



Taxation of Rental Income

Article by David FitzGerald, CTA Examiner on behalf of the CPA Examinations Team for Foundation Level Taxation, January 2023.

The key rental incomes addressed in this article are:

- Income from letting property in Ireland
- Income from letting property abroad
- Income from letting a room in one's own residence
- Income from short term lets

1. Income from renting property in Ireland.

Income from renting property in Ireland is taxed under Sch D Case V. We will look at two income streams covered in Sch D Case V:

- Income from actual letting of property in Ireland or from "easements" – where income is derived from a property (e.g. income from granting a right of way).
- Where a premium is paid by a tenant on signing a lease, part of the premium is taxed as Sch D Case V income

Taxable income is Gross Income less allowable expenses and capital allowances.

It is necessary for taxpayers to keep accounts of income and expenditure in respect of each property they rent out. If a taxpayer has income from more than one rental property in Ireland, the taxable income from all properties must be aggregated when making their tax return, thus having one rental taxable income figure for the year. The income from properties overseas should not be included in this aggregation.

Premiums

When a tenant signs a lease, they may, in addition to annual rent be obliged to pay a once off lump sum – aka a "Premium".

When this happens, it is necessary to identify how much of the premium is income, and how much is a capital receipt. The income element is taxable – as rent - under Sch D Case V; the capital element is not.

This applies to premiums paid on short leases only – i.e. leases for less than 50 years. To ascertain how much of the premium is to be regarded as rent the following formula is used:

$$\text{Premium} \quad \times \quad (51 - \text{Years in lease})/50$$

(The balance will be regarded as a capital receipt).

Example:

Joe let out an office in January 2023 to Mary on a 25-year lease for an annual rent of €55,000 and a premium of €65,000.

The annual rent of €55,000 will be taxed in the normal manner annually under Sch D Case V.

The amount of the premium of €65,000 to be taxed as rental income in 2023 is determined as follows:

$$\begin{aligned} & \text{Premium} \quad \times \quad (51 - \text{length of lease})/50 \\ & 65,000 \quad \times \quad (51 - 25)/50 \quad = \quad 33,800. \end{aligned}$$

For 2023, Joe will be taxed under Sch D Case V on €55,000 (annual rent) , plus €33,800 (premium) = €88,000.

€31,200 (the balance of the premium) will be taxed as a capital receipt, under the Capital Gains Tax rules.

Allowable Expenses

Expenses incurred in relation to the letting of a property may be deducted from rental income for tax purposes. This excludes capital expenditure and depreciation. Capital allowances may be claimed for qualifying assets.

Allowable expenses which may be deducted are:

- Repairs (but not capital expenditure)
- Some pre-letting expenses.
 - Expenses incurred in order to let a property for the first time before a tenancy agreement is entered into are allowable such as advertising fees, & associated legal fees.
 - Expenditure on a premises which has been vacant for at least 6 months and which is then let as a residential premises is allowable provided the expenditure was incurred in the 6 months before the premises is let as a residential premises. The maximum allowable expenditure is €10,000 per vacant premises. Additionally, a claw back may arise in certain circumstances.

- Interest
 - Interest on money borrowed (e.g. mortgage interest) to buy, improve or repair the property is allowable. However interest is not allowable in respect of residential properties where a tenancy is not registered with the RTB.
- Maintenance of Property
 - Management Fees relating to the Property, where a third party is paid to manage the property. However, the cost of the Landlord's time in managing the property is **not** a deductible expense.
- Landlord provided services
 - Where the landlord bears the cost of any charges, (e.g. utilities) the cost is an allowable expense.
- Insurance
- Rent & Rates
 - Ground rent paid by a Landlord; rates and other charges in respect of the property (service charges – water; refuse collection etc), but not Local Property Tax.
- Accountancy fees
 - Accountants' fees relating to accounts preparation for properties.
- Mortgage Protection
 - Where a landlord takes out an insurance policy to pay the outstanding mortgage balance in the event of the landlord's death, the annual cost of the insurance premium is an allowable expense.
- RTB fees
 - Where a tenancy is registered with the Residential Tenancies Bord (RTB), the associated fees are allowable.

Example:

Roisin lets out a house for €3,000 per month. During 2022, she incurred the following expenses:

| | € |
|--------------------------------------|--------|
| 1. Repairs to the heating system | 1,500 |
| 2. Mortgage payments (note 1) | 12,000 |
| 3. Management fee to a letting agent | 3,000 |
| 4. Local Property Tax | 1,200 |
| 5. Accountancy fees | 750 |
| 6. RTB Fees | 100 |
| 7. New Kitchen equipment (note 2) | 1,000 |

TOTAL **€19,950.**

Note 1: The mortgage payments consisted of €8,000 capital repayments and €4,000 interest.

Note 2: This kitchen equipment was the first purchase of any asset for use in the house for over 8 years.

Her Sch D Case V taxable income for 2022 is calculated as follows:

| | € |
|---|---------|
| Gross Rent | 36,000 |
| Allowable Expenses | |
| Repairs | 1,500 |
| Mortgage (Interest only) | 4,000 |
| Management Fee | 3,000 |
| Accountancy Fees | 750 |
| RTB fees | 100 |
| Total Expenses | (9,350) |
| Rental Profit | 26,650 |
| Less Capital Allowances (1,000 x 12.5%) | (125) |
| Sch D Case V taxable income | 26,525 |

Basis of Assessment

The basis of assessment is the income earned in a year of assessment – as opposed to income actually received.

Example:

James lets out an apartment at a rent of €18,000 per annum. During 2022 his tenant did not pay his November or December rent until January 2023. James is taxed on the full €18,000 in 2022, although he only actually received €15,000 during 2022.

Income derived from short term lettings (see Note 4 below) is not taxed as Case V income.

Expenses Between Lettings

Where expenses are incurred between two tenancies are they are allowed subject to 2 conditions:

- Between the two lettings the landlord does not occupy the property
- The property is actually subsequently let.

Capital Allowances

Capital expenditure is not an allowable deduction against Case V income. However, Wear & Tear allowances may be claimed, and are deducted from Case V income for tax purposes.

Wear & Tear allowances are allowable at the rate of 12.5% of the cost of qualifying assets for 8 years.

Example:

Sally lets out a house for €24,000 pa. During 2022 she incurred €12,000 of allowable deductions. She also purchased new fridge/freezer, dishwasher, washing machine and tumble dryer all for €4,000.

She is entitled to claim €12,000 off her gross rent of €24,000, leaving a rental profit of €12,000. Additionally, she is entitled to claim an allowance of €500 (€4,000 x 12.5%) in respect of the equipment she bought.

Rental Losses

When a taxpayer incurs a loss on renting out a property, the following happens:

- A loss on one property may be offset against a profit on another property (in the current year).
- A net loss (on all properties) in any year may be carried forward and offset against future Sch D Case V profits. The losses may not be offset against any other taxable income, nor against foreign rental income.

Example:

Joan lets out 4 properties in Ireland. Her taxable income for each for 2020, 2021 and 2022 is as follows

| Property | A | B | C | D | Net |
|--------------------|---------|-------|-------|-------|---------|
| 2020 Profit (loss) | (6,500) | 4,000 | 1,000 | (500) | (2,000) |
| 2021 Profit (loss) | (6,500) | 5,000 | 1,500 | (500) | (500) |
| 2022 Profit (loss) | (4,000) | 5,000 | 6,000 | 1,000 | 8,000 |

Her Case V taxable income for each year is

| | | |
|-----------------------|---------|---------------|
| 2020 | 0 | (€2,000 loss) |
| 2021 | 0 | (€500 loss) |
| 2022 | 8,000 | |
| Less losses forward | (2,500) | |
| Case V Taxable income | €5,500 | |

Rents paid to non-resident Landlords

When rent is paid to a non-resident landlord, the tenant (or letting agent) must deduct 20% of the rent and pay it over to Revenue. The landlord will be given a credit for the 20% withheld when they make their tax return.

Uneconomic Lettings

“Favoured lettings”- (e.g. to a family member) may result in a rental loss (aka an “uneconomic letting”). Losses arising may not be used to offset other rental profits.

2. Income from letting property abroad

The taxation of rental income from letting property abroad is very similar to that of taxing income from properties in Ireland. It is, however taxed under Sch D Case III, but the allowable deductions are the same as for domestic rental income (Sch D Case V). However, the requirement to register with the RTB in the case of residential properties does not apply. This means that mortgage interest relief may not be restricted as an allowable deduction.

Foreign rental losses may not be offset against other Case III income, nor against Irish rental profits. However, losses on one foreign rental property may be offset against the profits of another foreign property.

3. Income from letting a room in one’s own residence

Under this scheme (aka Rent a Room Relief) an individual may receive up to €14,000 pa income from tenants in the individual’s own home, without incurring a tax liability. While such income is tax free, it must however be declared in an individual’s tax return.

It is important to note that where a taxpayer receives more than €14,000 all of the income is taxable (and not just the excess over €14,000)

4. Income from letting accommodation in the short term.

In recent years it has become common for people to provide accommodation on a short term basis which is neither a B&B/hotel nor a traditional landlord/tenant relationship, and many online platforms facilitate this. Such income is taxed under Sch D Case IV. However, the taxation rules are quite different from the other scenarios.

Key among these differences are:

- Unlike other rental income there is no legal taxpayer right to deduct expenses incurred from gross income. The Revenue Commissioners, however, will allow a taxpayer to deduct direct costs which may arise. However, general overhead costs may not be deducted on the grounds that they would be incurred regardless as to whether the property is let or not.
- No capital allowances are available
- Pre-trading (letting) expenses are not allowed.