Tax windfall for owners renting out holiday homes in Europe

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Landlords who rent out holiday homes in Europe are set for a surprise windfall as changes announced in the Budget could allow them to claim millions of pounds in tax rebates, according to Target Chartered Accountants.

In certain circumstances, landlords may now be able to offset any losses they have made on their property within the past five years against their personal tax bill and may also be able to claim back capital gains tax paid on the sale of a property in Europe.

The changes are designed to give those with properties in other European countries the same rights as those with holiday homes in the UK. However the advantages will be short lived as the tax breaks will be abolished completely for both sets of owners from April 2010.

The rules apply to “furnished holiday let” (FHL) properties. Whilst there are strict rules as to what may qualify as an FHL, where properties are commercially let on a short-term basis for at least part of the year, they will normally qualify.

Mark Tuckwell, tax director with Target Chartered Accountants, says the changes will affect those who have suffered “losses” on the letting of the property since 6 April 2003 or those who have sold the property at a profit during the same period.

He explains: “Around a million UK residents own holiday homes overseas, mostly in Europe, and many of them let out their property for large periods. Although they may not have considered it this way in the past, technically they are likely to be making a loss for tax purposes and one that they can offset against their UK tax bill.

“This will be a surprise windfall for overseas holiday home owners, and one that could save them a significant sum in tax. So for example, a higher rate taxpayer who has been making a loss of £5,000 a year for the past five years would be entitled to reclaim £10,000, while someone who sold their property and paid £30,000 capital gains tax may now be able to claim back as much as £28,000.

Anyone who thinks they could qualify for a rebate should take advice from a tax professional. “This is vital, as with the current state of the Nation’s finances, HMRC are unlikely to be immediately forthcoming with tax rebates. I would also urge some urgency, as in the face of mounting liabilities, it is quite possible that HMRC could bring forward the cut-off point for such claims”

The changes in the Budget follow a decision by the European Court of Justice which meant that the UK could be in breach of European law by giving tax breaks to those with holiday homes in the UK but not in Europe. Extending the tax breaks will cost the taxpayer an estimated £15m a year so the government has decided to remove it entirely from the start of the 2010 tax year.

HOW THE REBATES WORK OUT IN PRACTICE

Example 1 – a current owner
Mr Smith owns a Spanish villa which, apart from a couple of weeks private usage, is let commercially throughout the year. The seasonal nature of the business means that year on year, a loss of around £5,000 is suffered. Mr Smith may now be able to make a claim to use this loss to set against UK income tax over the last five years. As a higher rate taxpayer, this would generate a tax repayment of around £10,000 (5 years x £5,000 x 40%).

Example 2 – a former owner
Mrs Jones acquired a holiday property Portugal in 2001 for the equivalent of £100,000. The property was let out for five years and sold in 2006 for £200,000. She paid capital gains tax in the UK of £30,000 on the sale after all available tax reliefs. It may now be possible to and amend the calculation to include further reliefs which would reduce the taxable gain to around £2,000. This would save Mrs Jones £28,000.

ENDS

Notes to Editors

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