Cottage industry

With other investments looking less rock-solid than they used to, private investors and entrepreneurs are eyeing up the furnished holiday lets market. **Julie Butler** explains

As machinery has taken over rural labour, workers' cottages on traditional farms have become available to let. Redundant farm buildings can also be converted for letting. Now that rental income is high, it is not just farmers wanting to maximise their income from property who see furnished lets as a good investment.

Income from lets is taxable under Schedule A, unless the landlord is in occupation and provides services beyond those usually provided by a landlord, in which case Schedule D1 may apply. In any case, the activity can be treated as a trade, if certain conditions are met, for loss relief, business asset taper relief (BATR), capital allowances, capital gains retirement relief and other allowances. To benefit, the property must be available for commercial letting as holiday accommodation for at least 140 days a year and actually let for at least 70. It must not be in the same occupation for a continuous period of more than 31 days for at least seven months.

Paul Watts/Collections

If these conditions are met, the letting of furnished holiday accommodation is treated as a trade for loss purposes. Many property owners will want to maximise returns by moving from furnished long-term letting to furnished holiday lets.

Wear & tear: Wear & tear allowances cannot be claimed in respect of holiday lets where capital allowances are available. If a house is let long-term, however, expenditure on furniture and fixtures qualifies for wear & tear allowances. These are calculated on 10 per cent of the rents, less any expense that the landlord meets that would normally be paid by a tenant (such as council tax).

The wear & tear allowance is meant to cover furniture and fixtures that, in unfurnished lodgings, a tenant would provide (cookers, washing machines). It only applies to residential property that is furnished in such a way that the tenant does not have to provide any furnishings.

Renewal: Instead of wear & tear, the cost of renewing furnishings can be claimed, as long as there is no deduction of the original expenditure, no claim is made for the cost of any improvement (dearer need not mean improved), and the old asset is discarded. You can also claim the cost of renewing fixtures that are not usually removed if a property is vacated or sold (baths, toilets).

Foot & mouth: If an established furnished holiday let has been prevented by foot & mouth restrictions from satisfying the conditions required for the various reliefs in 2000-01 or 2001-02, but did satisfy the conditions in 1999-2000 or 2000-0, the failure will be disregarded.

VAT: The standard rate of VAT applies to rents from holiday lets as long as they are advertised as such. If they are offered at lower rates in the off season, they can be treated as residential accomodation if they are let for that purpose for more than four weeks and the property is situated in a resort where trade is clearly seasonal.

Furnished holiday lets are an attractive investment for many clients. The tax reliefs speak for themselves and the ability to borrow on the buy to let scheme is another plus. So while the stock market and pensions are giving concern, why not look at the holiday property market?

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