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# Inheritance Tax Relief on Holiday Cottages? Are homemade cakes the secret to Tax Relief?



The case of Pawson involved a holiday “cottage” on the Suffolk coast at Thorpeness. It revolved around whether holiday-lets are a business for the purposes of obtaining Business Property Relief (“BPR”) for Inheritance Tax purposes. In order to be eligible for BPR on a business it must be a trading business and not one “wholly or mainly of holding an investment”.

In Pawson the holiday-let in question was a large bungalow for up to 11 people with a half-acre of garden. Services included cleaning, heating and some caretaking. The holidaymakers had to bring their own sheets and towels. The owners only visited the property in an emergency and there was no “welcome pack” or personal attention for holidaymakers during their stay.

At the First Tier Tribunal it was decided that BPR was available as the input required into a holiday letting was “far too active an operation” for it to be viewed as an investment. The “provision of services” was mentioned.

This decision was reversed on Appeal to the Court so that the BPR was not available for a number of reasons which essentially boiled down to the fact that “the provision of additional services or facilities of a non-investment nature was either incidental to the business of holding the property as an investment, or did not predominate..... over that of holding property as an investment”.

It now seems that the key to obtaining BPR (or not) is what additional services are provided over and above the basic letting. The more intrusive the landlord is the better. The provision of homemade cakes and jam could be the key to obtaining this very valuable tax relief.

A fighting fund is being organised to appeal. It is felt that this was a case that HM Revenue chose carefully because the owner was very much absent in the letting of the property and the holidaymakers were left to their own devices; other cases might be more successful.

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