

Buying a holiday let: What are the tax implications?

Sarah Bradford looks at some important tax implications when considering buying a holiday let.

The Covid-19 pandemic has put a massive dampener on foreign holidays. As a result, the British 'staycation' holiday market, helped by the good weather, flourished this year. For property investors looking for their next property, buying a holiday let could be a good move – from a tax as well as from an income perspective.

Furnished holiday lettings: Special rules

When it comes to let property, not all property is equal when it comes to tax – lettings that qualify as 'furnished holiday lettings' (FHLs) benefit from special tax rules. Although the rules are not as advantageous as they were in the past, they still 'trump' those applying to normal residential lets.

Properties that qualify as FHLs are able to benefit from the capital gains tax reliefs that are available to traders. This includes business asset disposal relief, which can be very valuable if a gain is made on the sale of the property, reducing the tax payable on the gain to 10% from 18% or 28%, as long as the lifetime limit (currently £1 million) is available. Business asset rollover relief is also available, allowing gains to be deferred when they are reinvested.

The landlord is also able to claim capital allowances for items such as furniture, fixtures and fittings and equipment. Again, this is not available to landlords of residential lets.

A further benefit of investing in a furnished holiday letting is that profits count as earnings for pension purposes.

Where a landlord has other (non-FHL) rental properties, properties qualifying as FHLs comprise a separate property income business. This means that if a landlord has a residential buy-to-let and a FHL, he will have two separate property income businesses.

What counts as a FHL?

It is not enough to let the property to holidaymakers to take account of the FHLs rules; a number of conditions must be met.

A property can only be a furnished holiday let if it is in the UK or the EEA. Where a landlord has UK and EEA holiday lets, they are treated as separate property businesses (i.e. one for UK FHLs and one for EEA FHLs). Separate records must be kept for each property business.

As the name suggests, the property must also be let furnished to qualify as a FHL. This means that there must be sufficient furniture in the property for it to be used normally, and people renting the property for a holiday must be allowed to use the furniture.

The property must also be let commercially with a view to making a profit. However, lettings out of season which do not cover costs do not jeopardise the property's FHL status.

The property must also satisfy three occupancy conditions:

1. The availability condition;
2. The letting condition; and
3. The pattern of occupancy condition.

For a new let, the tests are applied for the first 12 months from the date the property was first let as a FHL. For continuing lets, the tests are applied on a tax-year basis – from 6 April to the following 5 April. If the landlord stops letting the property as a FHL, for the final period the tests are applied to the last 12 months of letting.

Availability condition

The availability condition is met if the property is available for letting as commercial holiday accommodation to the public generally for at least 210 days in the year. Any days when the landlord stays at the property are ignored when assessing whether the availability condition is met – HMRC does not regard the property as being ‘available for letting’ if the landlord is living or staying in it.

Letting condition

The letting condition is met if the accommodation is commercially let as a holiday let to members of the public for at least 105 days in the year. Lettings of more than 31 days are ignored when working out whether this condition is met.

It is important to note here that only lettings at a commercial rate count – lettings to friends and family, either free of charge or at a reduced rate that is not commercial, are ignored.

Pattern of occupancy test

The pattern of occupancy test is met as long as not more than 155 days in the tax year are periods of longer term occupation. A period of ‘longer term occupation’ is a period of more than 31 days where the property is let to the same person or persons.

However, if the letting extends beyond 31 days as a result of circumstances that are not normal, the letting is not treated as a period of longer-term occupation.

So, if a person who rented a property for two weeks in early March ended up staying beyond 31 days during lockdown, this would be disregarded as a period of longer-term occupation as it arose due to abnormal circumstances. A letting may also be extended beyond 31 days as a result of abnormal circumstances if the holidaymaker became ill or had an accident and was unable to travel home, or had to extend their holiday due to a delayed or cancelled flight.

Failure to meet the letting condition

If, in a particular tax year, the landlord fails to meet the letting condition, as long as the availability condition and the pattern of occupation condition are met for that year, all is not lost. Where this is

the case, there are two other routes by which the property might qualify as a FHL for that year:

1. An averaging election; or
2. A ‘period of grace’ election.

Averaging election

The option to make an averaging election is available to a landlord who has more than one holiday letting and the letting condition is met in some but not all of them.

Where an averaging election is made, the test is applied by reference to the average rate of occupancy for all properties, rather than individually for each property.

Example: Meeting the lettings condition by averaging

Bella has three cottages in Whitstable that she lets out as holiday lets. In 2019/20, each cottage was let commercially as a holiday let, as shown below.

Cottage	Days let as holiday accommodation
Oyster Cottage	120 days
Crab Cottage	122 days
Lobster Cottage	98 days
Total	340 days

Individually, Oyster Cottage and Crab Cottage meet the letting condition, but as Lobster Cottage was only let for 98 days, it does not satisfy this test.

However, overall the cottages were let for 340 days in total – an average of 113 days each. As the average letting period is more than the required 105 days to meet the letting condition, making an averaging election allows all three properties to qualify as furnished lettings for 2019/20.

The election can be made in the self-assessment tax return and, for 2019/20, must be made by 31 January 2022.

‘Period of grace’ election

If the landlord only has one holiday letting or an averaging election does not help, the second route by which a property can qualify as a FHL for a year in which the letting condition is not met is by making a ‘period of grace’ election.

To make a period of grace election, the landlord must

have genuinely intended to let the property, and the property met the letting condition (either on its own or as a result of an averaging election) in the previous year. If the letting condition is again not met in the following year, a further period of grace election can be made. However, if it is not met in the year after the second period of grace election, the property will cease to qualify as a FHL.

As with an averaging election, the election can be made in the self-assessment tax return. It must be made by 31 January after that falling after the end of the tax year to which it relates (i.e. by 31 January 2022 for 2019/20).

Complete by 31 March 2021

Landlords thinking about investing in a holiday let will benefit from the higher SDLT threshold if they complete by 31 March 2021. The second home supplement is applied to the residential rates as temporarily reduced.

Thus, SDLT is payable at the rate of 3% where the consideration is not more than £300,000 and completion occurs on or before 31 March 2021.

Practical tip

FHLs can be an attractive rental proposition, due to the favourable tax rules that apply.



Enjoyed this article? Start your free trial today to read more

[Click here](#) to find out more about Property Tax Insider Newsletter and to start your 14 day free trial to access over 500 more property tax articles.