

Rent-A-Room Relief

ITCTCGT – Part 07-01-32

This document should be read in conjunction with section 216A Taxes Consolidation Act 1997

Document last updated August 2017

A more recent version of this manual is available.

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1. Introduction

Sums arising to an individual in respect of the letting, for residential purposes, of a room or rooms in his/her home, including, for example, sums arising from lettings to students for an academic year or term, and the provision of meals or other services supplied in connection with the letting may be exempt from income tax where they meet the conditions and are below the annual limit for the tax year in question (see **Paragraph 5**). These sums would usually be taxable under Case IV or Case V of Schedule D. This relief, known as rent-a-room relief, was introduced with the aim of increasing the availability of rented residential accommodation. The governing legislation is contained in **section 216A Taxes Consolidation Act, 1997**.

2. Who can avail of the relief?

The relief applies only to individuals. It does not apply to companies or partnerships. However, it can apply where sums arise to more than one individual, for example, a husband and wife, where there is no partnership.

3. Relief not due

3.1 Payments made to family members

An individual cannot avail of rent-a-room relief in respect of payments for accommodation in the family home by a child of the individual, or the individual's civil partner, regardless of whether or not the child has claimed tax relief on the rent paid.¹ This restriction applies to payments arising on or after 1 January 2007.² There is no restriction where rent is paid by other family members, for example, nieces and nephews.

3.2 Payments made to an office holder or employee

With effect from 1 January 2010 rent-a-room relief does not apply to payments received either directly or indirectly by an individual, or a person connected with the individual, in respect of accommodation provided in the family home where that individual is an office holder or employee of the person making the payment or of a person connected with the payer³. This is an anti-avoidance measure and prevents relief where, for example, an individual receives payment from his/her employer in respect of accommodation provided by the individual in his/her family home, for individuals visiting the employer on, for example, work related or training trips.

¹ Section 473 TCA 1997.

² Section 14 Finance Act 2007.

³ Section 13 Finance Act 2010

4. Qualifying Residence

4.1 Sole or main residence

The room or rooms must be in a residential premises that is situated in the State and that is occupied by an individual as his/her sole or main residence during the particular tax year. An individual may live in more than one residence but can only avail of rent-a-room relief in respect of his/her sole or main residence. In general, an individual's sole or main residence is that individual's home for the greater part of the time and where friends and correspondents would expect to find him/her. The individual does not have to own the residence and it could, for example, be occupied as rented accommodation.

4.2 Self-contained unit

It is not possible to let an entire residence because the room or rooms that are let must form part of the residence and the residence must be occupied by the individual receiving the rent as his/her sole or main residence. The room or rooms can comprise a self-contained unit within the residence such as a basement flat or a converted garage attached to the residence. However, a self-contained unit that is adjacent to the residence but not actually attached to it cannot qualify for the relief.

4.3 Business use/guest accommodation

The room or rooms must be used for the purposes of residential accommodation, i.e. the occupants are effectively using the room on a long-term basis, 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 business purposes.

Income from the provision of accommodation to occasional visitors for short periods, including, for example, where the accommodation is provided through online accommodation booking sites, does not qualify for relief as the visitors use the accommodation as guest accommodation rather than for residential purposes. Income from guest accommodation that is occasional in nature is taxed as other income (Case IV), or where a trade exists, such as a bed and breakfast or a guesthouse operation, it is treated as trading income (Case 1). This type of income, even where it is under the relevant limit, does not qualify for rent-a-room relief.

5. Limit on amount to be exempted

5.1 Exempt amount

Since 1 January 2017, the annual limit on exempt income is €14,000. For the years 2015 and 2016 it was €12,000 and from 1 January 2008 to 31 December 2014 it was €10,000. Where more than one individual is entitled to the income, the limit is divided equally between them.

5.2 Income taken into account

The income that is taken into account in determining whether the relief applies is the amount arising to an individual for the use of a room or rooms in the qualifying residence in respect of their use as residential accommodation. Any amounts arising for meals, cleaning, laundry or other similar goods and services that are incidentally provided in connection with the residential use are also taken into account.

5.3 Gross income

In establishing whether the income arising in respect of residential accommodation and ancillary services (**see paragraph 5.2**) exceeds the exempt limit, the **gross** amount of that income is taken into account. No deduction is allowed for any expenses that have been incurred in connection with obtaining the income.

Expenses would include the normal expenses of maintaining the let room or rooms as well as any capital allowances⁴ on fittings and fixtures that would normally be due were the income to be assessed as rental income (Case V). Such capital allowances are, however, deemed to have been granted – in other words, there is a notional writing down of capital expenditure on furniture, etc. in respect of which wear and tear allowance would, but for this relief, have been granted.

This means that where an individual opts out of rent-a-room relief, the capital allowances deemed to have been allowed for the years of assessment for which the relief was claimed are not allowed in charging the individual's rental income to tax.

6. How rent-a room relief is granted

6.1 Income below exemption limit

Where the gross income arising in a particular year from room rentals and ancillary services (where provided) does not exceed the exemption limit for that year, the income is exempt from income tax, PRSI, the health levy and the income levy, or the universal social charge⁵, as the case may be (**see paragraph 8.2**).

However, where the gross income exceeds the exemption limit the taxable profits are computed on that gross amount in the normal manner, not just on the amount that exceeds the exemption limit.

Although the relief applies automatically, the rent-a-room scheme does not remove the obligation to make a return⁶. An individual who is required to submit an annual return of income must enter the amount of exempt rental income on the return (in

⁴ A deduction for wear and tear of fixtures and fittings in furnished lettings is available against rental income. The current rate is 12.5% per annum of the actual cost on a straight-line basis over 8 years (section 284(6) & (7) TCA 1997).

⁵ Section 3 Finance Act 2011.

⁶ Section 216A(4) TCA 1997

the 'Exempt Income' section of the form). The usual return of income for self-assessed taxpayers is the Form 11.

For taxpayers who's only other source of income is employment income taxed under PAYE filing a Form 12 return which includes the exempt income meets the requirement. Returns of income must be submitted by the return filing date for the year of assessment in question. An extension to this deadline may apply where the Revenue online facility (ROS) is used to pay and file.

6.2 Opting out of the scheme

An individual is not obliged to avail of rent-a-room relief where the gross income is below the exemption limit and can specifically elect to have the income assessed, in the normal way, as rental income under Case V or under Case IV in relation to payments arising for the provision of goods or services in connection with the room rentals. An election must be made for each year for which the individual does not wish the relief to apply. The election must be made in writing to the individual's tax district on or before the return filing date for the particular tax year. Where an individual is required to submit an annual tax return, the election is made by marking the relevant box in the 'Exempt Income' section of the return.

6.3 Time limit for claiming relief

A four-year claim limitation period applies to most claims for repayment of overpaid tax. This may be relevant where, for example, an individual pays tax on rental income without realising that rent-a-room relief applies to such income. A claim for relief is not possible where the claim is made more than 4 years after the end of the year in which the rental income arose.⁷

7. Interaction of rent-a room relief and other reliefs

7.1 Rent allowance

An individual who pays rent for private rented accommodation that he/she uses as his/her main residence is entitled to claim tax relief for the rent paid.⁸ A tenant of an individual who is claiming rent-a-room relief may claim tax relief for rent paid.

7.2 Mortgage interest relief

An individual's entitlement to mortgage interest relief on his/her principal private residence⁹ is not affected by the receipt of income that is exempted from tax under the rent-a-room relief scheme.

⁷ Section 865 TCA 1997

⁸ Section 473 TCA 1997.

⁹ Section 244 TCA 1997.

7.3 Owner-occupier relief

Rent-a-room relief may be claimed by an individual who rents out a room or rooms in his or her home where that home also qualifies for owner-occupier relief under one of the property-based tax incentive schemes, such as the urban renewal scheme. Both reliefs require the claimant to use the premises as his/her sole or main residence during the tax year for which he/she makes a claim.

8. Interaction of rent-a-room relief with other taxes

8.1 Other rental income

An individual can avail of rent-a-room relief in respect of lettings in his/her sole or main residence where he/she also receives rental income from other property. Such income is taxable in the normal way and has no effect on the availability of rent-a-room relief.

8.2 PRSI, income levy, health levy, & universal social charge

Where the qualifying conditions for rent-a-room relief are satisfied, the income in respect of which the relief applies is exempt from PRSI, income levy and the health levy (for 2010 and prior years) and from PRSI and the universal social charge (USC) (for 2011 and subsequent years).

Where the qualifying conditions for rent-a-room relief are not satisfied, the income is subject to PRSI and the levies, or the USC, as the case may be, in the normal manner.

The USC, which came into effect on 1 January 2011, is a tax payable on gross income, including notional pay, after any relief for certain capital allowances, but before pension contributions. It replaced the health levy and the income levy which were abolished from that date.

[Additional information on USC](#)

8.3 Capital gains tax

Any gains made by an individual on the disposal of his/her principal private residence are generally exempt from capital gains tax (CGT).¹⁰ Prior to the introduction of the rent-a-room relief scheme on 6 April 2001, the CGT exemption was restricted where part of the principal private residence had been let, regardless of the amount of rental income arising. However, since 6 April 2001 the CGT exemption is not restricted in respect of any period for which the vendor has availed of rent-a-room relief.

¹⁰ Section 604 TCA 1997.

8.4 Stamp Duty

Prior to 8 December 2010, first-time buyers and certain owner-occupiers could obtain relief from stamp duty on the purchase of a house/apartment. This relief ceased for deeds executed on or after that date, subject to transitional arrangements¹¹.

Where relief was claimed, a clawback arises if rent is obtained from the letting of the house/apartment in the two-year period from the date of purchase. However, such a clawback does not apply where the individual meets the conditions for the separate stamp duty rent-a-room relief. This relief applies where rent is received for the letting of furnished accommodation in part of the premises by an individual who owns and occupies the premises. The individual must continue to occupy the premises as his/her only or main residence for the required two-year period¹². Unlike rent-a-room relief for income tax, there is no upper limit on the amount of rent that can be received in respect of the stamp duty relief.

9. Registration of residential tenancies with the PRTB

Landlords are generally required to register details of their residential tenancies with the Private Residential Tenancies Board¹³, including, for example, where the tenancy relates to a self-contained residential unit in the landlord's own residence. However, the requirement to register a tenancy does not apply where the landlord and tenant are sharing the same self-contained unit. Please refer to the [Residential Tenancies Board](#) for further information.

10. How rent-a-room relief operates – some examples

Example 1

John is renting a house that he occupies as his sole residence. He sub-let a room during 2015. His tenant paid him gross rent of €13,000. While the room was sub-let John spent €1,500 on repairs to the room following fire damage. John is not entitled to rent-a-room relief for 2015 as his gross income from letting the room exceeded the limit (€12,000) for that year. The expenses of €1,500 cannot be taken into account for the exemption limit purposes. The amount of taxable income is €11,500 (€13,000 less €1,500 expenses) – assuming no other allowable expenses.

Example 2

Mary purchased a new house in April 2015 for occupation as her sole residence. As her mortgage repayments were very high she decided to let a room in the house. She received rent of €11,000 in 2015. She also received €1,500 for providing meals

¹¹ Section 63 Finance Act 2011.

¹² Section 122 Finance Act 2008 reduced the period where no rent could be obtained from five years to two years for deeds executed on or after 5 December 2007.

¹³ Residential Tenancies Act, 2004.

to her tenant. Mary's gross income from letting the room and providing ancillary services was €12,500. As this amount exceeds the limit for 2015 (€12,000), she is not entitled to rent-a-room relief for that year. She is taxable on the total income of €12,500, less any allowable expenses.

Example 3

Denis spent €15,000 on preparing a basement flat in his sole residence for letting, €10,000 of which qualifies for wear and tear allowances. He let this flat for €750 per month for November and December 2014. He incurred allowable expenses of €500 on letting and legal fees in connection with this letting. He also received €20,000 gross rental income for another house he owns and incurred allowable expenses of €1,000 (none of which relate to interest on borrowings used in the purchase, improvement or repair of the property). His taxable income for 2014 is as follows:

(a) with rent-a-room relief

	€
Salary	65,000
Rental income (Case V)	20,000
Less rental expenses	(1,000)
Net rental income	<u>19,000</u>
Total income for income tax, PRSI and USC purposes	84,000

(b) without rent-a-room relief

	€
Salary	65,000
Gross rents (Property 1)	20,000
less rental expenses	(1,000)
Gross rents (Property 2)	1,500
Less rental expenses	(500)
Less wear and tear allowances (€10,000 @ 12.5%)	(1,250)
Net rental income	<u>18,750</u>
Total income for income tax, PRSI and USC purposes	83,750

Denis elects for rent-a-room relief not to apply for 2014. He is taxable on the rental income of €1,500 but can use wear and tear allowances (€1,250) and expenses (€500) to create a rental loss of €250 from the letting of the basement flat which is set against his taxable rental income from the other house. He received rents of €9,000 for the basement flat in 2015. As Denis has a profit in 2015 from the flat and satisfies the necessary conditions, he avails of rent-a-room relief. Accordingly, only the rental income from the other house is charged to income tax for 2015.

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