The Mail ON SUNDAY

JUNE 27, 2010 £1.50 SUNDAY NEWSPAPER OF THE YEAR

Osborne spares the middle class holiday home owners – for now

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Market watch

Kirstie Allsopp is one person who can see some joy in George Osborne's bleak Budget last week – with its capital gains tax (CGT) and VAT hikes – and the astonishing 25 per cent cull of public spending.

To the joy of those in the furnished holiday let business – who are very likely to see a revival in UK holidays in these austere times – Osborne also restored a nice little earner for Britain's beleaguered middle classes.

Last year, Alistair Darling said he would do away with a range of tax reliefs on furnished holiday lets in the not entirely unfounded belief that the system was being abused – with City types owning pads in Rock in Cornwall, lending them to their mates, and getting relief on the mortgage.

But Osborne has saved the perk. CGT stays at the entrepreneurs' rate of ten per cent and gains can again be rolled and absorbed if investors subsequently buy another more expensive property.

Any operating losses on the business can be offset against other income, even salaries, and there are capital allowances, starting at 40 per cent, on expenses to the property, such as putting in a new kitchen.

'There are people for whom a little income from a holiday let is a life-saver,' says Kirstie, although that probably does not apply in the case of her cottage at Welcombe, in Devon, the subject of her Channel 4 series Kirstie's Homemade Home, which rents out at £2,000 a week. 'The whole issue is being reviewed in the summer,' says accountant Julie Butler, of Butler & Co in Alresford, Hampshire. 'Abuses such as just achieving the minimum weeks letting for furnished holiday let rules, not really advertising, lots of own use and letting to close pals and family, as well as high expenses claims will very likely be penalised.'

Of more consequence, to the wider economy and the property market, is the likely effect of the 25 per cent cull in public spending.

Even at the highest end, home prices are likely to fall in value for the next couple of years, but in those areas with high numbers of public-sector employees they may well plunge. Areas such as Middlesbrough and West Dunbartonshire, outside Glasgow, have high public-sector employment, accounting for 43 per cent of the local workforce.

More surprising is that similar high numbers can be found in Canterbury, Oxford and Cambridge, according to the credit analysts Experian.

It will be interesting to see how house prices in these towns compare with places like Winchester, Tunbridge Wells and Farnham, which saw a marked decline in state employees between 1998 and 2008.

The rise of VAT to 20 per cent in January will mean household costs will increase by £500 on average, according to Lloyds Banking Group, affecting everything from washing machines to replacement kitchens and home extensions.

The extra 2.5 per cent will add £165 to the price of a new kitchen, which on average costs £6,600, according to a recent Halifax survey.

On the other hand, low mortgage rates have helped shrink bills by six per cent over the past two years to just more than £9,000 a year, says Lloyds.

With the Chancellor set to examine whether the stamp duty holiday introduced by Darling for first-timers has been effective, Halifax reports that an extra four in ten are exempt after thresholds rose from £125,000 to £250,000. This means 94 per cent of first-time buyers don't pay stamp duty at all.

In total, 45 per cent of all house purchases are between £125,000 and £250,000.

The higher stamp duty bands accounted for 80 per cent of all stamp duty revenue in 2008-09. Five years earlier, in 2003-04, the higher stamp duty bands contributed 65 per cent, according to HM Revenue & Customs.

While 17 per cent of all properties in London are above the £500,000 threshold, where stamp duty comes in at four per cent, this figure falls to eight per cent in the South East, four per cent in the South West and three per cent in East Anglia.

RESPITE: Kirstie Allsopp will benefit from holiday let perks