

Your Legal Questions

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Q. I own a holiday cottage which I let out for parts of the year. Is it true that the tax rules on holiday lettings are about to change?

A. Yes and I am afraid that the news is not good as the Government intends to abolish significant tax breaks from 6 April 2011. There is a very small window of opportunity until then to take advantage of the existing favourable tax rules.

At the moment furnished holiday lettings can qualify as a 'trade' for tax purposes and you can off-set the running costs, the costs of repair and mortgage interest against the rental income and very importantly against income from other sources including salary or investments. In addition capital allowances can be claimed for the cost of new furniture and fittings, such as a kitchen or bathroom.

These off-set loss allowances are very valuable particularly for higher rate tax payers to whom they can be worth thousands of pounds. After April 6 any losses can only be off-set against future rental income and not against your overall tax bill.

If you have any works which need doing to the property provided you have entered into a contract before 6 April 2011 for these works to be carried out you can still qualify for relief.

Further changes are on the way in April 2012 when to qualify for any tax allowances the property must be let for 105 days (70 at present) and available for letting for 210 days (140 at present) during the current year. Many landlords may consider that with these changes it is no longer worth owning a holiday let property and seek to sell. However, an owner will face capital gains tax at up to 28% on any rise in value of the property unless he can use entrepreneurs' relief to reduce the tax rate to 10%. Professional advice is essential before selling.

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