

Countrywide Refurbishment Scheme

Part 10-11-03

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Introduction

The 'Countrywide Refurbishment Scheme' was introduced by Finance Act 2001 following the report in July 2000 of the Commission on the Private Rented Residential Sector. The purpose of the scheme was to improve the standard of the existing stock of rented residential accommodation.

The scheme provided for tax relief in the form of a deduction from a lessor's rental income of expenditure incurred on the refurbishment of a rented residential property. The expenditure may be deducted over 7 years at the rate of 15% per annum for the first 6 years and 10% in year 7. It is similar in certain respects to 'section 23' relief.

The scheme differed in several respects from other property-based incentive schemes. For example, it was not area-based but applied throughout the State; there was no minimum or maximum floor area restrictions; there was no requirement for certificates of compliance/reasonable cost to be issued by the Department of the Environment, Heritage and Local Government¹.

The legislation governing the scheme is contained in sections 372AK to 372AV of the Taxes Consolidation Act, 1997, along with the provisions governing section 23 relief and owner-occupier relief. For the purposes of the relief, the Tax Acts refer to a house as a 'special qualifying premises' where the house is contained in a 'special specified building' and the house is let solely for use as a dwelling. The term 'house' is used in this document to refer to a single unit of rented residential accommodation and covers individual dwelling houses and also individual apartments in an apartment complex.

1. Qualifying period

The qualifying period for the scheme commenced on 6 April 2001 and terminated on 31 July 2008. This is the period during which qualifying expenditure on the refurbishment of the house must have been incurred. The scheme was originally open-ended but, following Finance Act 2006, it was terminated on 31 July 2008 in line with most of the other property-based incentive schemes. However, unlike most of these other schemes, there were no conditions attaching to the new termination date for the Countrywide Refurbishment Scheme. Thus, there was no requirement for a valid application for full planning permission by 31 December 2004, no requirement for a binding contract for the refurbishment expenditure by 31 July 2006 and no requirement to have carried out work to the value of at least 15% of the refurbishment costs by 31 December 2006.

2. Meaning of 'refurbishment'

What constituted 'refurbishment' had a particular meaning for the purposes of this scheme. Refurbishment (as defined in section 372AK TCA, 1997) meant –

¹ Now the Department of Housing, Planning and Local Government

“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 for the purposes of compliance with the requirements of the Housing (Standards for Rented Houses) Regulations 1993 (S.I. No. 147 of 1993)”.²

It should be noted that construction expenditure was only allowed where it was incurred in the course of the repair, restoration or maintenance of a house or in bringing the house up to the standards set out in the Housing Regulations. Construction expenditure could only have been incurred in the context of the refurbishment being carried out and not on a stand-alone basis. It should also be noted that expenditure incurred on the conversion of a house did not qualify for relief under this scheme. Thus, for example, a project that involved the conversion of a building such as a convent or a mill into a number of individual residential units did not qualify for relief under this scheme which was focussed on improving the standard of the existing stock of rented residential accommodation.

3. Qualifying expenditure

3.1 Work carried out during qualifying period

Relief is only available for expenditure on refurbishment work that was carried out during the qualifying period. Where some of the work was carried out after the end of the qualifying period, the house may still be eligible for relief but only in respect of the amount of the expenditure incurred in the qualifying period. For the purposes of determining when expenditure was incurred, only the amount of the expenditure that is attributable to work that was actually carried out during a particular period is taken into account. Therefore, there is no relief for an advance payment for materials or for work that was carried out after the termination date.

3.2 Allowable costs for determining qualifying expenditure

In general, it was only the direct costs of refurbishment that were taken into account in determining the amount of the qualifying expenditure. Such costs would include, for example, building materials, equipment hire, labour costs and architects’ and engineers’ fees. Where a person engaged a builder to carry out the refurbishment work, the amount that was paid to the builder, including the builder’s profit, is the qualifying expenditure.

Costs that were not allowed include any costs that were attributable to conversion or construction work other than incidental construction work carried out in the course of refurbishment as defined in [section 2](#). The cost of acquiring the house that was refurbished and any costs attributable to a person’s own labour where the person carried out the work themselves were also not allowed.

² Statutory Instruments are available at www.irishstatutebook.ie

Grants and other payments received directly or indirectly from the State, any local authority or any public body must be deducted from the allowable refurbishment costs in determining the amount of the qualifying expenditure.

VAT may be paid in connection with the refurbishment of a house. For example, a person who refurbishes a house will be charged VAT on the purchase of building materials and a person who engages a builder to carry out the work will be charged VAT by that builder. **VAT that was paid can only be included in the qualifying expenditure where it could not be claimed back by the person who paid it.** In other words, relief is only available where VAT was a **net** cost to the person who paid that VAT.

A detailed analysis of how VAT applies in relation to property transactions is beyond the scope of this document. If you have a VAT related query you should consult the ["VAT on Property and Construction"](#) page on the Revenue website or contact your local tax office.

3.3 Premiums not treated as rent

A lease is not a qualifying lease where any premium payable by the lessee in connection with the lease exceeds 10% of the market value of the house at the time that the refurbishment work was completed. Where a premium does not exceed this 10% limit and if any part of that premium is not treated as rent, the amount of the qualifying expenditure is to be reduced by the amount of the premium not treated as rent. Where a premium is required under a lease, the duration of which does not exceed 50 years, a proportion of the premium is to be treated as rent and the balance is to be treated as a capital payment/receipt.

3.4 Provision against double relief

Expenditure could not qualify for relief under this scheme if it also qualified, or could have qualified, for relief under any other provision of the Tax Acts. For example, expenditure on refurbishment of a house might have qualified for 'section 23' relief say under the Rural Renewal Scheme in respect of expenditure on its refurbishment. In these circumstances, no relief is available in respect of such expenditure under the Countrywide Refurbishment Scheme.

3.5 Where refurbishment was carried out after 31 December 2006

Finance Act 2006 introduced transitional arrangements for the phasing out of most of the property-based incentive schemes including the Countywide Refurbishment Scheme. These transitional arrangements included a gradual reduction in the amount of refurbishment expenditure that could qualify for relief after 31 December 2006. Eligible expenditure incurred during 2006 could qualify in full without restriction. However, only 75% of expenditure incurred during 2007 and 50% of expenditure incurred in the period 1 January 2008 to 31 July 2008 could qualify for relief. As stated in [section 3.1](#), expenditure is treated as incurred, not when it was

paid, but to the extent that it is attributable to refurbishment work that was actually carried out.

4. Qualifying conditions

Expenditure must have been incurred, within the qualifying period, on the refurbishment of the house in accordance with the definition of refurbishment as set out in [section 2](#). The house must be suitable for use as a dwelling and be let under a qualifying lease for use **only** as a dwelling. For example, if part of the house is let to a doctor for use as a surgery or office no relief is due.

4.1 Lease requirements

On the date of the completion of the refurbishment the house must have been let to an existing tenant, or where it was not let on that date, without having been used following the refurbishment must have been let in its entirety under a qualifying lease and continue to be so let for a period of 10 years. The 10-year period starts from the date of the completion of the refurbishment or the date of the first qualifying lease following the refurbishment. Reasonable periods of temporary disuse between the ending of one qualifying lease and the commencement of another such lease are allowed. A qualifying lease is a lease drawn up at arm's length under which periodic payments of rent are received. Any premium payable by the lessee cannot exceed 10% of the market value of the house at the time that the refurbishment work was completed. The terms of the lease cannot allow the tenant, or any other person, to acquire an interest in the house for less than the market value of the house.

4.2 Department of Environment, Heritage and Local Government requirements³

Where it was required, planning permission must have been granted for the refurbishment work carried out.

Any person who was authorised in writing by the Minister for the Environment, Heritage and Local Government⁴ must have been permitted to inspect the house at all reasonable times.

The refurbished house must comply with the requirements of "The Housing (Standards for Rented Houses) Regulations 1993 (S.I. No. 147 of 1993)".⁵ Lessors of rented accommodation have a statutory duty to ensure that the accommodation complies with certain minimum physical standards. For example, they must ensure that the accommodation is in sound structural condition, provide adequate cooking and washing facilities, adequate heat, light and ventilation and safe electrical and gas installations.

³ Now the Department of Housing, Planning and Local Government.

⁴ Now the Minister for Housing, Planning and Local Government

⁵ Statutory Instruments are available at www.irishstatutebook.ie

The lessor of the refurbished house must comply with the requirements of “The Housing (Rent Books) Regulations 1993 (S.I. No. 146 of 1993)”⁶ and provide tenants with a rent book that must include, for example, specified information on the tenancy, a record of all payments made by the tenant and information on the rights and responsibilities of landlords and tenants.

Finance Act 2006 made entitlement to relief under this scheme conditional on compliance with the registration requirements of Part 7 of the Residential Tenancies Act 2004. This condition is effective from 1 January, 2006. Landlords are required to register details of all of their tenancies with the Residential Tenancies Board⁷ within one month of the commencement of those tenancies and to pay the appropriate registration fee. Provision exists for the late registration of tenancies at double the normal registration fee. Landlords must be in a position to indicate compliance with the registration requirements at the time of making a return of income for the year for which a claim for relief is being made. The Revenue publication ‘Tax Briefing’, issues 63 and 65, contained articles on the registration requirements. The contents of these articles have been incorporated into Tax and Duty Manual [Part 04-08-10](#).

Information about the Residential Tenancies Act and the registration requirements is available at www.housing.gov.ie or www.rtb.ie. Enquiries about the registration requirements should be addressed to the RTB and not to Revenue. The contact details are:

Residential Tenancies Board
P O Box 47 Clonakilty
Co. Cork
Tel: 0818 303037
E-mail: registrations@rtb.ie
Website : www.rtb.ie

5. How relief is given

A person who incurred qualifying refurbishment expenditure and who has satisfied the qualifying conditions can deduct the qualifying expenditure from his or her Irish rental income. The deduction is available over a seven-year period at the rate of 15% of the qualifying expenditure for the first 6 years and 10% in year 7. Where the chargeable period in which the expenditure was incurred, or any other chargeable period, is less than a year, the amount of the annual deduction is proportionately reduced.

Claims for relief should be made in the annual return of income under the self-assessment system. The qualifying expenditure must first be deducted from the rental income from the refurbished house. If this results in a net rental loss, the

⁶ Statutory Instruments are available at www.irishstatutebook.ie

⁷ Previously the Private Residential Tenancies Board

amount of the loss can be set against other Irish rental income. Any remaining loss can be carried forward and set against Irish rental income in subsequent years. If a person does not have sufficient rental income to absorb a rental loss, the carry forward of the rental loss can continue beyond the 10-year period following the completion of the refurbishment or the first qualifying lease. The loss cannot be set against rental income from properties outside Ireland or against non-rental income.

A person with PAYE income who also has gross income from a non-PAYE source(s) of €30,000⁸ or more but where this income has been reduced to nil or to a negligible amount because of deductions, losses, allowances and other reliefs such as section 23 relief, is regarded as a 'chargeable person' for self-assessment purposes and is required to make a return of income under the self-assessment system. The €30,000 limit applies to gross income from **all** non-PAYE sources and not from each separate source. A person who becomes a 'chargeable person' in a year continues to be a 'chargeable person' for future years, as long as the source(s) of the non-PAYE income continues to exist, irrespective of the amount of the annual gross income. A person with assessable non-PAYE income of €5,000⁹ or more for any year is also regarded as a 'chargeable person' for self-assessment and must file a return of income.

A person claiming relief should be able to show that he or she has fulfilled all of the relevant conditions and is entitled to the relief. Evidence of this and of the qualifying refurbishment expenditure should be retained by the claimant as it may be required in the event of a Revenue audit.

5.1 Example

Mr Jackson owns a house that he has let for many years. During the summer of 2004 he spent €50,000 on refurbishing the house. He let the house in January 2005 when the refurbishment was completed. He received rental income of €8,000 from the house in 2005.

2005	€	€
Rental Income		8,000
Less -		
Management expenses	700	
Insurance costs	300	
Refurbishment (50,000 @ 15%)	<u>7,500</u>	<u>8,500</u>
Taxable rental income/loss		(500)

As Mr. Jackson had no other sources of Irish rental income, the loss of €500 was carried forward and used against the rental income from the refurbished house in the following year.

⁸ €50,000 for 2015 and prior years

⁹ €3,174 for 2015 and prior years

6. Withdrawal of relief

If the house is sold or ceases to meet the qualifying conditions within the 10-year period following the refurbishment or following the first letting after the refurbishment, the relief already granted is clawed back by charging the amount allowed to date as rent received in the year in which the house was sold or ceased to meet the qualifying conditions.

6.1 Example

Mr Brennan incurred qualifying refurbishment expenditure of €100,000 in 2002. The house was first let after the refurbishment in 2003. He claimed a deduction of €15,000 for each of the 5 years 2003 to 2007. He sold the house in January 2008. He received rental income of €1,000 to the date of sale in 2008.

2008	€
Rental income	1,000
Less -	
Management expenses	<u>200</u>
Net rental income	800
Deemed rent received (15,000 x 5)	<u>75,000</u>
Taxable rental income	75,800

Section 16 of Finance Act 2012 made a minor technical correction to the method of calculating a clawback. This was necessary to address an unintended interaction between the clawback and the [High Income Earners' Restriction](#). Where a property ceases to be a qualifying property or it is sold¹⁰ on or after 1 January 2012 the clawback is calculated using the following formula:

A – B

Where:

A = The amount of relief already granted

B = The amount of unused relief which has been carried forward under section 384¹¹

It is the net amount rather than the gross amount that is to be taken into account as deemed rental income. The amount of the rental (Case V) loss carried forward under section 384 into the year the property is sold is also reduced by the amount at B above to ensure the individual does not receive double relief.

¹⁰ Or where the lessors interest in the property passes by other means to another person e.g. gift

¹¹ As Case V losses of a company are carried forward under section 399 the amount at B would be nil. Therefore, in effect, the calculation of the clawback for a company remains the same as prior to the Finance Act 2012 amendments.

7. Purchase of house by new owner

Where a house is sold within the 10-year period following the completion of the refurbishment or its first letting under a qualifying lease following the refurbishment, the seller suffers a clawback of the relief already claimed. A new owner who continues to let the house under a qualifying lease for the remainder of the 10-year period will be entitled to the relief in the same way as if he or she had incurred the qualifying expenditure. In the case of the new owner the relief available will be allowed in full and may be deducted from the rental income arising in the first year of letting.

The relief available to the new owner is based on the lower of –

- the qualifying refurbishment expenditure incurred by the original owner,
- or
- the ‘net price paid’ by the new owner

The ‘net price paid’ by the new owner is obtained by using the following formula :–

$$\text{purchase price paid} \times \frac{\text{qualifying refurbishment expenditure}}{\text{total refurbishment expenditure} + \text{cost of pre-refurbished house}}$$

As the formula is based on the price paid for the refurbished house, the ‘net price paid’ is likely to exceed the amount of the refurbishment expenditure that was incurred by the seller so that the new owner’s relief will invariably be the amount of the refurbishment expenditure that was incurred by the seller.

If the new owner, in turn, sells the house within the original 10-year period relief granted will again be clawed back. However, if the sale takes place outside of the original 10-year period, there is no clawback of the relief already granted and there is no relief available for the new purchaser.

7.1 Example

Mr. Murphy bought the house that was sold by Mr. Brennan, in the previous example, for €700,000. Mr. Murphy let the house in February 2008. He was entitled to the full amount of relief of €100,000, the refurbishment expenditure incurred by Mr. Brennan, in the first year of letting provided that he continued to own and let the house for the remainder of the 10-year period.

8. Restriction on use of tax reliefs by high-income individuals

Finance Acts 2006 and 2007 introduced, with effect from 1 January 2007, measures to limit the use of certain tax reliefs and exemptions (known as specified reliefs) by high-income individuals. Changes introduced by Finance Act 2010 extended the restriction, with effect from the tax year 2010, to ensure that individuals who are fully subject to the restriction pay an effective rate of income tax of approximately 30 per cent. Relief under the Countrywide Refurbishment Scheme is one of the

specified reliefs. Tax and Duty Manual [Part 15-02a-05](#) contains more detailed information.

9. Property relief surcharge

An additional rate of Universal Social Charge (property relief surcharge) of 5% applies on that part of an individual's taxable income which is sheltered by any of the property or area-based incentive reliefs including section 23-type relief. Any individual who earns less than €100,000 in the tax year is not subject to the surcharge no matter how much property reliefs are being claimed. It applies to a section 23-type deduction granted in 2012 or a subsequent year and any rental losses carried forward into 2012 or a subsequent year, which are attributable to section 23-type relief. Relief under the Countrywide Refurbishment Scheme is a section 23-type relief. Tax and Duty Manual [Part 18D-00-01](#) contains detailed information on the Universal Social Charge including the property relief surcharge.