A Guide to the Town Renewal Scheme

Revenue

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Town Renewal Scheme

Introduction

The Town Renewal Scheme was introduced in the Finance Act 2000 and provided tax relief for qualifying expenditure on residential, commercial and industrial developments in certain towns with a population of between 500 and 6,000. The scheme was introduced in two phases. The residential tax incentives applied from 1 April 2000 and the industrial and commercial incentives applied from 6 April 2001. A list of 100 towns that benefit under the scheme is set out in Appendix 1. **The scheme is due to terminate on 31 December 2004.**

The implementation of the commercial and industrial elements of the scheme was subject to specific conditions agreed with the EU Commission in order to ensure compliance with EU State Aid law.

The areas designated and the type of incentives available are in line with the recommendations made by a Special Advisory Panel appointed by the Minister for the Environment and Local Government and are based on Town Renewal Plans prepared by Local Authorities. Copies of the maps of each area are available from the local authority involved.

Note: To qualify for relief, the relevant local authority must have certified in writing that the construction, conversion, or refurbishment is consistent with the aims, objectives and criteria for the Town Renewal Scheme. This certificate is referred to as a "Letter of Certification" throughout this guide. Persons intending to carry out such work are advised to contact their local authority in advance.

Enquiries

Enquiries regarding taxation matters may be made to your local tax office (whose address and telephone number will be on any communication you received from that office).

Enquiries regarding the issue of Certificates of Compliance and Certificates of Reasonable Cost should be made to the
Department of the Environment and Local Government,
Government Buildings,
Ballina,
Co. Mayo.

This guide gives details on the industrial, commercial and residential parts of the scheme.

Industrial and Commercial Premises

Introduction

The scheme provides accelerated capital allowances for qualifying expenditure incurred on the construction or refurbishment of industrial and commercial buildings or structures situated wholly within the Town Renewal area.

Qualifying Industrial Premises

A qualifying premises is a building or structure in use for the purposes of a trade carried out in a mill, factory or other similar premises and certain laboratories.

Qualifying Commercial Premises

Commercial premises are premises in use either by an owner-occupier for the purposes of a trade or a profession, or by a lessee renting on commercial terms at arm’s length. Industrial buildings within the meaning of Section 268 Taxes Consolidation Act, 1997 and building in use as dwellings do not qualify for relief.

Construction Expenditure

Construction costs include the cost of site clearance, site renovation, preparation (i.e. drainage, sanitation, power and water supply) and landscaping. The cost of the site does not qualify for capital allowances.

Refurbishment Expenditure

Refurbishment expenditure in relation to industrial and commercial premises, means any work of construction, reconstruction, repair or renewal, including the provision or improvement of water, sewerage or heating facilities, carried out in the course of the repair or restoration, or maintenance in the nature of repair or restoration, of the building or structure.

Withdrawal of Relief

A balancing charge will arise if the industrial or commercial premises are sold or cease altogether to be used within 13 years of first being used after the construction expenditure was incurred, or in the case of capital expenditure on refurbishment, within 13 years after the capital expenditure on the refurbishment was incurred.

Allowances Available

Industrial & Commercial Developments	
Owner-Occupier/Trader	50% initial allowance in Year 1 with 4% annual allowance thereafter until the balance of the qualifying expenditure has been written off, **or** For those who do not wish to claim 50% of the expenditure in year 1, the annual allowance of 4% may be increased up to 50% in any year (known as free depreciation) with 4% annual allowance for other years until the qualifying expenditure has been written off. **Initial allowance:** The building does not have to be in use in order to claim this allowance but a trade must be carried on. The allowance is given for the chargeable period related to the expenditure. It is made in taxing the trade. Expenditure incurred before trading is deemed to have been incurred on the first day of trading. Accordingly, the allowance is not available until the chargeable period in which the trade commences. The allowance is fixed and must be claimed in the one year. **Free Depreciation:** Free depreciation allows an owner-occupier to increase the amount of annual allowance due for any tax year over a number of years. This allowance is more flexible than the initial allowance and may be claimed over a number of years. However, the total amount claimed in this way may not exceed 50% of the qualifying expenditure. Free depreciation may not be claimed if the initial allowance has already been claimed. **Annual Allowance:** To qualify for annual allowance the building must be in use at the end of the “basis period” for the tax year involved. The annual allowance may be claimed by the person who holds the relevant interest in relation to the qualifying expenditure which was incurred on the building. An initial allowance and an annual allowance may not be claimed in respect of the same expenditure in the same year.
Investor/Lessor	50% initial allowance in Year 1 and a 4% annual allowance thereafter until the balance of the qualifying expenditure has been written off. **Initial Allowance:** In a rental situation, the entitlement to initial allowance does not arise until the property is let and a tenancy has commenced. **Free Depreciation:** Free depreciaItion is not available to lessors. **Annual Allowance:** To qualify for annual allowance the building must be in use at the end of the “basis period” for the tax year involved. The annual allowance may be claimed by the person who holds the relevant interest in relation to the qualifying expenditure which was incurred on the building. An initial allowance and an annual allowance may not be claimed in respect of the same expenditure in the same year.

How relief is granted

Owner-Occupier

The allowances are given in taxing the individual's/company's trade. If the capital allowances are greater than the person's trading income, an excess capital allowance will arise. Where an excess capital allowance arises it is carried forward to future years and is granted against the trading income of the person. Alternatively, the person may elect to have the excess allowance set off against his/her income of the year in which the excess arises.

Example 1 - Trader
In the year 2002 an individual has trading income of €15,000 and is due an initial allowance of €18,000
in respect of refurbishment work (totalling €36,000) carried out to his business premises. He is also in receipt of employment income of €20,000.

2002	€
Trading profits	15,000
Capital allowance	18,000
Taxable profits	nil

Excess capital allowance: €3,000 - in this example the individual has opted to have the excess capital allowance treated as a trading loss.

2002 Liability	€
Trading profits	Nil
Employment income	20,000
	20,000
Trading loss (i.e. excess capital allowances)	3000
Taxable income	17,000

Lessors

The allowances are available primarily against rental income from all sources within the State. Where the allowance is greater than the income the excess is carried forward or the person may elect to have the excess set against their other income. The amount that can be offset against non-rental income in certain cases is restricted to €31,750, *see example 2*.

Example 2
In the year 2002 an individual has rental income of €10,000 and is due capital allowances, of €50,000 (initial allowance) He is also in receipt of employment income of €45,000.

2002	€
Rental income	10,000
Capital allowance	50,000
Assessable	nil

Excess capital allowance: €40,000 - in this example the individual has opted to have the excess capital allowance set against his other income in the year of assessment, however, this is restricted to €31,750. The unused capital allowance (i.e. €8,250) may be carried forward to set against the rental income for the year 2003.

2002 Liability	€
Rental Income	Nil
Employment income	45,000
	45,000
(excess capital allowances)	31,750
Taxable income	13,250

An individual must elect to have excess allowances set against other income within 2 years of the end of the tax year in which the excess arises.

How to claim the relief

A claim for the relief should be included with the annual tax return.

The following documents, as appropriate, are required in support of a claim. They should be retained and forwarded to the tax office if requested:

- Letter of Certification issued by the local authority
- In the case of property, which has been purchased, a copy of the purchase contract between the parties showing the purchase price.
- Where a building is newly constructed, evidence of the total cost of the work. If any of the work was carried out outside the qualifying period, details of the cost of work carried out during the qualifying period should be shown separately. In the case of the purchase of a new building, evidence of the cost of the site should be retained.
- Where a building is newly refurbished, evidence of the total cost of the work. If any of the work was carried out outside the qualifying period, details of the cost of work carried out during the qualifying period should be shown separately. In the case of the purchase of a newly refurbished building, evidence of the site cost and the cost of the building before refurbishment should be retained.
- Where the building is let, a copy of the lease(s).

Non-Availability of Capital Allowances

Capital Allowances are not available under the Town Renewal Scheme in the following cases:

Property Developers

Capital allowances for expenditure incurred on the construction or refurbishment of industrial or commercial premises are not available to a property developer where the property developer owns the relevant interest for capital allowances purposes in the building and the construction or refurbishment was carried out by the property developer or by a person connected with the property developer.

Grant Assistance

The special incentives are not available in respect of expenditure incurred on or after 6 April 2001 where any part of the expenditure is to be met, directly or indirectly, by grant assistance from the State or from any other person. As regards expenditure incurred on or after 7 February 2002, this restriction applies only where grant assistance is received from the State or any public bodies.

Small or Medium Enterprises

As regards expenditure incurred on or after 6 April 2001, the special incentives are available only to small or medium-sized enterprise within the meaning of Annex 1 to Commission Regulation (EC) No. 70/2001 of 12 January 2001. [OJ No. L10 of 13 January 2001, p33]

Excluded Activities

The special incentives are not available in respect of expenditure incurred by an owner-occupier trading in the following trades or activities:

1. In the sector of agriculture, including the production, processing and marketing of agricultural products,
2. The coal industry, fishing industry or motor industry,
3. The transport, steel, shipbuilding, synthetic fibres or financial services sectors, or

In relation to any building or structure or qualifying premises which is provided for the purposes of a project, the regional aid for which is limited under the “Multisectoral framework on regional aid for large investment projects” prepared by the Commission of the European Communities.

*Further details regarding these exclusions are included in **Tax Briefing, Issue 41 - September 2000** which is available on our website* - **www.revenue.ie**

Rented Residential Relief

Introduction

Usually referred to as “Section 23 relief” it allows the lessor of newly constructed, converted, or refurbished residential accommodation situated in a Town Renewal area, to write off against Irish rental income (including rental income from other lettings) the cost of qualifying expenditure incurred on the construction, conversion or refurbishment of the residential accommodation. Relief is also available to lessors of residential properties where the facade has been refurbished.

Qualifying property

A house is a qualifying house where:

- The site is wholly within an area listed in **Appendix 1**.
- The total floor area is not less than 38 square metres and no greater than 125 square metres. For conversion & refurbishment the floor area limits must be no less than 38 square metres and no greater than 150* square metres. (*In the case of conversion & refurbishment expenditure prior to 6 April 2001, 125 sq. metres.)
- A certificate of reasonable cost or a certificate of compliance has been issued in respect of the property.
- The property is let under a qualifying lease when it first comes to be used and thereafter continuously for a period of 10 years.
- The property is used solely as a dwelling.

How relief is granted

The amount of the expenditure that qualifies for relief is deducted in full from the rental income of the property. If this deduction exceeds the rental income the excess can be deducted from other rental income arising in the State for that year. Any rental loss created in the first year can be carried forward against rental income of succeeding tax years until the relief is exhausted.

Qualifying Expenditure

The expenditure that qualifies for relief is the actual cost of the construction, refurbishment or conversion work excluding the site cost and cost of grants as appropriate. Where a property is purchased from a builder, the purchaser is granted relief based on the relevant price paid.

The **Relevant Price Paid** is calculated using the following formula:

Price paid to builder (multiplied by) $\dfrac{\mathbf{A}}{\mathbf{B + C}}$

Where
A = construction/refurbishment/conversion expenditure incurred in the qualifying period

B = total expenditure on construction/refurbishment or conversion

C = site cost and including in the case of refurbishment or conversion, the cost of the building which was refurbished or converted.

Example 3

In August 2002 an individual purchased a house from a builder for €172,000, details as follows:

	€
Construction costs in the qualifying period	138,000
Total construction costs	138,000
Site cost	23,000

The qualifying expenditure is:

$$172{,}000 \quad x \quad \frac{138{,}000}{138{,}000 + 23{,}000} = 147{,}428$$

The rented residential relief is €147,428 and is allowed as a deduction from the gross rent payable as follows:

Property is let from 1 October 2002

		€
Gross rent 2002		3,000
Less		
Insurance	300	
Services (gas & electricity)	400	
Rented residential relief	147,428	148,128
Rental loss:		145,128

This loss is available to carry forward against Irish rental income in the following year(s).

The 10-year period commences from the time the property was first let under a qualifying lease.

Sale of Property

Where a house is sold within the 10 - year period, the relief granted to the seller is withdrawn. The relief withdrawn is available to the purchaser providing the purchaser continues to let the property for the remainder of the 10 - year period under a qualifying lease. The purchaser may claim relief on the **lower** of the amount of the seller's original relief or the relevant price paid calculated as follows:

$$\text{Net price paid by purchaser} \ \mathbf{x} \ \frac{\text{Construction /refurb/convers/expenditure in qualifying period}}{\text{Site cost + Construction cost}}$$

Example 4
Following example 3, the owner sells the property four years after purchasing it. The sale price is €230,000. The property has been let throughout ownership and the new owner intends to let it for the remaining 6 years under a qualifying lease. The relief due to the new owner is the lesser of:

- The amount of the original owner's relief i.e. €147,428 **or**
- The relevant price paid by the new owner calculated as follows:

$$230{,}000 \times \frac{138{,}000}{(23{,}000 + 138{,}000)} = 197{,}142$$

The new purchaser may claim relief on €147,428, the amount of the seller's original relief, as this is less than the relevant price paid by him i.e. €197,142. The seller will be assessed on an amount of rent equal to the relief already allowed to him, i.e. €147,428.

Where a property is sold outside the 10-year period, the purchaser is not entitled to relief even if the relief has not been claimed in respect of the property.

The relief is also withdrawn if at any time during the 10-year period, the house ceases to be a "qualifying premises," if for example the owner used the property as his/her residence. In this case the relief will not be available to a subsequent purchaser.

Extension of Rented Residential Relief

Under Section 25 Finance Act 2002, a house in an area previously designated for residential relief (owner-occupier) under the Town Renewal Scheme may now be designated for rented residential relief under the scheme in respect of expenditure incurred on or after 5 December 2001, or in respect of expenditure incurred prior to 5 December 2001 where:

- A contract for the purchase of the house had not been evidenced in writing by any person prior to that date, but,
- A contract for the purchase of the house is evidenced in writing on or before 1 September 2002.

Relevant investor incentives may only be applied on the basis of the existing designations. Thus, where residential owner-occupier (construction) was originally granted, residential investor (construction) will also apply etc.

Owner- Occupier Relief

An individual who incurs qualifying expenditure on the construction, refurbishment, or conversion of property situated within the Town Renewal area and to be used as his/her private residence is entitled to a deduction from total income in respect of the qualifying expenditure. Relief is also available to owner-occupiers of residential properties where the facade has been refurbished.

Qualifying property

A house is a qualifying house where:

- The site is wholly within an area listed in **Appendix 1**.
- The total floor area is not less than 38 square metres and no greater than 125 square metres. For conversion & refurbishment the floor area limits must not be less than 38 square metres and no greater than 210* square metres. (*In the case of conversion & refurbishment expenditure prior to 6 April 2001, 125 sq. metres.)
- A certificate of reasonable cost or a certificate of compliance has been issued in respect of the property.
- The property is first used, after the expenditure is incurred, as the main residence of the individual claiming the relief.

How relief is granted

An individual is entitled to a deduction from total income at 5% per annum of qualifying construction expenditure over 10 years and at 10% per annum in respect of qualifying refurbishment or conversion expenditure over 10 years.

Qualifying Expenditure

The expenditure that qualifies for relief is the actual cost of the construction, refurbishment or conversion work excluding the site cost and cost of grants as appropriate. Where a property is purchased from a builder, the purchaser is granted relief based on the relevant price paid. The relief due is calculated using the following formula:

Price paid to builder *(multiplied by)* $\frac{\mathbf{A}}{\mathbf{B + C}}$

Where
A = construction/refurbishment/conversion expenditure incurred in the qualifying period

B = total expenditure on construction/refurbishment or conversion

C = site cost and including in the case of refurbishment or conversion, the cost of the building which was refurbished or converted.

Example 5

In March 2002 an individual purchases a site for €30,000 and constructs a house on the site. The construction costs amount to €100,000. A claim for relief due is made in January 2003. The relief due for 2002 is €5000 and is allowed as follows:

2002	€
Total income	20,000
Less owner-occupier relief	5000
Taxable income	15,000

15000 x 20% = 3000	
Tax due	3000
Less single persons tax credit	1520
Tax due	1480
Tax paid	2480
Refund due	1000

If the individual is taxed under the PAYE system, the relief will appear for the 9 subsequent years on the Notice of Determination of Tax Credits and Standard Rate Cut-Off Point. If the individual is taxed under the self-assessment system, the relief will appear on the Notice of Assessment in respect of each relevant year as a deduction from total income.

Owner-occupier and sharing arrangements

Owner-occupiers may decide to share their house with family or friends. In such situations the owner-occupier relief continues to apply, provided that the house continues to be used by the individual as his/her main residence in the tax year involved. Any income from the sharing arrangement should be included in the owner-occupier's tax return. Owner-occupiers are also entitled to claim Rent-a-Room relief.

Sale of property

If the property is sold any unused relief cannot be passed to the purchaser. There is no claw-back of owner-occupier relief already granted to the owner. A full year's owner-occupier relief may be claimed for the year of sale providing the property is the only or main residence of the individual at some time during that year.

Rented Residential and Owner-Occupier

The following documents, as appropriate, are required in support of a claim. They should be retained and forwarded to the tax office if requested:

- Letter of Certification issued by the Local Authority
- In the case of property, which has been purchased, a copy of the purchase contract between the parties showing the purchase price
- A Certificate of Compliance in the case of a newly constructed refurbished or converted house purchased from a builder, which will be lived in or let by the purchaser
- A Certificate of Reasonable Cost where a new house is to be lived in or let by the person who built it or had it built or where a refurbished or converted house is to be lived in or let by the person who refurbished/converted it or had it refurbished or converted
- Where a building is newly constructed, evidence of the total cost of the work. If any of the work was carried out outside the qualifying period, details of the cost of work carried out during the qualifying period should be shown separately. In the case of the purchase of a new building, evidence of the cost of the site should be retained.
- Where a building is newly refurbished or converted, evidence of the total cost of the work. If any of the work was carried out outside the qualifying period, details of the cost of work carried out during the qualifying period should be shown separately. In the case of the purchase of a newly refurbished or newly converted building, evidence of the site cost and the cost of the building before refurbishment or conversion should be retained.
- Where the building is let, a copy of the lease(s).

Rented Residential and Owner-Occupier

The following definitions apply in relation to refurbishment and conversion expenditure for both rented residential relief and owner-occupier relief.

Construction Expenditure

Construction costs include the cost of site clearance, site renovation, preparation (i.e. drainage, sanitation, power and water supply) and landscaping. The cost of the site does not qualify for relief. No cost can be attributed to an individual's own labour.

Refurbishment

Refurbishment expenditure in relation to residential property, means either or both of the following:

a) The carrying out any work of construction, reconstruction, repair or renewal, and
b) The provision or improvement of water, sewerage or heating facilities.

Where the carrying out of such works or the provision of such facilities is certified by the Department of the Environment & Local Government in any certificate of reasonable cost or certificate of compliance, issued by the Department.

Conversion Expenditure

Qualifying conversion expenditure is the conversion into a house* of part of a building, the site of which is wholly within a qualifying town area where the building had not previously been in use as a dwelling, **or** the conversion into 2 or more houses of part of a building, the site of which is wholly within a qualifying town area, which before the conversion had not been in use as a dwelling or had been in use as a single dwelling only. Conversion expenditure includes expenditure incurred in the course of the conversion on either or both of the following-

a) The carrying out of any works of construction, reconstruction, repair or renewal, **and**
b) The provision or improvement of water, sewerage or heating facilities.

House

House, includes any building or part of a building used or suitable for use as a dwelling and any out-office, yard, garden or other land usually enjoyed with that building or part of a building. It also includes a flat or an apartment.

Facade

Facade, in relation to a house, means the exterior wall of the house which fronts on to a street. Refurbishment in relation to a facade means any works of construction, reconstruction repair or renewal in the course of the repair or restoration, or maintenance in the nature of repair or restoration of a facade.

Appendix 1

TOWNS RECOMMENDED FOR DESIGNATION		
COUNTY	TOWNS SELECTED	
Carlow	Hacketstown Tullow	Muinbheag Tinnahinch/Graiguenamanagh
Cavan	Cavan Baileborough	Cootehill Ballyjamesduff
Clare	Scarriff Kilrush Ennistymon	Sixmilebridge Miltown Malbay
Cork	Cloyne Charleville (Rathluirc) Kanturk Fermoy	Skibbereen Doneraile Bantry
Donegal	Moville Ramelton Ballybofey - Stranorlar	Ardara Ballyshannon
Galway	Portumna Loughrea Ballygar	Headford Clifden
Kerry	Listowel Killorglin	Castleisland Caherciveen
Kildare	Kilcullen Rathangan Monasterevan	Castledermot Kilcock
Kilkenny	Callan Thomastown Pilltown	Castlecomer Urlingford
Laois	Mountrath Portarlington	Rathdowney Mountmellick
Limerick	Abbeyfeale Croom Rathkeale	Castleconnell Kilmallock
Louth	Carlingford Dunleer	Ardee Castlebellingham
Mayo	Ballinrobe Claremorris Newport	Belmullet Foxford
Meath	Oldcastle Kells	Duleek Trim
Monaghan	Clones Ballybay	Castleblayney
Offaly	Clara Edenderry	Ferbane Banagher
Roscommon	Roscommon	
Sligo	Rosses Point	Bellaghy-Charlestown
Tipperary N.R.	Nenagh Borrisokane	Templemore Littleton
Tipperary S.R.	Cashel Cahir	Killenaule Fethard
Waterford	Cappoquin Kilmacthomas	Portlaw Tallow
Westmeath	Kilbeggan Moate	Castlepollard
Wexford	Ferns Taghmon	Bunclody Gorey
Wicklow	Dunlavin Carnew Tinahely	Rathdrum Baltinglass