

Payments to property owners under the Repair and Leasing Scheme: Tax treatment and related matters

Part 04-08-18

This document should be read in conjunction with sections 97 and 97A Taxes Consolidation Act 1997 (TCA)

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1 Introduction

The Department of Housing, Local Government and Heritage introduced the Repair and Leasing Scheme to bring vacant properties into social housing use.

Under the scheme, if a vacant property is suitable for social housing, the cost of necessary repairs is paid by the local authority or an approved housing body (AHB). The owner then leases the property to the local authority or AHB, who will make it available for social housing. The property owner receives an agreed lease payment from the local authority or AHB and the value of the repairs is gradually offset against this lease payment over the period specified in the lease.

More information on the scheme is available from the Department of Housing, Local Government and Heritage [website](#).

This tax and duty manual (TDM) sets out the tax treatment of payments received under this scheme, and related matters.

2 The tax treatment of payments under the Repair and Leasing scheme

2.1 Interest-free loan

This scheme provides for an interest free loan by the local authority or AHB to the property owner to carry out works necessary to bring the property up to the required standard for letting. The loan is conditional on the owner entering into an agreement to make the property available for social housing for an agreed number of years. The capital sum paid by the local authority or AHB to the property owner is not subject to income tax in the year received. There is no additional taxable benefit conferred by the interest-free status of the loan as there is no employer-employee relationship between the parties.

2.2 Amount of rent taxable

Once the property is let, the amount of rent taxable is the amount of rent payable under the lease without allowing a deduction for the amount recouped by the local authority or AHB in respect of the repairs funded by the local authority or AHB. These recoupments are not allowable under the general principle that capital payments – in this case, repayments of a capital sum - are not allowed as deductions against income for tax purposes. Where the cost of repairs is clawed back by the local authority or AHB by way of a rent-free period, the rent chargeable will be the notional rent or rent foregone by way of repayment.

2.3 Pre-letting expenses

Expenditure on repairs to a property prior to being let (“pre-letting expenses”) is generally not allowable as a deduction against rental income. In a pre-letting period while repairs are being carried out, such as exists under the Repair and Leasing Scheme, no rent is received.

However, pre-letting expenditure on vacant premises may be allowable as a deduction if the expenditure meets the conditions under section 97A Taxes Consolidation Act 1997 (TCA); please see TDM [Part 04-08-11](#) on pre-letting expenses.

2.4 Expenditure on fixtures and fittings

The local authority or AHB loan may include the cost of fixtures and fittings for the property - for example, a loan for a “furniture pack”. Capital allowances on the fixtures and fittings may be claimed as a deduction against rental income. The current rate for these allowances is 12.5% of the cost per year over eight years.

2.5 Registration with the Residential Tenancies Board (RTB)

The availability of a deduction for mortgage interest against rental income is conditional on compliance with the registration requirements of Part 7 of the Residential Tenancies Act 2004 (section 97(21) Taxes Consolidation Act 1997). If the tenancy is exempt from registration because it is with a local authority, then the full mortgage interest may be deducted against the rental income where the property is leased under the repair and leasing scheme.

3 Examples of Repair and Leasing Scheme

3.1 Direct lease agreement

In this scenario, the local authority or AHB reimburses the property owner for the necessary repairs under the scheme up to a maximum of €80,000 including Value-Added Tax (VAT) per unit, based on vouched expenditure. In return, the property owner enters a direct lease agreement with the local authority or AHB for a period of between five and twenty-five years. The local authority nominates tenants. The local authority or AHB is landlord to the tenant and takes care of day-to-day maintenance of the property.

The local authority or AHB will pay the property owner up to 80% or 85%¹, as appropriate, of the open market rate for rent, less an offset for the cost of the repairs. The property owner is chargeable under Case V on the 80% or 85% of the open market rate as applicable, without deduction for the offset for repairs.

¹ The additional 5% is provided where the property owner pays significant management charges for the property.

If mortgage interest is payable on the property, it will be deductible without a requirement to register with the RTB. There should be very few other deductible expenses for the property owner as the local authority or AHB will manage the premises and tenancies. Such other deductible expenses may include service charges, structural insurance and maintenance where those expenses are incurred by the property owner.

Capital allowances may be claimable on fixtures and fittings.

3.2 Rent availability agreement

In this scenario, the local authority reimburses the property owner for the necessary repairs under the scheme, up to a maximum of €80,000 including VAT per unit, based on vouched expenditure. In return the property owner enters into a rent availability agreement with a local authority for between five and ten years. The local authority nominates tenants. The property owner is landlord to the tenants, takes care of day-to-day maintenance of the property and is responsible for registration with the RTB.

The local authority will pay the property owner up to 92% or 95%², as appropriate, of the open market rate for rent, less an offset for the cost of the repairs. The property owner is chargeable under Case V on 92% or 95% of the open market rate, as applicable, without deduction for the offset for repairs.

If mortgage interest is payable on the property, it is deductible from rental income, subject to complying with the requirement to register with the RTB. The landlord will also be entitled to claim deductions for expenses incurred on ongoing maintenance and on registration with the RTB.

Capital allowances may be claimable on fixtures and fittings.

² The additional 3% is provided where the property owner pays significant management charges for the property.