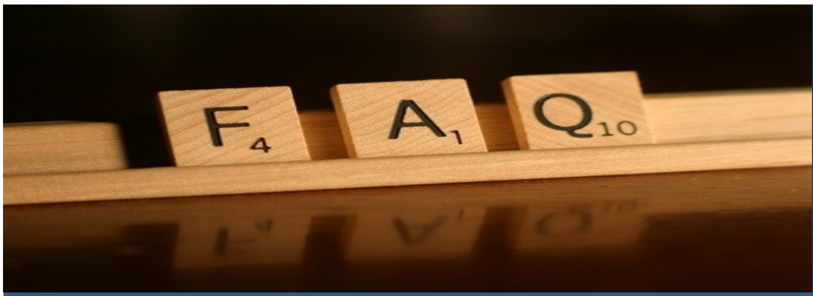

Taxing Rental Income

Introduction

When a house or apartment is let for the first time there are a number of tax issues to consider.

Rental income is subject to income tax as Case V income so a taxpayer renting a property is required to file an income tax return, a Form 12 if the only other income is taxed via PAYE and a Form 11 in other cases.

The gross rental income due to a taxpayer in a calendar year is chargeable to income tax (and USC/PRSI) at the marginal rate with deductions allowed for expenditure on the property in the same period.

If mortgage repayments and expenses are greater than the rental income taxpayers sometimes take the view that no income tax is due as no profit arises but as a deduction can only be taken for loan interest (and not on repayments of loan capital) a tax profit can arise where there may be a perceived rental loss.

What Expenses can be Deducted from Rent?

The expense must be a cost to the taxpayer claiming the deduction, and cannot be capital in nature (i.e. the expense must relate to maintenance or repair of the property rather than improvement of the property). The taxpayer should retain vouchers for 6 years.

When calculating the tax on rental income a separate calculation is done for each letting and the following expenses may be claimed:

- rents payable by the landlord in respect of the property, e.g. ground rent,
- rates levied by a local authority on the property,
- the cost of any service or goods provided to the tenant, which are not separately paid for but are included in rent (e.g. gas, electricity, water and refuse collection),
- maintenance of the property, e.g. cleaning, painting and decorating,
- insurance of the premises against fire, public liability insurance, etc.,
- costs of management, e.g. the actual cost of collection of rents and advertising for tenants, legal fees for leases etc.
- accountancy fees paid for the rental accounts,
- the costs of repairs, such as damp and rot treatments or replacing roof slates.

From 25 December 2017, up to €5,000 can be claimed as a deduction for pre-letting expenditure on a vacant property that has been vacant for at least 12 months. The property must be rented for at least 4 years or this deduction is subject to a clawback. The expenses are claimed in the year that the property is first rented.

What Expenses are Not Allowed?

Revenue indicate in their Guide to Rental Income (leaflet IT70) that the following expenses are not allowed:

- Pre-letting expenses, except as noted above. An exception is also made for auctioneer's letting fees, advertising fees and legal expenses incurred on first lettings, which are allowable.
- Post-letting expenses, i.e. expenses incurred after the final letting,
- Expenditure incurred between lettings if the owner occupies the property between lettings,
- Capital expenditure incurred on additions, alterations or improvements to the premises (unless the payment is claimed as allowances on fixtures and fittings),
- Expenses incurred in the letting of premises on an uneconomic basis,

A payment must be made so a taxpayer who works on his own rental property cannot deduct a labour cost for his own labour.

If a tax deduction has been allowed for expenditure on a property, the expense cannot be deducted again as relief will not be allowed twice for one payment.

> *Example:*
> *An expense may be borderline between the capital category and the revenue category (e.g. if a taxpayer has to repair windows but opts instead to fit a much better quality of windows to improve the BER rating of the property). If the taxpayer opts to treat the payment as a revenue expense and deduct it in his income tax return, he cannot deduct it again as a capital cost when he sells the property.*

Rent a Room

- Case V income from renting a room in a principal residence of up to €14,000 per annum is exempt from income tax, PRSI and USC. Related expenses are not allowed.

- Expenses incurred by a lessor in the interval between two lettings will be allowed by Revenue if the lessor does not occupy the property between the two leases, and the premises are let again at the end of that period.

Airbnb

Short term lettings of property are subject to tax under Case IV (if they are occasional) and under Case I if they are in the course of a trade. Case V rules such as the rent a room relief do not apply.

What are Capital Allowances?

Wear and tear allowances are available for the capital cost of fixtures and fittings (for example, furniture, kitchen appliances, etc) provided to furnish rented residential accommodation.

The expenditure must be incurred wholly and exclusively on a house which is used solely as a dwelling and let furnished on bona fide commercial terms on the open market. The rate of wear and tear allowed depends on when the capital expenditure was incurred. For expenditure incurred on or after 04 December 2002 the allowance is 12.5% per annum for eight years.

Interest on Loans

Interest arising on a loan to purchase, improve or repair a property, can be claimed as a deduction from rent. Certain mortgage protection policy premiums taken out to secure the loan will also be allowed. It should be noted that mortgage payments on a “repayment” loan consist of a capital as well as an interest element and the capital element of the mortgage repayment cannot be deducted for income tax purposes.

The lending institution will issue a letter or interest certificate after the end of each calendar year advising of the interest charged in the course of that year.

The amount of interest that can be deducted in respect of interest incurred on loans for residential properties was restricted to 75% from 07 April 2009 to 31 December 2016.

The deduction available increased to 80% as of 01 January 2017, 85% as of 01 January 2018 and will return to a 100% deduction by 2021 (5% increment per annum).

From 01 January 2016, 100% of the interest is deductible if the property is leased to tenants receiving certain social housing supports, the tenancy must be in place for at least a 3 year period.

Interest on any loan, or part of a loan, that is used to pay stamp duty, legal fees and other expenses in relation to the property is not allowed. Only interest relating to the actual purchase, improvement or repair costs is allowed.

For 2006 onwards interest on money borrowed for the purchase, improvement or repair of rented residential properties is not allowed unless the landlord has registered each letting with the Residential Tenancies Board.

There is no deduction for interest accruing on or after 06 February 2003 where a residential property was purchased from a spouse, or on or after 27 July 2011 if it was purchased from a civil partner. This restriction does not apply to purchases between legally separated or divorced spouses or civil partners in a civil partnership that has been dissolved.

Interest can only be deducted during the period in which the property is let. This means that interest arising in the period between the purchase and first letting or after the final letting will not be allowed.

What If Rent Is Not Received?

A landlord who proves that rents are irrecoverable or were waived without consideration to avoid hardship, is treated as if there was no entitlement to receive the relevant rent. If the waived rent is later received it is taxable when received.

Caveat: *These notes are intended as a general guide only. OHT has endeavoured to provide an accurate commentary but the notes cannot cover all circumstances. OHT strongly recommends that formal tax advice be obtained before any steps are taken that may have a tax effect.*

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