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Guide to Rental Income

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Revenue

Cáin agus Custaim na hÉireann
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Introduction

Rental income is computed on the basis of the gross amount of rents receivable. A surplus (profit) or a deficiency (loss) is calculated separately for each rental source (see Parts 4.8.2 and 4.8.14 of the Income Tax, Capital Gains Tax and Corporation Tax Manual). The rental income chargeable to tax is the aggregate of the surpluses as reduced by the aggregate of the deficiencies. Rental losses occur when the deficiencies exceed the surpluses.

Rental income from property situated in the Republic of Ireland (the State) is chargeable to tax under the provisions of Case V Schedule D Taxes Consolidation Act (TCA) 1997.

Rental income from property situated outside the State is chargeable to tax under the provisions of Case III Schedule D TCA 1997.

In general, the same rules apply for computing income for Case V (Irish rents) and Case III (foreign rents) purposes. However, please note that deficiencies from one source cannot be offset against surpluses from the other. Nor can Irish rental losses be set against foreign rental income or vice versa.

This guide addresses many of the issues that arise in relation to the taxation of rental income. Hopefully it will assist you in understanding those issues and in computing your income or losses for inclusion in your annual return of income.

The legislation concerning rental income is found mainly in Part 4, Chapter 8 TCA 1997. This legislation and related guidance notes are available in the Tax Practitioners section of the Revenue website, **www.revenue.ie**.

Additional sources of useful information, which are also available on the Revenue website, are the Income Tax, Capital Gains Tax and Corporation Tax Manual, Tax Briefing (Revenue's on-line technical journal) and the Irish Tax Implications of Foreign Property Ownership.

This Guide is intended as a general guide to the taxation implications of rental income. As such, it does not attempt to cover every issue which may arise in relation to the subject. It does not purport to be a legal interpretation of the statutory provisions and consequently, responsibility cannot be accepted for any liability incurred or loss suffered as a result of relying on any matter published herein.

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Types of rental income

Rental income derives from a number of sources including:

- the letting of property, e.g. houses, flats, apartments, offices and farmland,
- easements, e.g. payments for the right to erect advertising signs, communication transmitters or for the grant of a right of way,
- the granting of sporting rights, such as fishing and shooting permits,
- payments made by a tenant to defray the cost of work of maintenance or repairs to the premises, which is not required by the lease to be carried out by the tenant,
- certain premiums, including deemed premiums and reverse premiums. See **How are premiums on leases treated for tax purposes?** for additional information,
- conacre letting (see Part 4.8.5 of the Income Tax, Capital Gains Tax and Corporation Tax Manual),
- service charges in respect of services ancillary to the occupation of property,
- insurance recoveries under policies providing cover against non-payment of rent.

What expenditure can be deducted?

Broadly speaking, deductible expenditure is allowable only to the extent that it:

- would be allowable if the receipt of rent were treated as the carrying on of a trade during the currency of the lease or during the period in which you were entitled to the rent,
- is not of a capital nature, and
- is incurred by you.

The following are examples of expenditure you may deduct when calculating your rental income or losses. As advised in the introduction, a separate calculation must be made for each letting.

- rents payable by the landlord in respect of the property, e.g. ground rent,
- rates payable by you to a local authority in respect of the property,
- the cost of any service or goods you provide and for which you do not receive separate payment from your tenant, e.g. gas, electricity, central heating, telephone rental, cable television, water and refuse collection,
- maintenance of the property, e.g. cleaning and general servicing, exterior and interior painting and decorating,
- insurance of the premises against fire, public liability insurance, etc.,
- management, e.g. the actual cost of collection of rents and advertising for tenants, legal fees to cover the drawing up of leases or the issue of solicitors letters to tenants who default on payment of rent. Accountancy fees incurred for the purposes of preparing a rental account may also be deducted (see Part 4.8.4 of the Income Tax, Capital Gains Tax and Corporation Tax Manual),
- repairs, (a 'repair' means the restoration of an asset by replacing subsidiary parts of the whole asset). Examples of common repairs which are normally deductible in computing rental income include:
    1. damp and rot treatment,
    2. mending broken windows, doors, furniture and machines,
    3. replacing roof slates.

  However, you may not claim a deduction for your own labour.

- interest on money borrowed to purchase, improve or repair the let property. As some restrictions apply to deductions for this expense, see Interest paid on borrowings,
- certain mortgage protection policy premiums, (see Part 4.8.9 of the Income Tax, Capital Gains Tax and Corporation Tax Manual),
- expenditure incurred between lettings in certain circumstances,
- allowances for capital expenditure may also be available. Please refer to **Wear and Tear** and **Tax Incentive Schemes**.

Interest on borrowings

Subject to some exceptions, interest on money borrowed to purchase, improve or repair let property is deductible in computing your rental income for tax purposes.

There is no deduction for interest accruing on or after 6 February 2003 where let residential property is purchased from your spouse or on or after 27 July 2011 where let residential property is purchased from your civil partner. This restriction does not apply to purchases between:

- spouses who are legally separated or divorced, or
- civil partners who are separated under a deed of separation or other agreement, arrangement, etc. which give rise to a legally enforceable obligation and which has been entered into as a result of the partners living apart in circumstances where the separation is likely to be permanent, or where the civil partnership has been dissolved.

The deduction for interest accruing on loans used to purchase, improve or repair rented residential property is restricted to 75% of the interest accruing on or after 7 April 2009. For the purposes of the restriction, the interest is treated as accruing on a daily basis. The date the loan is taken out is not relevant. From 1 January 2016, a 100% interest deduction is allowable in respect of residential property which is let for a period of 3 years to a tenant or tenants in receipt of certain social housing supports. Relief for the additional deductions in respect of the 3 year period in question is by way of a claim to Revenue after the end of the period. Please refer to **Notes For Guidance** for further information.

The 75% restriction does not apply to loans taken out to finance non-residential property and the full amount of interest continues to be deductible in such cases. In the case of mixed residential and non-residential properties, interest should be apportioned on a just and reasonable basis before the restriction is applied to the residential part of the interest.

For 2006 onwards interest on money borrowed for the purchase, improvement or repair of rented residential properties is not deductible unless you can show that you have complied with the registration requirements of the Private Residential Tenancies Board in relation to all tenancies that existed in the particular premises in the chargeable period in question.

All queries relating to the registration requirements/process should be directed to the Private Residential Tenancies Board, PO Box 47, Clonakilty, Co. Cork. Telephone: 0818 303037, Fax: 0818 303039 or **www.prtb.ie** (see Part 4.8.10 of the Income Tax, Capital Gains Tax and Corporation Tax Manual).

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

Interest can only be deducted during the period in which the property is let. This means that interest is not deductible for the period following the purchase of the property up to the time a tenant enters into a lease or after the period of the final letting (but see **Expenditure Incurred Between Lettings**).

Please refer to Part 4.8.6 and part 4.8.10 of the Income Tax, Capital Gains Tax and Corporation Tax Manual for further information on the deductibility of loan interest.

Wear and Tear

Wear and tear allowances are available in respect of capital expenditure incurred on fixtures and fittings (for example, furniture, kitchen appliances, etc.) provided by a lessor for the purposes of furnishing rented residential accommodation. The allowances are available only where the expenditure is incurred wholly and exclusively in respect of a house used solely as a dwelling which is, or is to be, let as a furnished house on bona fide commercial terms on the open market. The rate of wear and tear depends on when the capital expenditure was incurred. For expenditure incurred on or after 4 December 2002 the allowance is 12.5% of the expenditure per annum for eight years.

Tax Incentive Schemes

Home Renovation Incentive (HRI)

The Home Renovation Incentive allows homeowners or landlords claim an Income Tax credit on repairs, renovations or improvement work carried out on their main home or rental property by HRI qualifying contractors. The tax credit is based on work subject to 13.5% VAT. The incentive generally applies to qualifying work carried out and paid for between 25 October 2013 and 31 December 2016 for homeowners and 15 October 2014 and 31 December 2016 for landlords. Please see **www.revenue.ie** for more information.

‘Section 23’ relief

Tax relief, known as ‘Section 23’ relief applies in respect of certain expenditure incurred on the purchase, construction or refurbishment of properties located in certain tax incentive areas that are to be used as rented residential accommodation. The full amount of the allowable cost of the property is treated as an expense against Irish rental income in the year in which the property is first let under a qualifying lease. Any unused relief can be carried forward as rental losses against rental income in later years. The relief is withdrawn if, at any time during the 10-year period following the first letting of the property under a qualifying lease, the property ceases to be a qualifying property, e.g. if it is sold. Please refer to “**A Guide to Section 23 Relief - Rented Residential Relief in a Tax Incentive Area**” for further information on this topic.

Countrywide Refurbishment Scheme

Tax relief under this scheme applies in respect of certain expenditure incurred on the refurbishment of certain rented residential accommodation. The allowable part of the expenditure can be deducted from your Irish rental income over a period of seven years (15% in years 1 to 6 and 10% in year 7). If the property is sold or ceases to meet the qualifying conditions within the 10-year period following the refurbishment or following the first letting after the refurbishment, the relief already granted will be clawed back by charging the amount allowed to date as rent received in the year in which the house is sold or ceases to meet the qualifying conditions. Please refer to **The Countrywide Refurbishment Scheme** for further information on this topic.

What expenditure cannot be deducted?

The following are examples of expenditure you may not deduct when computing your rental income or losses:

- pre-letting expenses, i.e. expenses incurred prior to the date on which the premises was first let apart from auctioneer’s letting fees, advertising fees and legal expenses incurred on first lettings,
- expenditure incurred between lettings in certain circumstances,
- interest in the period following the purchase of the property up to the time a tenant enters into a lease and after the final letting,
- post-letting expenses, i.e. expenses incurred after the final letting,

- capital expenditure incurred on additions, alterations or improvements to the premises unless allowable under an incentive scheme or incurred on fixtures and fittings,
- expenses incurred in the letting of premises on an uneconomic basis,
- expenses incurred on lettings that are exempt under the Rent-a-Room provisions,
- the charge on residential property (sometimes referred to as the second home charge) introduced by the Local Government (Charges) Act 2009.

Please also note the following:

- you may not claim a deduction for your own labour,
- a deduction is not allowed for expenditure that has already been allowed in computing your income for tax purposes, i.e. you cannot obtain relief more than once for the same expense.

High-Income Individuals' Restriction

The amount of "specified reliefs" that a high-income individual can use to reduce his or her tax liability in any single year is limited (see Part 15.02a of the Income Tax, Capital Gains Tax and Corporation Tax Act Manual). Capital allowances and 'Section 23 relief' in respect of the various sectoral and area-based tax incentive schemes are "specified reliefs", as are capital allowances under the Countrywide Refurbishment Scheme.

Non-specified reliefs must be deducted in priority to "specified reliefs". Thus, in relation to rents, normal rental deductions, such as insurance and management expenses, are deducted from the gross rent in priority to 'Section 23 relief' and capital allowances under the Countrywide Refurbishment Scheme. Also, loss relief is given for normal rental losses in priority to losses that are attributable to the use of "specified reliefs". The same principle applies to capital allowances brought forward from prior years that are attributable to both restricted and unrestricted reliefs, (see Part 4.8.11 of the Income Tax, Capital Gains Tax and Corporation Tax Manual.)

Relief for certain income from the leasing of farm land

This relief applies to certain income arising from the leasing of farm land.

Qualifying Lessor

For periods up to 31 December 2014 an individual aged 40 years or over, or an individual who is permanently incapacitated by mental or physical infirmity from carrying on a trade of farming, may be entitled to an exemption from income tax of certain income arising from leasing of farm land. With effect from 1 January 2015 the age restriction or the requirement to be permanently incapacitated were removed by the Finance Act 2014.

The relief

The income is assessed as normal under Case V of schedule D and the amount of the profit from the letting of farmland is included in the total from all lettings. The amount of the relief, (subject to the maximum limit) is allowed as a deduction in arriving at total income as follows:

Qualifying lease taken out from 1/1/2007 to 31/12/2014

- €20,000 where the lease / leases are for a term of at least 10 years
- €15,000 where the lease / leases are for a term of at least 7 years
- €12,000 of annual leasing income where the lease / leases are for a term of at least 5 years

Conditions

- The farm land must be in the State.
- Leases between close relatives do not qualify.

- Qualifying lease is a lease of farm land which is in writing or evidenced in writing, is for a definite term of 5 years or more, and is made on an arm's length basis between one or more qualifying lessors and one or more qualifying lessees.
- The relief will not operate to create a loss.
- The relevant exemption limit applies irrespective of the number of qualifying leases held.

Changes effective from 1 January 2015

Thresholds for exemption where qualifying lease is taken out on or after 1 January 2015

- €40,000 where all the qualifying leases are for 15 years or more,
- €30,000 where all the qualifying leases are for 10 but less than 15 years,
- €22,500 where all the qualifying leases are for 7 but less than 10 years, and
- €18,000 where all the qualifying leases are for 5 or 6 years.

Definition of qualifying lessee

A company may be an eligible lessee provided it is not connected with or controlled by the qualifying lessor(s).

(See Part 23.1.23 of the Income Tax, Capital Gains Tax and Corporation Tax Manual).

Expenditure incurred between lettings

Allowable expenditure incurred in the period between the termination of one lease and the granting of another lease by the same landlord is deductible provided the landlord was not in occupation of the premises during that period.

Rent-a-Room Relief

If you let a room (or rooms) in your sole or main residence as residential accommodation, including, for example, rooms let to students for the academic year, and the gross amounts receivable ("relevant sums"), including monies for food, laundry or similar goods and services, does not exceed the exemption limit for the year of assessment in question (€12,000 per annum from 1 January 2015), the profits or losses on the relevant sums are treated as nil for income tax purposes. Thus, profits are disregarded for income tax, PRSI and USC purposes and losses cannot be offset against rental profits from other lettings.

However, where the gross income from rent-a-room lettings exceeds the exemption limit, the profits for the year in question are computed by reference to the gross income, not just on the amount by which that income exceeds the exemption limit.

Total relevant sums are a gross figure, i.e. no account is taken of any expenses incurred in generating the relevant sums.

Where more than one individual is entitled to the relevant sums, the limit is divided equally between them.

The room or rooms must be used for the purposes of residential accommodation, i.e. the occupant is using the room, either on its own or in conjunction with other parts of the residence, as a home. The relief does not apply to rooms that are used for the provision of accommodation to occasional visitors for short periods, including, for example, where the accommodation is provided through online accommodation booking sites.

You cannot avail of rent-a-room relief in respect of payments for accommodation in the family home by your child or your civil partner's child regardless of whether or not the child has claimed tax relief on the rent paid. There is no restriction where rent is paid by other family members, for example, nieces and nephews.

Similarly, the relief does not apply to payments which you, or a person connected with you, receive either directly or indirectly in respect of accommodation provided in your family home where you are an office holder or employee of the person making the payment or of a person connected with the payer. For example, relief is not due where you receive payment from your employer in respect of accommodation provided by you in your family home, for individuals visiting the employer for work related or training trips.

The relief does not affect your entitlement to mortgage interest relief nor capital gains tax exemption on the disposal of your residence.

You can opt out of the relief for a year of assessment by making an election on or before the return filing date for the year of assessment concerned.

If you claim relief you must provide details of the relevant sums on your annual tax return, notwithstanding that the profits or losses from the letting(s) are disregarded for income tax purposes.

See Part 7.1.32 of the Income Tax, Capital Gains Tax and Corporation Tax Manual for further information on Rent-a-Room Relief.

What if a premises is only partly let?

If part of a premises is let, only expenses incurred on the let part are taken into account in computing rental income. For example, if rooms are let in a private house and the income received exceeds the 'Rent-a-Room' relief limit "shared" expenses, for example, heating, electricity, etc., should be apportioned based on the occupancy of the house, i.e. the number of rooms occupied by tenants.

Premiums on Leases

Where a premium is payable under the terms of a lease or under the terms on which a lease is granted and the duration of the lease is 50 years or less (i.e. a short lease), a portion of the premium is treated as rent which the lessor is treated as becoming entitled to on the date the lease is granted.

The amount to be treated as rent is computed using the following formula:

P - (N - 1 / 50) x P

where 'P' = the amount of the premium paid and 'N' = the duration of the lease.

This amount will be assessed in addition to any profit rent.

Example:

A premises is let for a period of 18 years at an annual rent of €25,000. A premium of €70,000 is paid. Gross rents are calculated as follows:

Premium treated as rent	€70,000 - (18 - 1/50) x €70,000 =	€46,200
Rent =		€25,000
Total =		€71,200

Also treated as the payment of a premium are:

- a lump sum paid in place of full rent,
- a sum paid nominally for the surrender of a lease,
- a sum paid for the variation or waiver of any term of a lease, and
- an increase in the value of the lessor's interest in a premises where the lease imposes an obligation on the lessee to carry out work (other than ordinary maintenance or repairs) on the premises, if the work was carried out at the time the lease was granted.

It should be noted that capital gains tax may arise on the part of the premium not treated as rent, (see Part 19.2.21 of the Income Tax, Capital Gains Tax & Corporation Tax Manual).

How are rental profits/losses calculated?

Your rental profit or loss is calculated by reference to the rents you are entitled to in any tax year (as opposed to the period to which the income relates).

Example:

A tenant began leasing a house from you on 1 December 2007 and pays rent of €3,000 in four annual instalments on the 1st of each quarter. He/she paid €3,000 on 1 December 2007. As you became entitled to receive the quarters rent on that date, the entire €3,000 is taxable income for 2007. The €3,000 is not apportioned as to make two thirds of it taxable in the tax year 2008.

A separate rental computation is prepared for each rent or easement whereby the allowable expenditure is deducted from the related rents to arrive at a surplus (i.e. income greater than expenses) or a deficiency (i.e. expenses greater than income) for each. The surpluses and deficiencies are then aggregated to arrive at the rental profits or rental losses for the year.

Deficiencies of one spouse or civil partner may not be offset against surpluses of the other.

Deficiencies arising on uneconomic lettings cannot be offset against surpluses from other rents.

As noted in the Introduction, rental income from property situated in the Republic of Ireland (the State) is chargeable to tax under the provisions of Case V Schedule D TCA 1997 and rental income from property situated outside the State is chargeable to tax under the provisions of Case III Schedule D TCA 1997. Accordingly, you must calculate separate rental income figures for Irish and foreign lettings.

What if a loss occurs?

As noted in the previous paragraph the surpluses and deficiencies for each letting or easement are aggregated. A rental loss occurs when the aggregate of the deficiencies exceed the aggregate of the surpluses.

Rental losses on property in the State are carried forward and can be offset only against rental income from property in the State.

Rental losses on property outside the State are also carried forward and can be offset only against rental income from property outside the State see Foreign Rental Income.

Rental losses cannot be offset against non-rental income and, except in limited circumstances for corporation tax purposes, they cannot be carried back to previous years.

Losses sustained from the uneconomic letting of any premises may not be offset against rental income from other premises arising in the same year. Nor may they be carried forward to future years.

Losses on lettings under the rent-a-room scheme are not allowable.

Except in very limited circumstances, the rental losses of one spouse or civil partner cannot be offset against the rental income of the other spouse or civil partner, (see Part 4.8.13 of the Income Tax, Capital Gains Tax and Corporation Tax Manual).

Order of set-off between capital allowances and losses brought forward

Capital allowances arising in a particular year that are attributable to a rental property are to be used in priority to rental losses being brought forward from an earlier year, (see Part 4.8.8. of the Income Tax, Capital Gains Tax and Corporation Tax Manual).

What if rent is not received?

A landlord who proves that rents are irrecoverable or were waived without consideration and the waiver was reasonably made in order to avoid hardship, is treated as if there was no entitlement to receive the amount in question and all necessary adjustments are made.

If some or all of the amount is subsequently received, all relevant years are readjusted as necessary.

How is the tax due on rental income collected?

Rental income is taxed on an actual tax year basis. Details of the income should be entered in the relevant section of your annual tax return. For individuals taxed under the PAYE system who have relatively low rental income, arrangements can be made to have the tax collected by reduction of their tax credits and standard rate cut-off point. Otherwise, the tax due is collected under the Self-Assessment system. **(Leaflet IT10 Guide to Self-Assessment gives full details)**.

Rent Account

A landlord lets two furnished dwellings (neither of which are let to tenants in receipt of social housing supports). The furnishings cost €2,400 and €8,000 in Dwelling 1 and Dwelling 2 respectively and Wear & Tear is due for both premises*. The rental income for tax purposes is calculated as follows:

	Dwelling 1	Dwelling 2
	€	€
Gross Rent	4,000	18,000
Less:		
Insurance	800	1,100
Ground Rent	300	
Electricity/Heating	1,200	2,100
Repairs	900	1,700
Interest**	1,000	2,000
Total deductions	4,200	6,900
Surplus		11,100
Deficiency	(200)	

Rental income for tax purposes	10,900
Less: Wear & Tear	1,300
Amount chargeable under Case V	9,600

* Wear & Tear allowances are €1,300 (€2,400 @ 12.5% + €8,000 @ 12.5%)

** The deduction for interest accruing on loans used to purchase, improve or repair rented residential property is restricted to 75% of the interest accruing on or after 7 April 2009. For the purposes of the restriction, the interest is treated as accruing on a daily basis. The date the loan is taken out is not relevant. A 100% interest deduction may apply in respect of residential lettings to tenants in receipt of certain social housing supports. Please refer to Interest On Borrowings.

Keeping Records

You must keep full and accurate records of your lettings. All supporting records such as invoices, bank and building society statements, cheque stubs, receipts, etc. should also be retained. In general, records must be retained for six years though this period may vary in certain circumstances.

What if your landlord is not resident in the State?

If your landlord resides outside the Republic of Ireland (the State) and you pay rent directly to them or to their bank account either in the State or abroad, you must deduct income tax at the standard rate of tax (currently 20%) from the gross rents payable.

Failure to deduct tax may leave you liable for the tax that should have been deducted.

Example:

Gross Rent per month	€1,000
Deduct tax	€ 200
Pay to Landlord	€ 800

At the end of the year, you must give a completed Form R185* to your landlord to show that the tax has been accounted for to Revenue. The landlord can then claim this amount as credit on their annual Tax Return.

Where the non-resident landlord has an agent, who is resident in the State collecting the rent, you should pay the gross rent to the agent without deduction of income tax.

The agent is then chargeable to tax on the rents as Collection Agent for the landlord and is required to submit an annual tax return and account for the tax due under Self-Assessment. **Leaflet IT10 Guide to Self-Assessment*** provides more detailed information.

Note: The agent appointed need not be a professional person, e.g. they can be a family member or other person prepared to take on the responsibility and who undertakes to make annual tax returns and account to Revenue for any tax due.

*(Also available from Revenue's Forms and Leaflets Service at LoCall 1890 306 706 (ROI only) or +353 1 702 3050 or from your local Revenue office).

For additional information please refer to Part 45.1.4 of the Income Tax, Capital Gains Tax and Corporation Tax Manual.

Foreign Rents

In general, taxable rental income from property located outside the State is computed on the full amount of the income arising, irrespective of whether it has or will be received in the State, and as stated in the Introduction, such income is charged to tax under Case III of Schedule D.

In the case of a person who is not domiciled in the State (or for 2009 and prior years, who is an Irish citizen not ordinarily resident in the State) the taxable rental income is computed on the full amount of the actual sums received in the State without any deductions or reliefs for expenditure incurred.

The same deductions are available in computing the taxable rental income as if the rents had been received in the State. A deduction for interest paid on borrowed money used to purchase, improve or repair property located outside the State is available only where the rents would be chargeable to tax under Case V of Schedule D if they arose in the State.

Rental losses from the letting of property outside the State may not be offset against rental income from the letting of property in the State (and vice versa). Such losses can be offset only against future rental income from property outside the State.

Income from the letting of property located outside the State should be included in the Foreign Income panel of your annual tax return.

For further information on this topic, please refer to **Foreign Rental Income**.

Rent Relief for Private Rented Accommodation

This relief applies to tenants who pay rent for certain private rented accommodation used as their sole or main residence. A tenant may claim relief for the rent paid by completing Form Rent 1. Section 14 Finance Act 2011 provides for the phased withdrawal of this relief over a seven year period for tenants who, on the 7 December 2010 were paying qualifying rent under a qualifying tenancy. The amount of rent that can be relieved is reduced on a gradual basis, culminating in the total withdrawal of the relief for the year 2018 and subsequent years.

Tenants who began renting on or after 8 December 2010 are not entitled to the relief.

A landlord who is resident in the State must, under existing legislation, provide a receipt for rent paid to his/her tenant when requested to do so.

Where a landlord resides outside the State and rent is paid directly to him/her or into his/her bank account or to an agent who resides outside the State, the tenant must, under existing legislation, deduct income tax at the standard rate (2011: 20%) from the gross rent payable. For further information please refer to **What if your landlord is not resident in the State?**

This relief also applies to rent payable for premises outside the State.

The relief can be claimed where a child pays rent to his/her parents. The amount paid however must be rent as the term would normally be understood and not merely a contribution towards the upkeep of the household. Since 2007, where the credit is claimed by a child the parents cannot claim Rent-a-Room relief. This means that the parents must include the rental income from such a letting on their annual Tax Return.

For further information on this relief, please refer to Part 15.1.11 of the Income Tax, Capital Gains Tax and Corporation Tax Manual.

‘Rent-to-Buy’ (and similar) Schemes

‘Rent-to-Buy’ and similar schemes are essentially schemes, to provide an incentive for people to purchase a property by giving them the opportunity to live in the property for a trial period before deciding whether to purchase that property and by discounting the purchase price of the property in certain situations.

A common type of arrangement is for the potential purchaser to occupy the property under a letting agreement. Where the person decides at some stage within a pre-agreed period to purchase the property, the purchase price is reduced by some, or all, of the rent that has already been paid. The purchase price may be further discounted to reward early purchase. Usually, any rent that has already been paid is forfeited where the person decides not to purchase.

There are many variations on this type of ‘Rent-to-Buy’ scheme. For example, the prospective purchaser may occupy the property under a caretaker’s agreement and, rather than paying rent, he or she pays a deposit towards the purchase price of the property. Another variation is for the prospective purchaser to make a payment for an option to purchase the property at a pre-agreed price within a pre-agreed timeframe. Such deposits and option payments may be paid up front or by instalments over the pre-agreed period.

Tax Instruction 22.1.3 outlines some of the tax consequences that are likely to result from different types of arrangements from the perspective of both vendor and purchaser.

Capital Gains Tax

Where a property that has been let is disposed of, Capital Gains Tax may arise on the disposal. The chargeable gain is calculated by deducting any allowable expenditure from the amount realised on the disposal.

The allowable expenditure may include:

- The cost of acquisition of the property and any costs of acquisition such as solicitors/ auctioneers fees,
- Any costs incurred in improving the value of the property,
- Any costs of disposal such as solicitors/auctioneers fees.

Expenditure on costs of acquisition and improvement may be adjusted to take account of inflation. Where a disposal is made on or after 1 January 2003, the indexation relief will only apply for the period of ownership of the asset up to 31 December 2002. No relief is due if period of ownership is less than 12 months.

Further information on Capital Gains Tax generally is contained in **Booklet CGT 1**, Guide to Capital Gains Tax, and **Leaflet CGT2** - Capital Gains Tax - A Summary of the Main Features.

Revenue Commissioners
Febuary 2016

Designed by the Revenue Printing Centre