

Furnished Holiday Letting

– new rules effective from 6 April 2010 (or 1st April 2010 for companies)

What do you need to do?

You should seek professional advice to help you review your position as a matter of urgency.

The review should comprise of two steps

1. Carry out a tax risk assessment to check if your business is likely to be regarded by HMRC as an investment property business rather than a trade as a result of the abolition of the FHL rules.
2. Consider what action you can take to mitigate the impact of the change.

For many years furnished holiday lettings (FHL) businesses have enjoyed a more favourable tax treatment than other property businesses. In the 2009 budget the Government announced its intention to repeal the FHL rules with effect from 6th April 2010 (or 1st April 2010 for companies) . This will mean that the tax treatment of FHL businesses will be the same as for other property businesses and will cease to qualify for important tax reliefs specifically granted under FHL regime. The reliefs being withdrawn or phased out include the following:

Income Tax/Corporation Tax

- * Capital allowances
- * Losses relief against other income in the same tax year or the previous one
- * Eligibility as qualifying earnings for an individual's pension contribution purposes

Capital Gains Tax

- * Entrepreneurs Relief
- * Holdover relief for gifts
- * Roll over relief on replacement of business assets

What will be the impact on caravan parks with letting businesses?

The BH&HPA has recently estimated that there are 476 members operating letting parks without the provision of central facilities. These parks are most likely to be affected by the repeal of the FHL rules. However, the classification of furnished holiday letting as property income may have wider implications for the parks industry.

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New guidance

HMRC have recently published guidance on the detailed implementation of the new legislation. We now know for example how capital allowances will be phased out and the rules applying to the withdrawal of Entrepreneurs Relief. This means that park owners with letting fleets are now in a position to review the impact of the new rules.

Risk assessment for letting parks

In order to preserve trading status the park owner will have to identify trading activities within the business. The extent of trading activity within the business will determine trading status and what relief is available. The different taxes – income tax/corporation tax, capital gains tax and inheritance tax - each have their own 'test' of trading and non-trading. The risk assessment should analyse the business activities, assess the likely impact and consider actions to reduce or eliminate risk.

Action

If your business is not likely to be eligible for trading status or the situation is borderline there are planning strategies available but you need to act now as some of these require action before 6th April 2010 (or 1st April 2010 for companies).

This article is an overview of regulations that may come into force. Please ensure that you obtain specific professional advice from a professional accountant before you take any action or refrain from action.