BT CONSULTING

BRADLEY TAX CONSULTING

Deductible Rental Expenses

The material contained in this note is for general information purposes only and does not constitute legal, taxation or other professional advice. While every care has been taken to ensure that the information in this note is accurate and up to date, you should seek specific legal and/or taxation advice in relation to any decision or course of action. No liability whatsoever is accepted by Bradley Tax Consulting for any action taken in reliance on the information in this note.

© 2018 Bradley Tax Consulting. All rights reserved.

Rental income from residential property

Many people who own rental properties are surprised that they have a tax liability in circumstances where the monthly mortgage repayments are higher than the rental income earned. The reason for this is that a deduction is available for mortgage repayments that relate to interest but no deduction is available for capital repayments.

A person earning rental income is generally considered to be a chargeable person for tax purposes and will therefore have an obligation to file an income tax return (Form 11). For tax year 2016 and subsequent years a chargeable person includes a person with net assessable non-PAYE income of €5,000 or gross non-PAYE income of €30,000.

Irish rental income is subject to income tax, PRSI and USC.

Deductible expenses

When calculating the taxable rental profit for a year, a landlord can deduct the following non-capital items from gross rental income generated by a rental property:

- Rents payable by the landlord in respect of the property, e.g. ground rent
- The cost of any service or good provided to the tenant, which are not separately paid for by the tenant but are included in rent (e.g. utility bills and refuse collection)
- Maintenance of the property, e.g. cleaning
- Certain insurance premiums, e.g. fire, public liability insurance, etc.,
- Costs of management, e.g. the cost of rent collection, advertising for tenants, legal fees to cover drafting of leases or the issue of solicitors' letters to tenants who default on payment of rent
- Accountancy fees specifically relating to the preparation of a rental account
- Repairs of a non-capital nature
- Certain mortgage interest repayments (see below)

The following expenses are not deductible for income tax purposes:

- Pre-letting expenses, i.e. expenses incurred before the date the property was first let. (with a special exception for auctioneer's letting fees, advertising fees and legal expenses incurred on first lettings)
- Post-letting expenses, i.e. expenses incurred after the final letting of the property
- Expenditure incurred between lettings when the owner occupies the property between lettings
- Expenditure incurred on the letting a property for below the market rent

- Capital expenditure incurred on additions, alterations or improvements to the premises, unless the payment is claimed as part of a specific capital allowance that applies to fixtures and fittings (see below)

- Expenses incurred on lettings that are exempt under the Rent-a-Room provisions. This is based on the simple principle that if the income is not chargeable to tax, then the associated expense should not to be deductible and

- Local property taxes

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 on bona fide commercial terms for open market rent.

The allowance is 12.5% of the original cost of the fixtures and fittings and is deducted over a period of eight years.

Capital allowances are deductible for the purposes of income tax and PRSI but not USC.

Mortgage interest

Interest arising on a loan to purchase, improve or repair a property can be claimed as a deduction from rent where the tenancy is registered with the Private Residential Tenancies Board ("PRTB") as can certain mortgage protection policy premiums taken out to secure the loan.

It should be noted that mortgage payments consist of a capital as well as interest payments. **The capital element of the mortgage repayment is not deductible for income tax purposes.** Therefore, capital repayments must be funded out of the after tax rental income. Landlords should not forget this point when computing their rental cash flows.

75% of the interest paid on a mortgage was deductible in the period 7 April 2009 to 31 December 2016. This was increased to 80% as of 1 January 2017 and will return to 100% by 2021 (5% increment per annum).

Interest on any loan or portion 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 borrowings used for the actual **purchase, improvement or repair** of the property costs is allowed.

There is no deduction for interest accruing on or after 6 February 2003 where a residential property was purchased from a spouse, or on or after 27 July 2011 where the property was purchased from a civil partner.

This restriction does not apply in respect of purchases between legally separated or divorced spouses or civil partners in a civil partnership that has been dissolved.

It is also important to note that 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.**

Losses and other issues

If a rental loss arises in a tax year, the loss in most cases may only be carried forward to reduce the rental profit for future tax years. Rental losses brought forward are deductible for income tax purposes but not for the purposes of USC or PRSI.

For further information contact:

Name: Marie Bradley, Bradley Tax Consulting
Address: 14 Upper Leeson Street, Dublin 4
Tel: +353 1 400 4123
E-mail: marie.bradley@bradleytaxconsulting.ie