**Guide to VAT for Furnished Holiday Lets**

Unlike longer term letting of residential property that is exempt from VAT, the provision of *Holiday Accommodation* in the UK is subject to VAT in the same way as a hotel, B&B etc. This means that if the income you receive from the letting of *Holiday Accommodation* exceeds £85,000 in a 12 month period, you will need to register for VAT. All future sales will then be subject to VAT at 20%.

This guide sets out what owners of short-term holiday accommodation in the UK need to know about VAT and some ways to mitigate the impact on your business.

**What is VAT?**

Value Added Tax (VAT) is a tax applied to the price of certain goods or services that are bought and sold within the UK.

Most goods and services are subject to the standard VAT rate. This is currently 20% in the UK. Certain other goods and services, such as utilities and some building work, are subject to a reduced VAT rate of 5%. There is also a 0% rate for goods like food, medical supplies and fertilisers.

If a holiday let is subject to VAT, 20% of the sale price is paid to HMRC. VAT can be added to a sale price (exclusive of VAT) or included in the sale price (inclusive of VAT). There are also goods and services that are exempt from VAT, like long term property letting!

**What is holiday accommodation?**

Accommodation advertised or that is suitable for holiday or leisure use is always treated as holiday accommodation for VAT purposes.

Holiday accommodation includes, but is not restricted to:

* Any house
* A flat
* Chalet
* Villa
* Beach Hut
* Tent
* Caravan
* Houseboat

Note, if holiday accommodation is let for a ‘business trip’ this would still fall under leisure use.

**When do I need to charge VAT?**

The current VAT threshold is £85,000. So, if your gross income (turnover) for holiday letting exceeds £85,000 in any rolling 12-month period, you must register for VAT.

Please note, when calculating your turnover, it is the gross sale value that you need to count. This is the price Sykes charges the customer not the net amount we pay you after deducting our fees!

**When do I need to register for VAT?**

It is important to stress that the £85,000 limit, is not a calendar or tax year. It is any 12-month rolling period. At the end of each month, you should check that your turnover in the last 12 months has not exceeded the threshold or is about to.

*I have just exceeded the threshold, what do I do?*

If your total VAT taxable turnover for the last 12 months was over £85,000, you must register within 30 days of the end of the month when you went over the threshold. Your effective date of registration is then the first day of the second month after you go over the threshold.

*For example, on the 14 June your turnover exceeded £85,000 in the past 12 months. You will have until 30 July to register and will need to start charging VAT from 1 August.*

*I expect to exceed the threshold next month, what do I do?*

You must also register if you realise that your VAT taxable turnover is going to go over the £85,000 threshold in the next 30 days.

You must register by the end of that 30-day period. Your effective date of registration is then the date you realised, not the date your turnover went over the threshold.

*For example, on 1 August you establish that your turnover will exceed £85,000 in the next 30 days. You will have until 30 August to register but you will need to start charging VAT from 1 September.*

**How do I register for VAT?**

The actual registration process is very simple and can be completed online on HMRC’s website https://www.gov.uk/register-for-vat/how-register-for-vat

Please note, we would recommend you seek advice from a competent tax professional before completing your VAT registration.

**How do I charge VAT?**

It is common practice in the UK for holiday accommodation to be advertised ‘inclusive’ of VAT. This means the price a customer sees is the price they will pay. The VAT is included in the price.

Self-catering holiday accommodation is a price sensitive market, so careful consideration should be given to pricing and the impact of VAT on your income.

For most holiday let owners, the VAT impact will need to be absorbed is the current market price they charge. This would equate to a 16.7% loss of income.

The impact of charging VAT can be reduced by VAT reclaimed on business expenses you incur, or you can consider registering for the Flat Rate VAT Scheme.

**The Flat Rate VAT Scheme**

Holiday let owners with a turnover of £85,000 to £150,000 can consider using the Flat Rate VAT scheme.

Under the Flat Rate scheme, you pay over a lower percentage of your sales, but you do not reclaim VAT on your purchases.

Currently, under the Flat Rate Scheme, holiday let owners in the UK will pay 10.5% VAT to HMRC, rather than the standard rate of 20%.

With the exception of the purchase of capital items costing more than £2,000 (e.g. a hot tub or alarm system), no VAT can be reclaimed on the expenses you incur to run your holiday let.

The Flat Rate scheme helps reduce the financial impact of VAT registration for many holiday let owners. It is also much simpler to administer.

Whether the Flat rate scheme is suitable and beneficial for your holiday let business will ultimately depend on the business expenses you have incurred prior to and post VAT registration.

We would recommend you seek advice from a competent tax professional before registering for the flat rate scheme.

**How do I register for the flat rate scheme?**

You would follow the same link to register for VAT <https://www.gov.uk/register-for-vat/how-register-for-vat>. You will find the option to register for the flat rate scheme during the online registration process.

Below are some of the most frequently asked VAT questions…

**I no longer need to be VAT registered – can I deregister?**

Yes, you can deregister if your turnover falls below the £83,000 deregistration threshold or if you permanently stop your holiday let business.

**Can I register for VAT even if I’m below the VAT threshold?**

Yes, you can voluntarily register for VAT even if you don’t have a turnover of £85,000.

Voluntary registration should be considered if significant VAT was incurred on set up costs (e.g. refurbishment or construction of holiday let building) and the VAT threshold will be breached soon after trading starts.

Voluntary registration could also be considered if your customers are registered for VAT. However, this is generally not the case for holiday let customers.

**What expenses can I reclaim VAT on?**

You can claim the VAT back on goods and services you purchase for your holiday let business.

There are a few points to note. You can only reclaim the amount of VAT paid. Remember some goods and services are exempt from VAT or VAT has been charged at a reduced rate. Check your invoices to ensure you are no overclaiming. In addition, if there was an element of private use or benefit, you must only reclaim the business element of the VAT paid.

Remember, if you are using the Flat Rate Scheme, you can’t reclaim VAT on expenses!

**Can I reclaim VAT on costs incurred before registration?**

You can claim VAT incurred on goods and services you purchased for your business before VAT registration. However, it’s important to remember that there is a time limit of:

· Four years for goods you purchased and still have at the date of registration e.g. furniture

· Six months for services e.g. Sykes fees

**Can we reclaim VAT paid to build or renovate our holiday let?**

If you incurred VAT on the construction, conversion or refurbishment of your holiday let and are VAT registered, you can reclaim the VAT.

If you register for VAT within 4 years of incurring VAT on a construction or refurbishment project, you can reclaim the VAT paid and most of your costs incurred.

**BE AWARE** - if the build/project costs exceed £250,000 (excluding VAT), and you were to reclaim the input VAT in connection with this, the property in question would be subject to what is known as the Capital Goods Scheme (CGS).

Essentially, the CGS is a method of recovering VAT paid on purchasing assets over ten years. During this period, it’s revisited each year to ensure the amount of VAT reclaim is still accurate based on the assets’ current usage. If, for example, you stopped letting the property as holiday accommodation after 5 years, 50% of the VAT reclaimed would be repaid.

**What if we aren’t VAT registered. Is there any VAT we can save on building our holiday let?**

Holiday let owners can benefit from The DIY Housebuilders and Converters scheme. It allows refunds of VAT incurred on the cost of building materials for private individuals constructing a new residential property or converting a building to residential use e.g. old horse stables.

Note, the claim for a refund needs to be made within 3 months of the project completion.

**What about refurbishment costs?**

There are certain circumstances that allow for a contractor to charge VAT at the reduced rate of 5%

* Renovation or alterations to residential property that has been empty for 2 or more years
* Where the conversion of a residential property increases or decreases the number of dwellings.
* Where a project converts commercial property to residential dwellings.

**I have multiple properties that will collectively exceed the VAT threshold, can I split the ownership to avoid registering?**

HMRC sees the practice of business splitting as tax avoidance and has set rules to ensure only legitimate ‘business splitting’ occurs. In most cases, it is not possible to split out holiday let ownership to avoid VAT registration.

We recommend speaking with a tax specialist who has experience on the matter and a good understanding of your circumstances before taking any action.

**The property is occupied for residential letting during the off-season, do I still need to register for VAT?**

Income from the residential let will be treated as exempt from VAT. This means any income will not be included in your gross taxable turnover for VAT purposes.

**Can I manage my availability to ensure I do not breach the VAT threshold?**

You can manage your calendar to ensure the VAT threshold isn’t breached but be wary not to reduce availability so much that you fail the FHL occupancy criteria and rules to qualify for business rates (and small business rates relief) or the FHL tax benefits.

**I think my turnover has exceeded the VAT threshold for some time – can I register late?**

Yes, you can. Of course, if you register late you will have to pay all the VAT calculated from when you should have registered. You may also be liable to a penalty depending on how much you owe and how late your registration is.

We would recommend contacting a tax specialist as soon as possible.

**I may only go over the threshold for a short period because of exceptionally high demand – do I still need to register?**

If your turnover goes over the threshold temporarily you may be able to obtain a VAT registration exception. You will need to contact HMRC and explain why you believe your taxable turnover will not exceed the deregistration threshold of £83,000 in the next 12 months and HMRC will consider granting you an exception.

**Zeal are here to help.**

If you have any other questions about VAT or have registered for VAT and need help understanding how to complete your returns, please do not hesitate to get in touch with Zeal Tax, they are here to help.

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