



## **Furnished Holiday Lettings Rules**

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The Chancellor announced in the 2009 Budget that, from April 2010, the Furnished Holiday Lettings (FHL) rules will be repealed. The changes mean that self-catering accommodation businesses will face a greater tax liability which could severely affect their financial viability.

The FHL rules currently allow owners of self-catering cottages in the UK, who meet certain criteria, to be treated as trading businesses for tax purposes. However, as UK owners of similar properties elsewhere in the EU cannot qualify for this treatment, the UK Government believes that the FHL rules may not be compliant with European law and has announced that they would be repealed from April 2010. This means:

- Losses from FHLs will not be able to be set against other income (eg, other trading or employment income);
- Capital Allowances would not be available;
- Income from FHL will no longer be 'relevant earnings' for pension purposes (which could affect those who have no other trading or employment income); and
- The sale of the FHL business will no longer be eligible for a number of capital gains tax reliefs.

These changes were announced without any prior consultation and with no involvement from representatives from tourism industry.

The Treasury estimates that the changes to the FHL rules will damage the tourism industry by just £20 million, yet research done by the Tourism Alliance suggests an overall reduction in tourism spend of £200 millions and a loss of 4,500 jobs in rural and seaside economies. It is predicted that the majority of these job losses will be concentrated in the South West, Scotland, Wales and the North East. The FSB believes that the Treasury underestimates the impact of repealing the FHL rules on both the self-catering sector and the rural and seaside communities where most self-catering businesses are located.

The FSB is calling for the Treasury to undertake a review of the proposed changes to evaluate the economic impact of the repeal of the FHL rules so that the true consequences can be understood. The FSB believes measures must be put in place to mitigate against the damaging effects the changes to the FHL rules will have on the UK's economy and tourism industry.

### **Key Points**

- **The domestic tourism industry was worth £21.1 billion to the UK economy in 2008 (UK Tourism Survey)**
- **It is estimated that 60,000 businesses in the self-catering sector will be affected by the FHL changes (UK Treasury)**
- **The UK self-catering industry accounts for 7.6 per cent of all holiday visits, 12.4 per cent of all nights and 12.9 per cent of all tourism revenue (UK Tourism Alliance)**
- **It is estimated that there are over 15,600 full time jobs related to the self-catering sector with an additional 24,800 additional jobs dependent on the industry (UK Tourism Alliance)**
- **Just under 30 per cent of all self-catering expenditure in the UK is spent in Scotland or the South West of England**

### **For further information** **Francis Wood, Policy Advisor**

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