the future profits of that property business. Any losses incurred after 6 April 2010 (or in accounting periods starting on or after 1 April 2010 for companies) will be treated as losses from a property business. For example, individuals may set their property business losses against other profits of that property business in the year or in future years.
13. The business will cease to be treated as a trade for capital gains purposes from 6 April 2010 (or 1 April 2010 for companies). Businesses will be treated as a property business for all periods after these dates, but they may continue to treat periods prior to those dates as trading periods. This change affects the availability of the following capital gains reliefs:
 - business asset roll-over relief;
 - entrepreneurs' relief;
 - relief for gifts of business assets;
 - relief for loans to traders; and
 - exemptions for disposals of shares by companies with a substantial shareholding.
14. Capital allowances will not be available for expenditure incurred on or after 6 April 2010 (or 1 April 2010 for companies) on plant and machinery for use within the let property. Those who let furnished holiday accommodation on a commercial basis may continue to claim capital allowances on qualifying expenditure incurred before that date, in the normal way. They may also continue to claim capital allowances on expenditure incurred after that date on plant and machinery which is not for use within the let property.

15. From 6 April 2010 (or 1 April 2010 for companies), those letting furnished holiday accommodation may claim the 10 per cent wear and tear allowance and the Landlord's Energy Savings Allowance (LESA).
16. From 6 April 2010, income from letting furnished holiday accommodation will not be relevant UK earnings for pension relief purposes. This may affect the maximum income tax relief available for pension contributions.
17. Those affected by this change will still be entitled to various tax reliefs under the tax rules for property businesses. For example, they will still be able to claim their business expenses as a deduction when they compute their taxable profits, in the same way as they do now (e.g. mortgage interest, the cost of repairs, rates, utilities and employees' wages).

Further advice

18. A Technical Note, *Withdrawing the Furnished Holiday Lettings Rules from 2010-11*, explaining the full effects of this change has been published today on the HM Revenue & Customs (HMRC) website.
19. An impact assessment, *Impact Assessment of Withdrawing the Furnished Holiday Lettings Rules*, explaining the impacts of this change has been published today on the HMRC website.
20. A Technical Note, *Furnished Holiday Lettings in the European Economic Area*, explaining the change in the tax treatment of those with furnished holiday properties situated in the EEA was published on the HMRC website on 22 April 2009.
21. The Property Income Manual contains guidance for property businesses and can be found on the HMRC website at the following address: <http://www.hmrc.gov.uk/manuals/pimmanual/Index.htm>.
22. If you have any questions about this change, please contact Jenni Rich on 020 7147 0686 (email: jenni.rich@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk