Mortgage Protection Policy Premiums

Part 04-08-09

This document should be read in conjunction with section 97 Taxes Consolidation Act 1997

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Summary

This manual deals with the allowability of mortgage protection policy premiums as a deduction against rental income.

Mortgage Protection Policy Premiums

Allowable deductions under the tax law relating to rental income are provided for in section 97(2) Taxes Consolidation Act 1997 (TCA).

Section 97(2)(d) TCA authorises a deduction in respect of "the cost of …management of the premises borne by the person chargeable and relating to and constituting an expense of the transaction or transactions under which the rents or receipts were received, not being an expense of a capital nature".

Strictly speaking, mortgage protection policy premiums relate more to the management of the landlord's financial affairs than to the management of the premises. Such expenditure could also be regarded as capital in nature. However, Revenue recognises that some financial institutions insist that such policies are put in place when sanctioning borrowings. Accordingly, Revenue is prepared to treat mortgage protection policy premiums paid as an allowable deduction in computing rental income for income and corporation tax purposes.

This treatment only applies to mortgage protection policy premiums. Such a policy is aimed at covering the full amount left outstanding on a person's mortgage if s/he dies. It is often called decreasing term insurance, as the amount that needs to be covered reduces every time a payment is made, with the result that premiums are lower than those for standard insurance policies.

This type of policy should not be confused with other products often offered by life assurance companies such as mortgage payment protection policies, "key man" insurance or endowment policies. These are a form of short/straight term insurance which pay out if an individual becomes unemployed or ill and are not normally linked to a person's life. Revenue does not allow this later type of policy premium as a rental income deduction.

Mortgage protection plan policies which are linked to a person's life are assurance policies, the proceeds of which are taxed in accordance with section 593 TCA.