

*Tax Tips and Pitfalls for
Holiday Let Businesses*

ZEAL

A little bit about **ZEAL**

- Zeal is a tax consultancy specialising in tax incentives and reliefs.
- We have unrivalled experience in the hospitality sector, ensuring our clients pay the right amount of tax.
- We work with accountants, solicitors and other professional advisors all over the UK.

Our accolades



Our partners and associations



The purpose of this session

The purpose of today's session is to provide an overview of the special tax rules for holiday lets.

What we will cover:

- What qualifies as a holiday let?
- What are the tax benefits and pitfalls of qualifying holiday lets



What is a qualifying Holiday Let?

Special tax legislation for **Furnished Holiday Lets “FHL’s”**

FHL’s typically include:

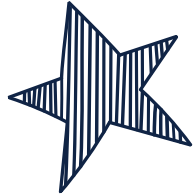
- ▲ Traditional holiday lets
- ▲ Self-catering accommodation
- ▲ City breaks
- ▲ Party houses
- ▲ Some holiday parks
- ▲ Hotels / Motels offering room only

Most serviced accommodation will qualify as a FHL

Significant tax savings for FHL versus traditional BTL model

Qualifying Criteria

To qualify as a FHL a property must be:



Qualifying criteria

A property must meet the following occupation conditions:

210 days

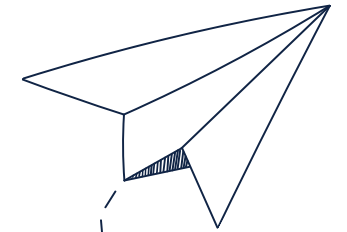
Must be available to let for 210 out of 365 days a year*

105 days

Must be actually let for 105 days out of 365*

31 days

Not let to the same person for 31 days or more



If conditions are NOT met, income is treated as normal rental income (like BTL property)

**Averaging election and Period of Grace election = potential get out clause!*

NOT the same as business rates rules!

What are the special tax rules?

If a property meets the FHL criteria, there are advantages . . .

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Tax Advantage

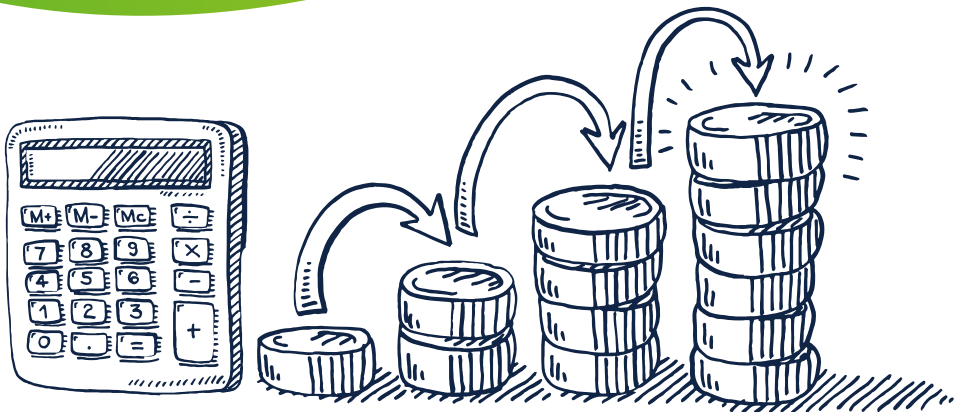
#1

Treated as a 'Trade'
for Tax purposes

But

NO National Insurance
payable (same as BTL)

- *Class 2 - £156 per year*
- *Class 4 - 9% on profits*



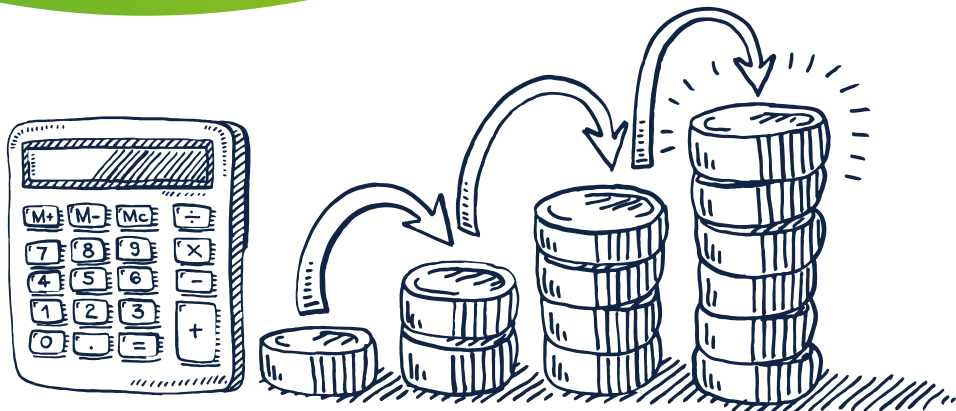
Tax Advantage #2

Mortgage interest Can be deducted in full!

No restriction unlike BTL properties
(basic rate relief only)

Interest on any finance costs used to fund an FHL can be claimed in full – includes re-mortgage of own home

Tip: Where possible, refinance debt from BTL to FHL qualifying property



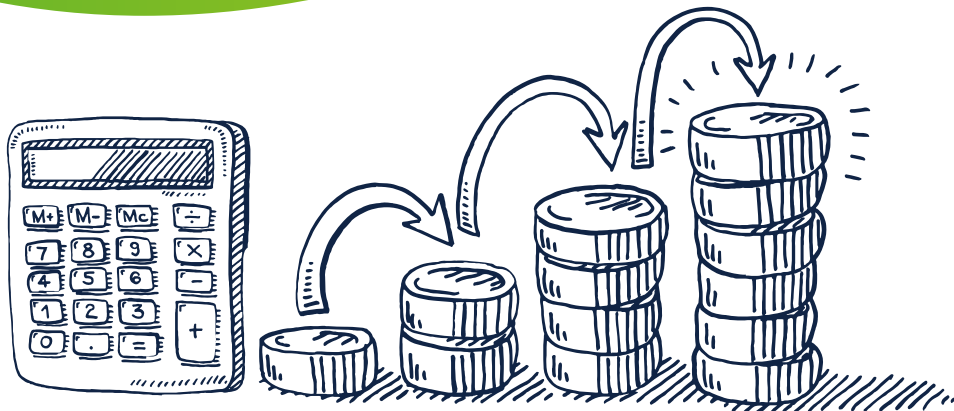
Tax Advantage #3

Pension contributions

FHL business owners can make contributions to personal pension fund

Treated as a taxable business expense
(not possible with BTL property)

TIP: Reduce tax due on FHL profits by making a contribution to your pension fund during the tax year



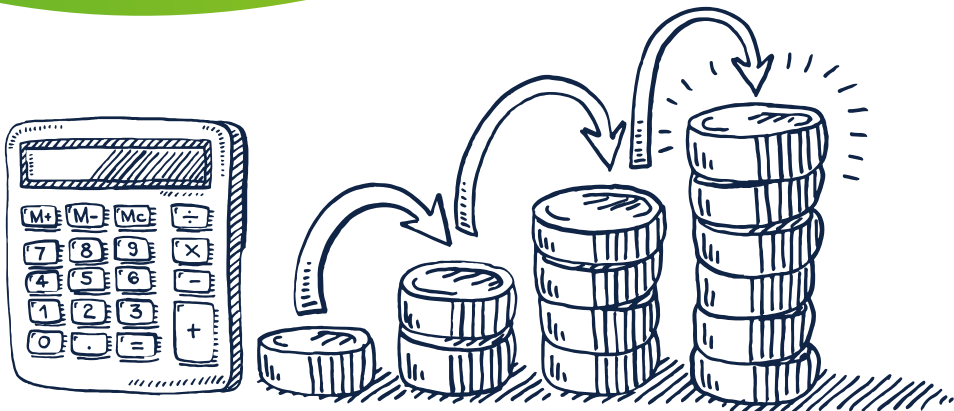
Tax Advantage #4

Flexibility around profit distribution

Profits of BTL must be split
equally if joint ownership

FHL can choose taxable profit
share each year

Tip: Where possible, allocate taxable
profits to lower earners



Tax Advantage #5

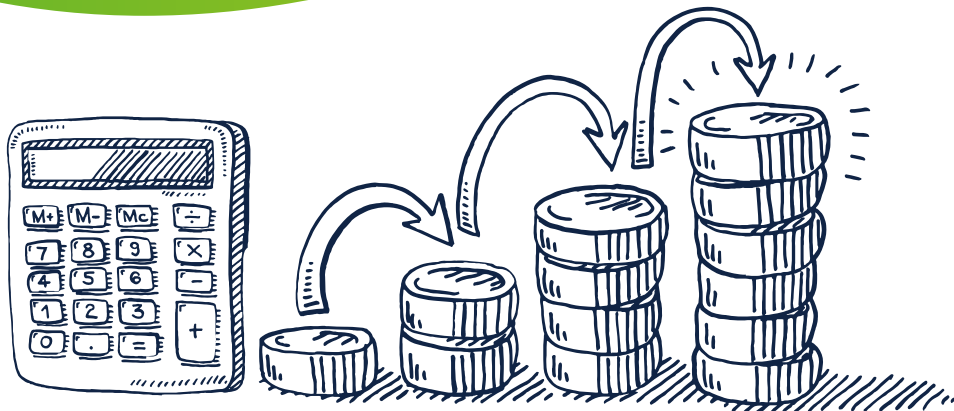
Pay Less Capital Gains Tax ("CGT")

Entrepreneurs Relief is available to
tax gain @ 10%

CGT rates on BTL 18% to 28%

CGT still due 60 days after sale

TIP: Make sure your property meets FHL
in year of disposal or pay higher CGT
rate* (*period of grace may be applicable*)



Tax Advantage #6

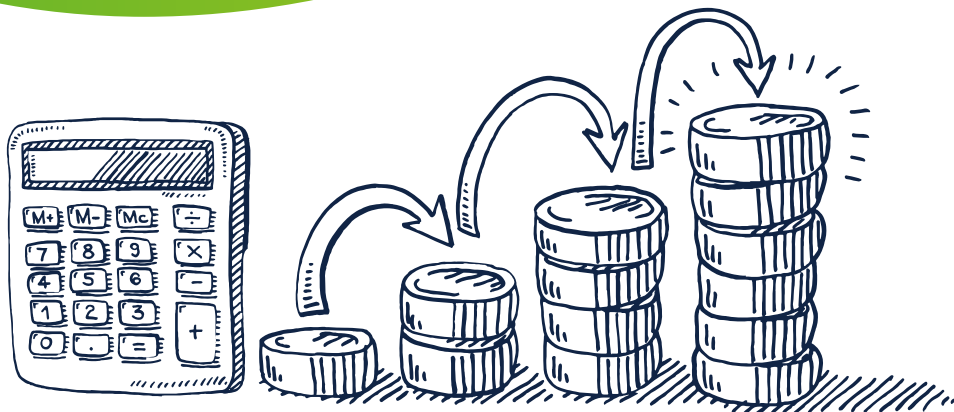
Option to defer CGT on sale of FHL

Can roll over gain if you purchase
another FHL

or

Invest in shares in a qualifying
company to defer and receive tax
advantages (EIS – 30% or SEIS – 50% tax
relief on investment)

TIP: Speak to an IFA about EIS or SIES
investments if you have CGT to pay or
considering investment in a business.



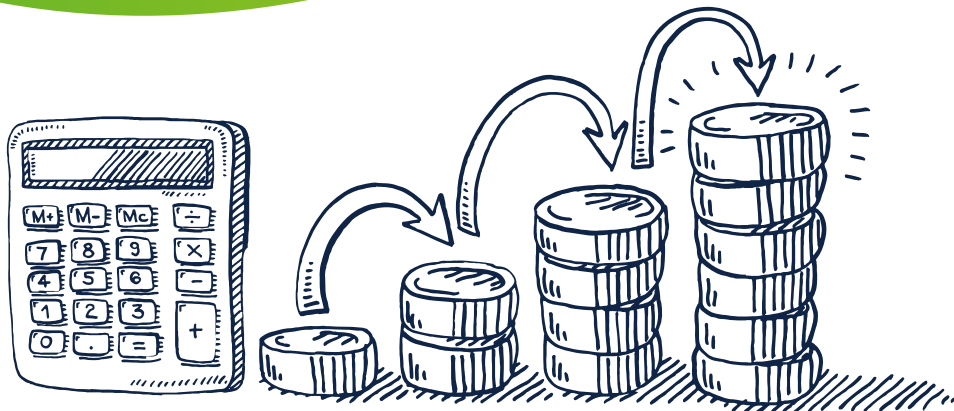
Tax Advantage #7

Capital Allowances CAN be claimed unlike BTL's

Furniture and equipment can be claimed
unlike BTL

Significant tax savings can be obtained for
FHL owners on their property purchase,
construction or renovation costs

TIP: Speak to Zeal to find out
if you can claim capital allowances
on your property investment



**CLICK BLUE BOX
TO PLAY VIDEO**

Beachmount Holiday Apartments

Located in North Wales. Purchased for £352,000 in 2002



£92k

capital allowances
uncovered

£26k

unlocked in total
tax savings

£4.5k

reclaimed as a cash
rebate (after fee)

"I did think it was too good to be true, but as my case manager pointed out, there was nothing to lose. I am very pleased with the tax refund, really amazed. Everything was dealt with very efficiently and professionally and I was kept up to date with proceedings throughout. I wasn't hassled and was able to talk through any reservations I had. I was also impressed with the speed and efficiency that everything was done."

Rachel Fox,
Owner of Beachmount Holiday Apartments

Flossy Brook

Located in Blackdown Hills, Somerset. Property was
constructed for £248,000 in 2009 / 2010



£89k

capital allowances
uncovered

£18k

unlocked in total
tax savings

£2.5k

reclaimed as a cash
rebate (after fee)

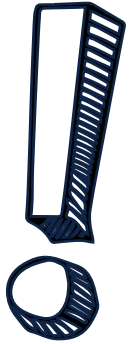
The lodge was constructed in 2009/2010 and provides a 5-bedroom holiday let with an indoor heated swimming pool.

No tax relief was ever claimed on the construction costs (furniture etc was claimed) and just basic invoices from the contractor were available. In January 2021, Zeal were engaged to identify the unclaimed capital allowances on the build costs. Using our in-house surveying and tax team, we were able to determine the capital allowances available and agree the claim with HMRC.

It's not all good news

Disadvantages of Furnished Holiday Let's ...

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VAT – need to register if turnover exceeds £85k

BTL no VAT registration required

Impact on profits of FHL when VAT registered
(£100 a night = £83.33 after VAT)

TIP: Consider using the flat rate scheme
(£100 a night = 91.24 after VAT)





No Inheritance Tax Relief (IHT)

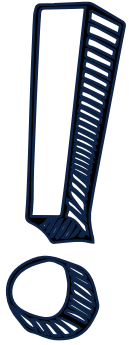
Unlike B&B or Hotel, chargeable to IHT @ 40% of market value e.g. **value £500,000 = £200,000 tax!!!**

Need to provide sufficient additional services to qualify for IHT relief e.g. breakfast

TIP: Consider use of trusts to mitigate IHT

FHL's can't be purchased through a pension fund e.g. SIPP or SSAS

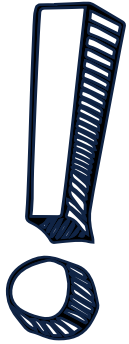




Losses are 'ring fenced' – can only be offset against FHL profits

B&B'S, Guest Houses etc can offset losses against other income e.g. PAYE





Land and Buildings Transaction Tax / Stamp Duty Land Tax

Treated as residential not commercial
Additional 3%/4% rate still applies

TIP: If purchased property with outbuildings or in an uninhabitable state, you may have overpaid SDLT – 4 years to reclaim.



Limited companies

Should I use a Limited company?

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Pro's & Cons to running your business through a Ltd company

Consider Ltd company structure if ...

✓ *Profits over approx. £70,000 a year and rising*

Or

✓ *Higher rate taxpayer*

TIP: If your FHL property has risen in value significantly,
incorporating your FHL business can mitigate CGT on sale



Making Tax Digital

Its coming, but when? . . .

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Making Tax Digital

Further delayed until April 2026
(from April 2024/23/22/21...)

Applies to self-employed people and landlords
(including FHL) that have business/property income
above £10,000.

Report income and expenses to HMRC quarterly online.

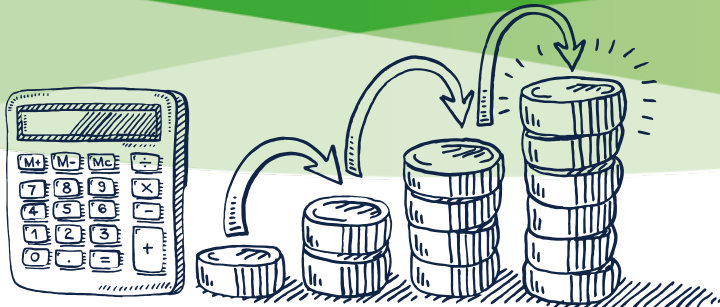
TIP – Be prepared and start using a digital accounting software now!



Key points to take away . . .



- ✓ Self catering accommodation provides significant tax savings over traditional BTL properties if qualify as an FHL
- ✓ Capital allowances can save tax due in January!
- ✓ Plan for the future to avoid IHT



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Got a tax question? Ask **ZEAL**

Owners can contact Zeal to discuss any tax questions they have that are related to holiday letting.

01633 287898

Questions can also be emailed to:

hello@gozeal.co.uk

