

Holiday lets

Most people's dream holiday home is in a quiet coastal town where the sound of the seagulls is punctuated only by the lapping of the waves against a shingle beach.

For many investors, this picture-postcard scene is becoming a reality as, up and down the country, bargain hunters, property developers and ordinary people search for property to let as holiday homes in quaint English towns.

A quick search on the Internet for holiday homes to rent in the popular Cornish town of Polzeath throws up a list of nearly 50,000 possibilities: holiday properties in towns and villages are being snapped up by investors looking to buy as part of their retirement planning.

The best news is that, in a world where the opportunities to save tax are ever decreasing, furnished holiday lets in the UK can offer investors a more beneficial tax environment than holiday homes abroad, something that many property investors are unaware of.

Often regarded as the less attractive side of holiday property investment, such properties in the UK benefit from a wealth of tax reliefs, steer clear of currency fluctuations - and avoid the complexities of dealing in a foreign language.

While there are significant savings to be had if the property is used for short-term holiday lets - and can therefore qualify as business property - it has to meet some pretty stringent criteria, as Mike Horne, a tax specialist and partner at Canterbury-based accountants Burgess Hodgson explains:

"Where someone buys a property on a buy-to-let basis for a long term let, such as student accommodation, it is treated as being a business 'wholly or mainly' in holding investments and does not qualify as business property for Capital Gains Tax (CGT)," he says.

"But where the property is used for short-term holiday lets, it can qualify as a business property, providing it is let on a commercial basis, it is furnished and that it is available to the public for at least 140 days a year."

The property also has to be actually let for at least 70 days, although if you own two or more properties, it is possible to average the total number of days across the properties to satisfy the test. Finally, for at least seven months, the property must not have the same occupants for more than 31 days.

"If you own the property for two years and then decide to sell, the effective rate of CGT may be as low as 10 per cent on a disposal," continues Mike.

"This is because a UK holiday letting property is treated as a business asset for the purposes of 'taper relief', so the more favourable rates of 'business-asset taper relief' may apply to any capital gain you make on the sale."

"The amount by which the gain is reduced by taper relief will depend on how long you have owned the property and how long you have used it for qualifying holiday letting."

By contrast, non-business assets have to be held for 10 years or more in order to obtain the maximum rate of non-business asset taper relief, which is currently 60 per cent.

If you reinvest within three years in another UK holiday letting property (or certain other assets costing the same as or more than you got for the property you have sold), you may be able to defer payment of CGT until you dispose of those new assets.

In exceptional circumstances, furnished holiday lettings may qualify for business property inheritance tax relief. However, this again very much depends on whether the property actually constitutes a 'business'.

"The letting should be as near to running a hotel business as possible," says Mike, "it must be for short terms and the owner or an agent should be substantially involved with the holidaymakers in terms of their activities in and from the property."

There are also benefits for income tax. Rental income will be treated as trading income, and, as such, any losses on the property will be classed as trading losses and can be set against any other income generally.

The income also counts as earned income for pensions purposes, enabling you to make contributions to personal pensions with tax relief.

So, rather than hanging that postcard of your dream holiday home on the wall, why not make it a reality? The tax breaks are plentiful - and you'll make others 'wish they were there'!

Burgess Hodgson: forward thinking business advice

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