

# Tax Issues for IPAV members

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# Part 1: IPAV Guide to Renting a Property

## **Part 2: Taxation of Irish Rental Income**

## **Part 3: Revenue Audits**

## Part 2

# Taxation of Irish Rental Income



## How is Rent Taxed?

- Rent “received” versus “receivable”
- “Receivable” = amount entitled to NOT “received”
- Could create a Tax problem for a Landlord who is owed rent.
- “Rent receivable” should be returned on landlord’s tax returns



# Suggested Rent Template for Agents

Client name: \_\_\_\_\_

Property Address: \_\_\_\_\_

Tax year: \_\_\_\_\_

Month	Rent Receivable *	Rent Received	Deposit
January			
February			
<b>Total:</b>			

Note:

- Rental income is taxed by Revenue Commissioners on a “receivable basis”, not rent actually received
- Deposits are not taxable when returned to tenant

## Mortgage Interest – The Big Expense

- Capital element of repayment non-allowable
- Interest on money borrowed for **purchase, improvement and repairs** on investment properties only
- Watch personal borrowing / releasing equity on investment properties
- 75% interest restriction e.g. mortgage interest paid of €10,000 in 2014
- Allowable Interest = €7,500



## Problems encountered with interest/mortgage repayments

- Many landlords incorrectly think full repayment deductible i.e. interest and capital.
- Lower interest rates have created tax bills.
- Deductibility linked to compliance with PRTB.



## Other Tax Deductible Expenses Against Gross Rents – These Reduce Your Tax Bill!!!

- Insurance
- Rates
- Accountancy fees
- Management
- Service Charges
- PRTB Fees – do letting agents complete?



## Other Tax Deductible Expenses Against Gross Rents – These Reduce Your Tax Bill!!!

- Cost of any service or goods provided e.g. ESB, cable TV, telephone rental, etc.
- Legal fees on drawing up leases
- Maintenance
- Mortgage protection policies – careful!
- NPPR, household charge, LPT - NOT deductible.



## Pre-Letting Expenses

- Specifically disallowed before property let if 1<sup>st</sup> time being let
- “In between letting” = ok
- Must be let before sale to claim expenses.



## Capital Expenditure i.e Fixtures & Fittings



- Cost not fully deductible in year 1
- 12.5% over 8 years
- Beds
- Carpets
- Electrical

# Capital Allowances

## Residential

- Fixtures
- Furnished Property (Furniture, Kitchens, Bathroom Suites)

**12.5%**

## Commercial

- Plant & Machinery
- Apparatus used in business
- Functional in carrying on business

### TIP:

- Make clients aware of potential claim available
- Suggest “Health Check”
- Make a comprehensive list of fixtures

### Example:

- Moveable portioning
- Specialised Electric Lighting
- Heating & Ventilation systems
- Sprinkler systems

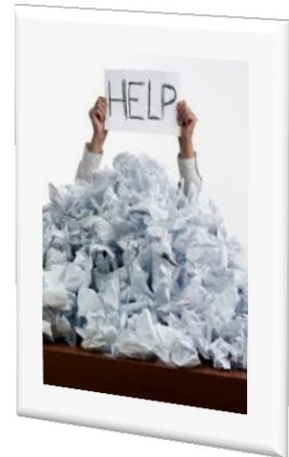
## Categorising Expenses

Definition of a Repair  
("Restoration of an existing asset")  
= full deduction against rents  
(must be no significant capital improvement)

v

Capital Expenditure  
("Fixtures & Fittings")  
= gradual wear and tear allowance

= Confusion!



## Rental Computation

- Gross rent receivable
  - Less expenses
    - Repairs
    - Allowable mortgage interest
    - Other expenses
    - Net rent (loss)

## Principal Residence turned Investment Property

Careful on:

- Mortgage relief at source. Need to advise Revenue of change of circumstances if property no longer one's Principle Private Residence.
- Capital Gains Tax.
- Allowed 12 months "deemed occupation".





## Non-Resident Landlords



- Must file an Irish Tax Return .
- Deduction of tax must occur if no “collection agent” .
- Form available to setup as “Collection Agent”.
- Onus on you to deduct 20% Tax where no Collection Agent in force.

## Non-resident landlords

Black

No collection agent tax number provided means you must deduct 20% off gross rent and pay this to revenue

White

Collection agent tax number provided means you can pay rent in normal manner

## Non-resident landlords

Action: No collection agent in force

- Send tax @ 20% to revenue
- Complete form R185 and provide to client  
(form R185 available under tax articles on IPAV website)

Action: Collection agent in force

Get confirmation of collection agent tax number

## Recent Developments

**NEWS**

- PRTB – Registration essential and a common question in Audits
- More Revenue Verification Audits & Audits in General!
- Revenue looking for separate rental computations for each property
- Cross check of property charges returns
- Revenue verification checks on rental expenditure etc.

## Capital Gains Tax

- CGT going up; 20% → 22% → 25% → 30% → 33%

### Deductible Expenses:

- Enhancement expenditure
- Cost of property
- Stamp Duty
- Legal and auctioneering fees
- All costs associated with purchase and sale
- Indexation
- Properties bought by end of 2013 & held for 7 years exempt from CGT (applies to Europe and EAA)



## Budget 2016

Last year the Minister for Finance said;

“Every economy needs a fully functioning property market”.

This year he said;

“In recognition of the recovery in asset prices, particularly property, I have decided to increase the group A tax free threshold”

→ Not much done for property owners



## Property Measures

- LPT Valuation moved to 2019
- Pyrite exemption

## Overview

- Income Tax & USC

2016 Bands	Rate	2015 Bands	Rate
€0-€12,012	1%	€0-€12,012	1.5%
€12,013 to €18,668	3%	€12,013-€17,576	3.5%
€18,669 to €70,044	5.5%	€17,577- €70,044	7%
€70,045 and above	8%	€70,045 and above	8%
€100,000 and above*	11%	€100,000 and above*	11%

\* Self-employed income only



## Income Tax

- Still 3% differential on S/E earnings > €100k
- Income Tax
  - Self-employed €550 tax credit
  - Home Carers Credit
    - Increase to €1,000 (€810 in 2015)
    - Earnings limit €7,200 (€5,080 in 2015)
- Salary €55,000 single person ↑ €677
- Salary €200,000, one earner, married ↑ €1,092
- Employees earnings > €70,044 – 52%

## HRI

### HRI – Available to investment properties

- Linked to compliance with PRTB
- If vacant, occupied within 6 months of qualifying work
- €4,050 tax credit
- Exp €4,406-€30,000 (excl VAT)
- Renovate property – PPR & Investment Property
- Extended to 31/12/16



# Part 2:

# Revenue Audits



## Revenue Audits

- More Common
- “REAP” – Risk Evaluation Analysis Profiling
- Rents will be examined
- Bank statements analysed
- Leases – Expected to be available on Revenue Audit day
- PRTB – now essential as part of Tax Return
- Cash rental income
- Focus on how property financed/purchased.
- LPT is part of Revenue Audit



## Widening the work of revenue

- Audits
- Investigations
- Non-Audit Interventions
  - Interviews
  - Assurance
  - Pursuit
  - Reviews
  - Joint Investigation
  - Site Visits

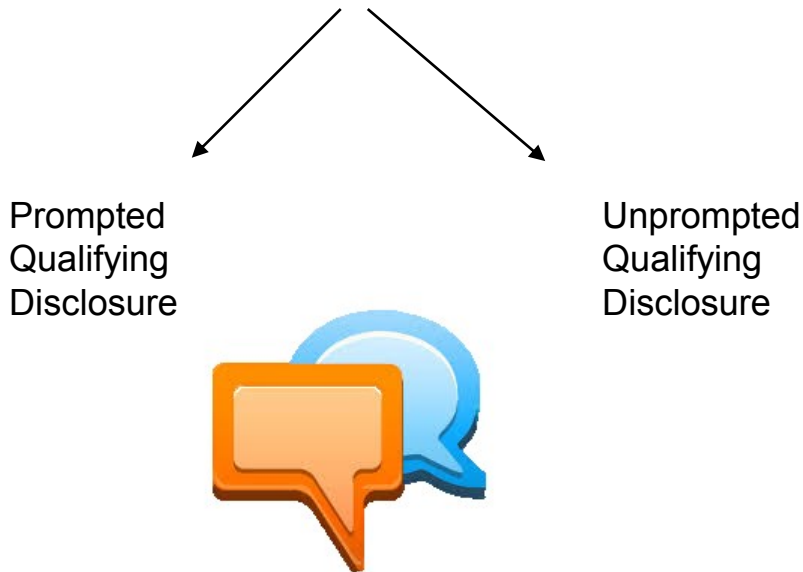


## Revenues door is open

- Self correction
- Innocent errors – 12 months no penalty
- Technical Adjustment - €6,000
- No loss of Revenue claim– Penalty applies



## Qualifying Disclosure



## Capital Gains Tax Valuations

- Professional opinion not always accepted.
- Difference v Valuation submitted





## Valuations are Disclaimers been Used?

A “Tax Head” might use the following:

**To whom it may concern**

This valuation is prepared on the basis of information available.

This firm will not be held responsible for any variations in the stated valuation or any other figures.

This information is given in confidence for your private use only, and, is given on the express understanding that neither this firm nor any of its employees is to be held responsible for any errors or omissions. If you have any questions in relation to the above or require and additional information, please do not hesitate to contact us.

## CGT Valuations & Audits

Liability to a penalty

Valuation Agreed  $\vee$  Proposed Valuation = **A** **B**

If **A** is not greater than **B** x 30% = No Penalty

**TIP:**

- Have supporting documentation
- Methodology
- Risk Disclaimer?



## Behaviour of Tax Payer

- Deliberate behaviour
- Careless behaviour with significant consequences.
- Careless behaviour without significant consequences.



# Penalties

## Penalties

- Make a Voluntary Disclosure
- Prosecution
- Publication



## CAT Planning

Then

20% CAT  
€500,000+ threshold

Now

33% CAT  
€280,000 threshold



Danger of significant tax liabilities in rising property price market



TIP: Consider passing on assets NOW

## Dwelling House Exemption

- Very significant relief – Number of Conditions
- Child PPR- No Gift/inheritance tax
- Does not affect €280k threshold
- Use to transfer property to child which they occupy as PPR
- Use to acquire PPR with child v cash gift for child to finance acquisition

## Tripping up on property charges when selling property



1. LPT Clearance

2. NPPR Clearance

3. Household Charge Clearance

4. If an apartment, make sure service charges were paid

## Contact

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## Any Questions

