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We use some essential cookies to make this website work. We'd like to set additional cookies to understand how you use GOV.UK, remember your settings and improve government services. We also use cookies set by other sites to help us deliver content from their services. The concept of holiday homes and short term letting has become very popular in the U.K in recent times. It has allowed many landlords to increase their rental yield from their properties. This certainly hasn't gone unnoticed by the watchful eyes Her Majesty's Revenue and Customs (HMRC). The government has introduced many tax changes that have put a squeeze on the rental income of landlords. In the U.K there are many rules governing taxation on rental income properties that are labeled as Furnished Holiday Lettings (FHL). Furnished Holiday Lets is a separate category of buildings apart from residential and commercial properties. In the eyes of HMRC, FHLs constitute a trade. Once a property qualifies as FHL, it attracts certain taxes and enjoys certain tax benefits. Following are the criteria that must be fulfilled for a property to qualify as FHL. It must be available for rent for at least 210 days in a year It must let for at least 105 days in a year It should not be occupied by long-term tenants for more than 155 days in a year. It must be furnished It must be situated in U.K or any other European country (EEA). A property does not qualify for FHL if it has been occupied by tenants living continuously for more than 31 days in a tax year. This means landlords should monitor the length of stay of their guests to make sure their property remains in the category of FHL. One interesting thing about FHL is that a property can be FHL one year but may not qualify for it next year. If you want an FHL property in U.K, in addition to the requirements of short-term letting to several guests, there are some more requirements you need to fulfill. It should be a furnished property Though there is no rule explaining how much of the furnishings you need for the property to qualify as Furnished Holiday Let (FHL), you are expected to provide everything that a guest expects in a serviced accommodation property. You can get advice on furnishing from any experienced serviced accommodation management companies such as Pass The Property Ltd There is no need to worry about expenses incurred on furniture as many of them can be deducted as allowable expenses when seeking relief from capital gains tax. It should have intent to make a profit It is intent that matters the most when deciding the status of FHL for a property. You must be able to prove that you are letting the property for short time periods to your customers and receiving money as fees from them. It becomes easier to prove your intent to the taxman when you are letting your property utilising the services of an Airbnb management company. Availability for letting Furnished Holiday Let status is not granted straightaway to a landlord and they are required to go through a probationary period during which their activities are monitored. This period is for 12 months during which they look at whether your property was available for letting for at least 210 days throughout the year. Also, FHL status is not granted if the property fails to let for at least 105 days in the year. One thing for a landlord to remember is that the property should not be given to any guest for more than 31 days in continuation. Also, the days for which any friends or family members occupied the property is not counted for granting FHL. The good thing for a landlord is, if he is unable to meet these requirements for a property, he can prove it by taking an average of the figures for several properties across the country. Benefits of owning a Furnished Holiday Let property If your property qualifies under FHL, you are entitled to the following benefits. You can claim capital gains tax reliefs that are usually given to traders. There are different types of capital gains tax reliefs which are as follows. Entrepreneur's relief- Taxable gains from owners of FHL properties are charged at a lower Capital Gains Tax (CGT) rate of 10%. For other properties, taxable gains are charged at a CGT rate of 18% or 28% depending upon the size of the gain and the level of income of the individual. Hold over relief- This relief on taxable gains is given to an individual who has been gifted a Furnished Holiday Let property. Capital gains tax is applicable only when they sell this FHL property. Roll over relief- Taxable gains can be deferred in case the owner of a property desires to buy new trading assets. If the owner sells an FHL property to buy a new FHL property, they can hold on to capital gains and taxes are computed on the new asset in the next financial year. Your expenses on furniture and other equipment can be adjusted against capital allowances provided for plant and machinery expenses. This exemption is available only to FHL business and not to any other normal letting businesses. The profits you earn from your rental income property is treated as earning for your pension. These profits are referred to as relevant earnings and the owner can make larger contributions to his provident fund using this profit. If you hold an FHL property in partnership with your partner, you are free to allocate profits in any proportion between yourselves. This can be irrespective of the shares held by each of you in the FHL property. This is not the case with any other business where profit needs to be divided according to the shares held by a spouse in the property. FHL property owners also face many disadvantages when paying taxes. Payment of VAT If the owner is registered under VAT, they must pay the standard VAT rates like other rental property owners, as there is no relief for them on this count. They need to add 20% VAT over and above the fee, they charge for their property from the guests. This can make their FHL property a little costly. If the landlord is not VAT registered, they need to register if their total income from fee charged form guests and sales of other items exceeds £85,000 per annum. Planning regulations Regulations on planning vary in different parts of the country. You need planning permission from the authorities if your property is in London and if it is rented out on for more than 90 days as an FHL. If you hold the property on a lease, please refer to your contract as you may not be able to rent your property out on a short term let. Business rate in place of council tax Instead of council tax, you must pay tax on business rates if your property has been used for short-term letting for 140 days or more in a calendar year. Tips to save tax on your Furnished Holiday Let property It is in your own interest to inform the taxmen about your FHL business as soon as you start it, otherwise you could be levied with fines. If you decide to hide your FHL property from taxmen and you are later caught, particularly when you have advertised online, you could end up paying much more in fines than what you pay through taxes. While all information about taxation is available on the website of HM Revenue and Customs (HMRC), we have summarised it for you to make it easier for you when it is time to pay taxes. If your income lies between £2500 and £9999 after deducting allowable expenses, you should include it when filling up self-assessment tax return. Expenses that are included in allowable expenses, include, management fees, expenditure on furnishings, marketing, maintenance of the property and its repairs. Also, included in this list are the council tax and the utility bills, and the charges paid to during changeovers. Many property owners do not know that the premiums they pay for their home insurance policy are also included in allowable expenses. This means you should make use of this provision to protect your FHL property with a suitable home insurance policy. Did you know you are entitled to wear and tear of your furniture items and even your large screen LED TV in your FHL property? Yes, you can deduct 10% of the value of these items as capital expenses when filing your tax on the business. Calculating your taxable income Add all the income that you have earned through short term rentals Add all the expenses that you are allowed under allowable expenses. Your taxable income is A-B. If this taxable income turns out to be less than £2500, you can get help from a self-assessment helpline. Many landlords suffer a loss in the first year of their FHL business. This happens because of the expenses incurred in setting up the business. If this happens, you can carry forward your losses into next year and avoid paying any taxes in the first year. If you have started your FHL business in partnership with your partner, you are entitled to give any percent of the profit you make out of it. This applies even if they own a higher share of the business than you do. If you are not doing any other job or business and FHL is your full-time business, it is advisable to consult National Insurance. It becomes necessary if you are the owner of more than one FHL properties. The most important thing to remember for maintaining FHL status is to not allow any guest to stay for more than 31 days in continuation. If this happens even by mistake, your FHL status is gone and you must pay taxes like any other landlord. Similarly, the property shall be available for letting for at least 210 days in any given year for keeping FHL status. Also, it should let for at least half of these 210 days. If it seems to you that keeping track of all these things is going to be hard work, then you should make efforts to maintain FHL status as you can enjoy so many tax reliefs. Maintaining FHL status is beneficial even if you plan to sell your property as you can avoid paying capital gains taxes. Talk to an experienced accountant Short term letting industry is growing at an exponential rate with landlords finding ways to increase their rental yields from their properties. In such a scenario, it is only natural for the authorities to be more vigilant and make changes to regulations pertaining to taxation. To take advantage of all the tax reliefs and to avoid paying fines for any violations of guidelines, it is a good idea to hire the services of a qualified and experienced accountant in your area. Isn't it surprising to know that you cannot offset your losses from the FHL property in a given year against profits earned from any other business, but you can always carry forward these losses to the next financial year? With a reliable accountant on your side, you can focus upon your FHL property business and forget all your worries about compliance with tax regulations. Get in touch To talk about this, or any other of our amazing properties, or if you're interested in increasing your rental yield for any of your own properties, please get in touch today on 0333 301 0787 to see what Pass The Property can do for you.

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