



## Furnished holiday lettings: Income tax v Inheritance tax

IN POST-PANDEMIC Britain, "staycations" are still proving to be the popular choice for many families.

As a result, there has been an increase in demand for furnished holiday lets (FHL) and people with available properties are converting them to holiday lets as opposed to tenancy lets.

But what does this mean from a taxation point of view?

For income tax purposes, there are defined rules as to whether a FHL can be classified as a business or not, based on the number of days it is available and days actually let.

These can also be looked at on an average basis over a couple of years.

There is also favourable treatment for capital gains tax purposes.

However, even if a FHL is recognised as a business for income tax purposes, this does not necessarily mean it is also a business for IHT purposes.

The result is it is regarded as an investment and is fully liable to IHT on death.

There have been numerous

cases heard in tribunals exploring this. The result is that HMRC will regularly challenge any claims for business property relief. If the business consists of one property with minimal services provided, it is unlikely to qualify.

These cases have centred around the additional services provided, including mid-stay cleaning, sporting equipment and child minding.

Each case will be judged on its individual merits. The most important point is the services must be over and above standard and offered and carried out on a regular basis during the two years before death.

If your property does qualify, there is a flexibility available for planning and mitigating IHT.

If you own a FHL or are thinking about purchasing one, come and talk to us so that we can check you have all the main points covered.

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