



Federation of Small Businesses
The UK's Leading Business Organisation

Jenni Rich

HMRC CT & VAT

100 Parliament Street

London SW1A 2BQ

24.2.2010

Dear Ms Rich,

RE: FSB response to Furnished Holiday Lettings consultation

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with 215,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 percent of the GDP and employ 58 per cent of the private sector workforce.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

Linda Walton

Chairman of the Rural Affairs & Tourism Policy Unit

Federation of Small Businesses



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FSB
response to
consultation
on
Furnished
Holiday
Lettings

February 2010



Furnished Holiday Letting Consultation

Value of the self-catering sector to UK tourism

According to the latest UK Tourism Survey (UKTS) statistics, the domestic tourism industry was worth £21.1 billion to the UK economy in 2008. Despite the economic downturn experienced during the year, the revenue gained by the sector was down only 1% on 2007.

Tourism Alliance analysis¹ of the UKTS figures (excluding self-catering associated with holiday villages, hire boats and timeshare properties), indicates that the "holiday cottage" component of the sector accounts for 5.72 million visits (4.9%) and £1.823 billion (8.6%) of total UK domestic tourism expenditure with an average expenditure of £55.21 per person per day. When travel purely for holidays is separated out from business travel and travel to see friends and relatives, the importance of self catering cottages is more marked, accounting for 7.6% of all holiday visits, 12.4% of all nights and 12.9% of all revenue.

In addition, the separate The British Holiday & Home Parks Association analysis of static caravans and holiday parks (which will also be affected by the FHL rule changes) indicates that caravan holiday homes account for a further 8% of all tourist bed nights in the UK and £1.136bn in domestic tourism expenditure, giving a total level of expenditure potentially affected by the change of almost £2bn per annum.

Impacts of the FHL rule changes

The FSB believes the repeal of the FHL rules will severely jeopardise the financial viability of many small businesses in the self-catering sector.

Financial

Tourism Alliance analysis suggests that if just 10% of businesses decide to cease trading as a result of the repeal of the FHL rules, tourism expenditure will decrease by almost £110m per annum and over 2,400 jobs will be lost. When BH&BPA's analysis of the impact on holiday home parks is included, the overall impact is a reduction of over £200m in tourism spend and the loss of over 4,500 jobs in rural and seaside economies – substantially greater than the Treasury estimate of a £20m impact.

FSB survey data² shows that over 40% of members who run self-catering accommodation businesses will choose not to expand their business due to the FHL rules changes and 15% will consider closing their businesses.

Employment

Analysis³ of the self-catering sector shows that there are 15,600 FTE jobs directly related to the sector alone and it is estimated that a further 25,000 jobs depend on associated expenditure from visitors to self-catering accommodation (e.g., local pubs, shops and restaurants).

FSB survey research⁴ shows that over 80% of those members surveyed believe that they will not be able to take on new staff due to the repeal of the FHL rules and, most worryingly, 50% believe that they will have to make staff redundant over the next 12 months due to the FHL rule changes.

Reduced entry into the self-catering accommodation sector

The self-catering accommodation sector is a growing sector of the UK holiday market generating £1.8bn per annum which accounts for almost 13% of all UK domestic holiday expenditure. The latest UK Tourism Survey statistics

¹ Tourism Alliance – The Impact on the Self-Catering Sector of the Proposed Changes to the Furnished Holiday Lettings Rules

² November 2009 FSB FHL survey

³ Tourism Alliance – The Impact on the Self-Catering Sector of the Proposed Changes to the Furnished Holiday Lettings Rules

⁴ November 2009 FSB FHL survey



show that holiday travel using self-catering accommodation increased by around 20% in the 2009 summer period compared to the previous year.

This increasingly important part of the UK tourism industry needs to be supported yet the repeal of the FHL rules would act as serious deterrent for new entrants into this sector. Start-ups costs are particularly high in the self-catering sector due to the price of properties and the need to refurbish accommodation to meet the needs and expectations of customers. Capital allowances and loss reliefs can reduce the cost of setting up a business by up to 40% and therefore acts as an incentive for investing in the self-catering sector.

UK domestic tourism has been one of the few good news stories during this current economic downturn and we are very concerned that, by repealing the FHL rules, we will be damaging a sector that has the potential to provide growth and employment for the UK economy at a time when we need it most.

Quality of UK Tourism

Improving the quality of UK tourism accommodation has been one of the key objectives of Government. The Tourism development Act places a responsibility on Government to ensure the international competitiveness of the UK tourism sector by encouraging the improvement of the quality of tourism products and services offered.

The National Quality Assessment Scheme, which is administered by VisitBritain, demands high standards and the level of investment needed to maintain a self-catering property to meet these standards is significant.

The repeal of the FHL rules would mean changing from 100% relief on capital expenditure to the proposed 10% wear and tear allowance means that the quality of accommodation is likely to be significantly reduced. Indeed, FSB survey research⁵ shows that over 80% of members who run self-catering accommodation businesses would be less likely to improve the quality of their accommodation due to the repeal of the FHL rules.

The repeal of the FHL rules will damage the quality of UK tourism at a time when the sector is striving to improve the quality of accommodation offer in the run up to being on an international stage during the 2012 Olympics.

Associated Expenditure

The FSB is also concerned about the knock-on effect of self-catering businesses choosing not to expand or to close on local economies. Analysis by the Tourism Alliance⁶ shows that £1.1bn is spent by self-catering businesses and their visitors in local economies in local pubs, restaurants and attractions.

The repeal of the FHL rules will not harm the self-catering industry itself but also other local businesses which so often form the heart of rural community life.

Farm diversification

We are particularly concerned about the effects of the FHL rules changes on farmers who have been encouraged to diversify. Defra research⁷ shows that 50% of farms in England had diversified by 2005-06 'usually by letting buildings, either for industrial purposes or for the tourist industry'. The research also shows that for 56% of businesses with diversified interests, diversified income accounts for a quarter or more of total farm income.

Diversification of agricultural businesses is a significant source of income for a growing number of farms and helps them broaden their business base and reduce their reliance on mainstream agricultural production as well as contributing to the economy of the local area.

Given the importance of diversified business interest to farmers and the fact that they have been actively encouraged to diversify by Government the repeal of the FHL rules will stifle this important component of the rural economy at a time when it needs all the support it can get.

⁵ November 2009 FSB FHL survey

⁶ Tourism Alliance – The Impact on the Self-Catering Sector of the Proposed Changes to the Furnished Holiday Lettings Rules

⁷ Defra Draft Rural Development Programme for England (later confirmed by the European Commission)



An alternative solution

The FSB believes that an alternative solution can be found that satisfies compliance with EU law as well as protects the self-catering industry from the detrimental effects of the FHL repeal. We believe the solution is to raise the occupancy thresholds at which the rules apply to 15 weeks.

Raising the occupancy threshold for self-catering properties would concentrate the tax treatment benefits on the, as it happens predominantly UK rather than other EEA, self-catering businesses managed commercially while, as the same time, reducing the total cost to the Government from £20m per annum to either £16.7m or £12.6m depending upon the level to which the threshold is raised (Tourism Alliance figures).

This solution also has the added benefits of:

- Ensuring that owners of second homes do not take advantage of tax rules that are aimed at supporting genuinely commercial rural and seaside tourism businesses which support their local economy.
- Encouraging businesses operating at around the 10 weeks occupancy level to increase the size of their business, thereby adding further benefits to their local economies
- Preventing self-catering businesses turning into seldom-visited second homes, thereby exacerbating the problem of “ghost villages”.
- Avoiding the many court cases that will inevitably follow the repeal of the FHL Rules as self-catering business seek to demonstrate that they are trading businesses while HMRC seeks to tax them as property businesses.

The FSB therefore requests rather than repealing the FHL Rules, the Government raise the occupancy threshold at which the Rules apply to 15 weeks per annum from 5 April 2010 for a trial period of at least one year so that a proper analysis of the impact of the proposal and the impact of repealing the FHL Rules can be undertaken

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For further information

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