ZEAL

Tax-deductible expenses for holiday lets

Perhaps the most common question we get asked by holiday let owners is "What expenses can I claim"? That's why our team have complied a list of expenses incurred by holiday let / serviced accommodation owners. The list is not exhaustive, but covers the most common costs incurred by operators in this sector.

Costs incurred in a business fall into two categories, Capital and Revenue expenditure:

Revenue expenditure - is the costs incurred for the day-to-day running of the holiday let business. Qualifying revenue expenditure is deducted from sales income to calculate taxable profits.

Capital expenditure - is where you purchase an asset or incur costs that have a long term benefit for the business. Capital expenditure that qualifies for capital allowances reduces your taxable profits. Other capital expenditure reduces CGT in the future.

NOTE: Applies to properties that meet HMRC's Furnished Holiday Let criteria for taxation.

Examples of Revenue Expenditure:

Expenditure	Description of what can be claimed
Mortgage interest repayments	The full mortgage interest can be claimed for furnished holiday lets.
Loans	Interest paid on loans taken to fund a holiday let business can be claimed. This includes re-mortgaging home or other property and interest on credit cards.
Repairs and maintenance	All costs in relation to the upkeep of the property. Includes gardening, cleaning, routine repairs and maintenance. If you do the above yourself, you can't charge your own business. If you run the business through a limited company, you can charge the company for your services. You may need to report any income received on your personal tax return. The costs to refurbish or convert a property for holiday letting are likely to be capital expenditure (see capital expenditure section).
Property management fees	All fees paid to agencies, online platforms or management companies are tax deductible.
Legal and professional fees	Legal fees will generally be capital expenditure and not deductible. However, legal fees incurred during a year that relate to the running of the business can be claimed. This can include updating/renewing contracts, debt collection, trade dispute litigation etc. The cost of renewing an existing mortgage or lease is tax deductible but new mortgage or new lease arrangement fees are not. Professional fees that are incurred each year for the running of the business are generally tax deductible. For example, accountants costs for preparing accounts and tax returns or marketing consultants fees can be claimed. Note - any fees incurred that relate to the purchase or sale of a property will NOT be deductible against business profits.
Subscriptions	Any subscriptions or membership fees paid to trade related associations.
Training	Any costs incurred for training that helps you improve the skills and knowledge you use in your business are deductible. Training to start a new business or learn new skills, are not deductible.
Insurance	Building and contents insurance of holiday let properties plus any other insurance related to the holiday let business. Does not include car insurance of your personal car or van (unless used exclusively for business purposes).
Council tax / Business rates	Can be deducted in full.
Utilities	Utilities can be claimed in full. Adjustment should be made for personal use of the property.
Staff costs	If you pay someone to run the business for you, the costs can be deducted for tax purposes. Please be aware of employment laws and tax regulations.
Pension contributions	You can make contributions to your pension to reduce your holiday let profits. The contribution must be made by the end of the tax year to get the relief in that year.

Examples of Revenue Expenditure: Continued

Travel and subsistence	Any travel that is for the purpose of the holiday let business can be claimed. This includes visits to the property for cleaning, change overs, maintenance. The costs of travel and accommodation to prepare the property for holiday letting can be claimed. HMRC advise a rate of 45p/mile for first 10,000 miles (25p/mile after). The amounts claimed are to include car maintenance, fuel, insurance etc. It is also possible to claim subsistence costs if you have to stay overnight for business. For example, you could claim cost of evening meal and breakfast if you stay overnight to attend a course or seminar related to the holiday letting business. TIP: keep good records of business travel.
Miscellaneous	Advertising, marketing materials, stationary, printing costs, work wear (e.g. branded t-shirts) or any other costs wholly & exclusively for the purpose of the holiday let business.
Mobile phone	The business use element of your mobile phone bill can be claimed. HMRC generally accept a 50% apportionment of mobile phone for business use. If you have a separate phone for business use only, the full cost can be claimed.
Internet and IT costs	All internet and IT monthly costs for the holiday let will be deductible.
Use of home as an office	If you use your home as an office to run the holiday let business, HMRC will accept a round sum deduction of £6 a week (£312 a year). This is to cover costs of utilities, broadband, insurance etc.
VAT	If you are not VAT registered, you reclaim the full cost of tax deductible expenses (cost including VAT).
Personal use	If an expense is partly for the holiday let business and partly a personal expense, you must make a just and reasonable assessment of the business use. (e.g. 50% business use = claim 50% of cost).
Record keeping	You don't have to provide HMRC or your accountant with copies of bank statements, invoices or receipts BUT you must keep copies for a 4 year period (digital records accepted). In the event of an HMRC enquiry, you will need to provide evidence of expenses claimed.
HMRC enquiry	HMRC will process a tax return when it is submitted. HMRC then have a period of 12 months after you submit the return to carry out their checks and ask any questions.

Examples of Capital Expenditure:

Expenditure	Description of what can be claimed
Purchase price of property	Purchase price is deducted from future sale proceeds to reduce Capital Gains Tax ("CGT"). Capital Allowances may be claimed on part of the purchase price for kitchens, bathrooms, electrical & heating systems etc that were bought with the property (usually 20% to 30% of purchase price). **Find out more at www.gozeal.co.uk/capital allowances**
Purchase costs	All costs associated with the purchase of the property are deductible in the future against CGT.
Legal and professional fees	Fees associated with purchasing or selling assets are capital.
Furniture, equipment and machinery	Capital expenditure but qualifies for capital allowances. Full deduction against holiday let profits can usually be claimed. If there is personal use of the furniture or equipment, for example a laptop, an assessment of business use must be made (e.g. 50% business use = claim 50% of cost).
Property refurbishments and conversions to holiday lets	Whether the expenditure is capital or revenue is often complicated. Much will depend on what the property was like before and after. If capital, some expenditure may qualify for capital allowances e.g. kitchens, bathrooms, electrics etc. Capital expenditure can be claimed against CGT in future. CGT rates are lower than income tax, so revenue deductions are favourable.
Capital or revenue	Basic test: Is the useful life of what you purchased more than 2 years? If so, it is most likely capital expenditure.
Cash accounting	If you opt for the cash accounting method of bookkeeping, you DON'T claim capital allowances. You can however claim a tax deduction as a revenue expense for assets that would qualify for capital allowances.