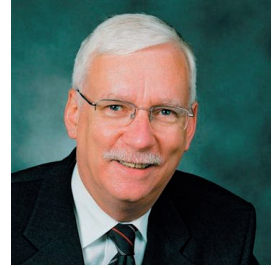


# Rent a Room Relief & Airbnb

David FitzGerald reviews Rent a Room Relief and its interaction with Airbnb.



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With the increasing focus on the current housing shortage (and expense of student accommodation) the Rent-a-Room Relief scheme has come under the spotlight recently.

The scheme offers an opportunity to taxpayers to avail of tax exempt income (including PRSI & USC) up to €14,000 per annum through letting of rooms in their own homes. It is not an opportunity that suits everybody but may suit those who need to supplement their income (e.g. pensioners), or those who have burdensome mortgages who are happy to have paying housemates.

To put it in context, a pensioner whose sole income is the state pension could augment this through the Rent a Room Scheme and bring their income to c €30,000 taxable equivalent. Alternatively, a first-time buyer with mortgage repayments of c €1,150 per month could recoup this by availing of the scheme.

However, as with most things in life, there is a price to pay, and in such cases the price is that of having, typically a stranger, sharing one's home, which sometimes can lead to difficulties. As stated above, it's not for everybody.

The numbers availing of the scheme have risen in recent years. In 2012, 5,250 taxpayers availed of the scheme and this had risen to 7,350 in 2016 (the latest year for which statistics are available). Interestingly, although participation has risen by 40% over those years the cost of the tax relief claimed has risen by only 16% (from €8.0m to €9.3m). This suggests the use of the rent-a-room relief by homeowners for fewer rooms, or for shorter periods, or both.

The relief is also topical because of the assumption on the part of some people that the income from letting rooms via online booking platforms (e.g. Airbnb) for short periods qualifies for the relief. Revenue have confirmed that this assumption is incorrect. The "Rent-a-Room" relief cannot be availed of in respect of short-term guest accommodation.

In 2017 the Government raised the income limit from €12,000 to €14,000 and while we do not know as yet what approach they will take for 2019 and beyond, it is most likely that it will at least be retained, if not increased.

Subject to the qualifying conditions, income under the scheme which is €14,000 per annum or less is exempt from income tax, PRSI and USC. The income may include charges for provision of ancillary services – for example meals, laundry etc. However, if the gross income exceeds the threshold, ALL the income (and not just the excess) is taxable in the normal manner.

## Conditions

- The rooms must be in the taxpayer's main or sole residence, either in a room, or rooms or a self-contained unit within the residence. It is not necessary for the taxpayer to own the residence – if someone rents out a room in a dwelling that s/he is renting from someone else, Rent a Room Relief can still be availed of. A self-contained unit adjacent to, but not attached to the property will not qualify.
- The occupant(s) must use the room(s) on a long-term basis. Revenue have advised that lettings to students for an academic year or term meet this requirement.

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- The gross amount received must not exceed €14,000 in any one year. This will include all income associated with the letting – e.g. including provision of meals etc.
- Where more than one individual is entitled to the income, the limit is divided equally between them.
- Although tax exempt, the income must be declared in an individual's tax return.
- No deduction is allowable for any related expenses which may have been incurred.

### The relief does not apply where:

- The income is from the child of the taxpayer, or the taxpayer's civil partner (but there is no restriction where rent is paid by other family members).
- The income is from a connected person to the taxpayer or where the taxpayer is an office holder or employee of the person making the payment.
- The income is from occasional visitors – for example visitors who book rooms on an ad hoc basis via booking platforms.
- The income is from rooms let for a business purpose.

### Examples:

- Mary lets 2 rooms to 2 individuals in her own home and provides meals to them. The combined income is €14,000 pa. Under Rent a Room relief, no Tax, USC or PRSI is payable on the €14,000.
- Martha lets 2 rooms to 2 individuals in her own home for €14,100 in total. Included in the €14,100 is an optional charge of €600 for meals, which the individuals have opted to pay. As the total gross income is €14,100 none of this income is exempt, and she is liable for Tax, PRSI and USC on this income of €14,100. (if the meals had cost €600 to provide, she would be entitled to deduct this from the €14,100 leaving a net taxable income of €13,500, less any other allowable expenses).

Note: A taxpayer in receipt of income below the €14,000 threshold which qualifies for Rent-a Room relief may opt not to claim the relief. In such cases the taxpayer will specifically elect to have the income assessed in the normal manner. The income is then taxed under Case IV or Case V depending on the circumstances of each case. An election must be made each year, and must be made, in writing, on or before due filing date.

### Example:

David spent €15,000 renovating a basement in his residence. €12,000 of this qualifies for wear and tear allowances. He also has incurred a further €1,000 in allowable expenses. He let this for 3 months in 2017 for a total rent of €1,750.

In addition, he has a separate property which generates €20,000 rent and he has €2,400 allowable expenses.

He has two options – (1) avail of Rent a Room relief in relation to the basement or (2) opt not to avail of the relief.

He also has unrelated income of €70,000.

#### Option 1 (Avail of Rent a Room relief)

Rental income (1)	20,000		
Less	(2,400)		
Net rental income		17,600	
Other Income		70,000	
Taxable Income			87,600

#### Option 2 (opt **not** to avail of Rent a Room relief)

Rental income (1)	20,000		
Less	(2,400)		
Net Rental Income (1)		17,600	
Rental Income (2)	1,750		
Less Rental Expenses	(1,000)		
Less Wear and Tear Allowance (€12,000 x 12.5%)	(1,500)		
Net rental income (loss) (2)		(750)	
Other Income		70,000	
Taxable Income			86,850

Thus, in this case, David would opt not to avail of Rent a Room relief.

### Capital Gains Tax

When a principal private residence is disposed of, any gains are normally exempt from CGT. Additionally, where part of the residence is let out the exemption from CGT is restricted. However, the restriction does not apply in relation to periods where the rent a room relief was availed of.