

Sell-off that never was as holiday homes hit record

The demise of the holiday home market has been very much exaggerated, it would appear. Thousands were supposedly going to offload their second homes, and furnished holiday lets, when there was the scare over capital gains tax rising from ten per cent to perhaps 40, or even 50, per cent.

In the event, Chancellor George Osborne put it up to 28 per cent in June, and reinstated the tax position of furnished holiday lets – subject to review, of which more later – which his predecessor, Alistair Darling, had decided, not entirely without reason, were a middle-class perk.

In the event, the great capital gains sell-off never happened, beyond some City tycoons offloading shares. Indeed, the reverse appears to be happening. Low interest rates, the



excellent summer weather and straitened times encouraging holidays at home have all combined to produce a surge in Britain's holiday home market.

Knight Frank reports the strongest demand in five years, with sales of second homes up by 2.6 per cent last year and expected to rise another two per cent in 2010. Second homes have reached record levels of 245,384 and will top 250,000 this year.

'Interest rates are much lower than they were in the early Nineties, which has reduced both the cost of acquiring property and the attrac-

tion of keeping money in cash,' says Liam Bailey, head of residential research at Knight Frank.

'While credit has been severely constrained for homebuyers requiring high loan-to-value ratios, wealthy investors with large amounts of equity have been able to take advantage of low financing costs.'

Rather than a luxury, second homes are also being seen as a good investment, with holiday-let income producing a better return than shorthold tenancies.

The spend of Britons holidaying at home is predicted to grow by 2.6 per cent a year in real terms, according to Deloitte and Oxford Economics, and foreign tourism to the UK is strong, too.

Another potential perk is business property relief for inheritance tax purposes, although this applies only if there is an element of service



BEACH RETREAT: A one-bedroom flat in the At The Beach development in Torcross, Devon, starts at £270,000 (Knight Frank, 01392 848844)

involved in the rental – B&B, serviced hotel rooms or caravans, for example.

Tax perks for furnished holiday lets date from the mid-Eighties to encourage tourism at home, but latterly the perks, which will continue until April next year, have been criticised as too generous.

There were also abuses, with affluent City types running a furnished holiday let in the West Country and using it as a holiday home or a place for their mates to stay.

Last month, the Treasury issued a consultation document to tighten up the rules. It proposes that in order to obtain the tax advantages, a furnished holiday let will have to be available for letting 210 days a year, rather than 140 as now. In addition, it will actually have to be let for 105

days, rather than 70. At present, income tax losses on the property can be offset against the owner's total income, even salaries. The Treasury proposals now say that losses should be carried forward against future profits from the property.

'Many would argue this more robust approach to the rules is just eliminating elements of abuse that had taken place and the emphasis is on the fact that the letting must be commercial,' says accountant Julie Butler, of Butler & Co in Alresford, Hampshire. 'Basically, holiday home owners must not take the mick.'

The HM Revenue and Customs has also set up a special tax evasion unit to collect unpaid capital gains tax from buy-to-let landlords.