Broadcast

FACTSHEET: HOLIDAY HOMES

SPECIAL ISSUE

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HMRC have sent ‘nudge’ letters to individuals who they believe have undeclared income from letting holiday homes and short term lets on sites such as Airbnb and Booking.com.

Key dates

If you have received income from holidays lets you need to tell HMRC about it by completing a self-assessment tax return. The return must be filed online no later than 31 January after the end of the tax year to which it relates.

This note explains your tax obligations in relation to holiday lets.

Income from property

If you receive income from letting property, you will need to declare it to HMRC and pay tax on any rental profit under self-assessment.

If you let a holiday home, you may be able to benefit from the more favourable tax rules that apply to furnished holiday lettings. Alternatively, if you let a room in your own home, you may be able to take advantage of rent-a-room relief.

Any taxable profit that you make from letting a holiday home must be taken into account when working out your total income tax liability for the tax year.

Property allowance

The property allowance (set at £1,000) means that if your income from letting is £1,000 or less for the tax year, you can enjoy the income tax-free without the need to report. If you income is more than £1,000, you can deduct the property allowance instead of the actual costs if this is beneficial when working out your taxable rental profit; however, you will need to report this to HMRC and pay tax on it.

Furnished holiday lettings

Furnished holiday lettings (FHLs) enjoy more favourable tax treatment than residential lets.

Unincorporated landlords can deduct interest and finance costs in full in computing their rental profits for FHLs (for residential lets relief is given as a tax reduction equal to 20% of the costs). FHLs also benefit from certain capital gains tax reliefs, such as business asset rollover relief.

However, it is not enough simply to let the property as an occasional holiday let. To be treated as a FHL for tax purposes, the property must be in the UK or the EEA and must be let furnished. It must also pass all three of the following occupancy tests.

- The property must be available for letting for 210 days in the tax year.
- The property must be let for at least 105 days in the tax year.
- Lets exceeding 31 continuous days must not in total exceed 155 days in the tax year.

Periods when you are using the property or where it is let free or cheaply to family and friends are not taken into account when seeing whether the above tests have been met.

If you do not meet the tests for a particular property for a particular tax year, your holiday home may still be able to qualify as a holiday let if you have several holiday properties and the tests are met on average across all of your holiday homes. Alternatively, if you have met the tests in the past, you may be able to make a period of grace election.

If your holiday home does not qualify as a FHL, it will instead be taxed as for other residential lets.

Rent-a-room

You may be able to claim rent-a-room relief if you let a room in your own home as a short-term let, for example, through a site such as Airbnb, Under this scheme, you can earn up to £7,500 each tax year from letting a furnished room in your own home. If you share the income with at least one other person, you can each earn £3,750 tax free in the tax year. Where your income is below the rent-a-room limit, you do not need to report it to HMRC. If it is more than the limit, you will need to complete a tax return. However, you can claim rent-a-room relief and deduct your rent-a-room limit (£7,500 or £3,750, as appropriate) rather than your actual expenses when calculating your taxable profit if this is beneficial.

Dealing with the 'nudge' letter

HMRC have reviewed the information that they have received from online holiday home and short-term let providers and where they believe that an individual has failed to declare the rental income that they have received, they have sent a 'nudge' letter. The letter includes a Certificate of Tax Position, which HMRC ask that you complete within 30 days.

Before taking any action, it is advisable that you take advice. There is no statutory requirement to complete the Certificate of Tax Position.

If you have received income from letting out your holiday home and that income exceeds the tax-free limits and you have not told HMRC about it, there may be tax, interest and penalties to pay. It is important that this is managed correctly as you may be able to settle on more favourable terms if you make use of HMRC's disclosure facility to tell HMRC about the tax that you owe, rather than ignoring the letter and waiting for them to come to you.

Please call us on **01753 888211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.