

Payments to landlords 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 of the 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. The scheme is aimed at owners of vacant properties who cannot afford the repairs needed to bring their property up to the standard for renting.

Under the scheme, if a vacant property is suitable for social housing, the cost of necessary repairs is met up-front 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's [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 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 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 in respect of the up-front payment. 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 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

The 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, there is no receipt of rent.

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

2.4 Expenditure on fixtures and fittings

The local authority or AHB may loan 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 Home Renovation Incentive

Expenditure on repair of the vacant property does not qualify for the Home Renovation Incentive (HRI). Section 477B (7) TCA provides that any expenditure in respect of or by reference to which a grant or compensation payments or any other sum has been received by the claimant directly or indirectly from any public body or local authority should be deducted from the expenditure figure for the purposes of calculating the HRI credit. The application of that subsection means that HRI does not apply in the case of expenditure incurred on the property and paid for by the local authority or AHB under the Repair and Leasing Scheme.

2.6 Registration with the Residential Tenancies Board (RTB)

The availability of the deduction for mortgage interest against rental income is conditional on compliance with 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 the local authority, then there is compliance with Part 7 of the Residential Tenancies Act 2004 and hence no restriction on the deductibility of mortgage interest.

3 Examples of Repair and Leasing Scheme

3.1 Direct lease agreement

The property owner enters into a direct lease agreement with the local authority under the repair and leasing scheme. The local authority arranges and pays for the necessary upfront repairs under the scheme. In return the property owner enters into a direct lease agreement with the authority for a period of five years. The local authority arranges for tenants and takes care of day to day maintenance of the property.

The local authority will pay the property owner 80% 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% of the open market rate without deduction for the offset for repairs.

If mortgage interest is payable on the property it will be deductible without a requirement to register with the RTB. There should be no other deductible expenses for the property owner as the local authority will manage the premises and tenancies.

Capital allowances may be claimable on fixtures and fittings.

3.2 Rent availability agreement

The property owner as landlord enters into a rent availability agreement with an Approved Housing Body (AHB). The property owner arranges for the repairs and passes on the invoice/s to the AHB for payment. In return the property owner enters into a rent availability agreement with the authority for a period of five years. The AHB arranges for tenants. The property owner takes care of day to day maintenance of the property and is responsible for registration with the RTB.

The AHB will pay the property owner 92% 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% of the open market rate without deduction for the offset for repairs.

If mortgage interest is payable on the property, it will be 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.