

Home Renovation Incentive (HRI)

Section 477B Taxes Consolidation Act 1997

Reviewed December 2015

1. Introduction

Section 5 of Finance (No. 2) Act 2013 introduced a new section - section 477B - into the Taxes Consolidation Act 1997. The section initially provided for tax relief for homeowners by way of an income tax credit equal to 13.5% of qualifying expenditure incurred on repair, renovation or improvement work carried out on a homeowner's only or main residence. Section 13 of Finance Act 2014 extended the relief to include rental properties.

Section 9 of Finance Act 2015 extended the relief for one more year until 31 December 2016.

2. Principal features

The principal features of the Home Renovation Incentive ("the Incentive") are as follows:

- For homeowners, the Incentive is due to run from 25 October 2013 to 31 December 2016;
- For landlords, the Incentive is due to run from 15 October 2014 to 31 December 2016;
- In order to avail of the relief, landlords must register tenancies in respect of their properties with the Private Residential Tenancies Board ("PRTB");
- Qualifying expenditure is expenditure which is subject to the 13.5% VAT rate;
- The income tax credit is calculated by reference to the VAT exclusive cost of work;
- The work must cost a minimum of €4,405 excluding VAT (€5,000 including VAT). This would give rise to a credit of €595;
- Qualifying expenditure up to a maximum of €30,000 excluding VAT (€34,050 including VAT) will qualify for relief. Where the cost of the work

exceeds €30,000 excluding VAT, only qualifying expenditure up to €30,000 excluding VAT will qualify. Therefore, the maximum credit per qualifying residence is €4,050;

- If work is grant aided or if any form of insurance or compensation is received in respect of the work, the amount of relief will be reduced;
- In the case of a principal private residence, no relief is due under this Incentive in respect of expenditure where the homeowner is otherwise entitled to a deduction, relief or allowance in respect of that expenditure under any other provision of the Tax Acts or the VAT Consolidation Act 2010. This restriction is confined to principal private residences. It does not apply in the case of rental properties;
- The credit is granted over the two years following the year in which the work is paid (or deemed to be paid) for, with half the credit being allowed in each of the two years. Where full use of the credit cannot be made in those two years, the credit will be carried forward to subsequent years;
- Building contractors must be VAT registered and tax compliant to carry out work under the Incentive;
- The Incentive is administered through Revenue's Home Renovation Incentive online system;
- Contractors are required to inform Revenue in advance of details of work to be carried out and are also required to notify Revenue in relation to any payments received in respect of the work;
- Homeowners/landlords are able to view the information provided to Revenue by the contractor through the Home Renovation Incentive online system and can also claim the relief through that system;
- Where works have been successfully notified to the Home Renovation Incentive online system, the homeowner/landlord can be satisfied that the contractor is a qualifying contractor.

Definitions of terms used in Section 477B of the Taxes Consolidation Act 1997 are set out in Appendix 1.

3. How long will the Incentive run for?

The Incentive runs for different periods depending on the category of qualifying residence, whether it is a principal private residence or a rental property.

Principal private residences

In the case of a principal private residence, the Incentive applies to repair, renovation or improvement work carried out on or after 25 October 2013 and up to 31 December 2016.

Payments made between 25 October 2013 and 31 December 2013 (inclusive) are treated as if they were made in 2014.

If works were in progress on 25 October 2013, only the portion of the works carried out and paid for on or after 25 October 2013 qualifies for the relief.

Where planning permission for qualifying works is required and is in place before 31 December 2016, any work carried out on or after 1 January 2017 up to 31 March 2017 will qualify for the relief.

The works can be carried out as a single job, on a phased basis or as a series of separate works. Relief will be due provided the minimum expenditure of €4,405 excluding VAT (€5,000 including VAT at 13.5%) is incurred over the duration of the Incentive. For example, an individual may incur small amounts of qualifying expenditure on different jobs between 25 October 2013 and 31 December 2016. The individual will be entitled to claim relief provided the total of all the qualifying expenditure incurred over the duration of the Incentive reaches the minimum of €4,405 excluding VAT (€5,000 including VAT at 13.5%).

Rental property

In the case of a rental property, the Incentive applies to repair, renovation or improvement work carried out on or after 15 October 2014 and up to 31 December 2016.

Payments made between 15 October 2014 and 31 December 2014 (inclusive) are treated as if they were made in 2015.

As in the case of a homeowner, the works can be carried out as a single job, on a phased basis or as a series of separate works. Relief will be due provided the minimum expenditure of €4,405 excluding VAT (€5,000 including VAT at 13.5%) is incurred over the duration of the Incentive. For example, a landlord may incur small amounts of qualifying expenditure on different jobs on a rental unit between 15

October 2014 and 31 December 2016. The landlord will be entitled to claim relief provided the total of all the qualifying expenditure incurred on each rental unit over the duration of the Incentive reaches the minimum of €4,405 excluding VAT (€5,000 including VAT at 13.5%).

4. Qualifying expenditure

Qualifying expenditure is expenditure incurred on repair, renovation or improvement work carried out by a qualifying contractor (or contractors) on an individual's only or main residence, or from 15 October 2014, on a rental property, and on which VAT at 13.5% is charged.

The type of work which qualifies includes extensions, garage and attic conversions, supply and fitting of kitchens, bathrooms and built-in wardrobes, window fitting, plumbing, tiling, rewiring, plastering and landscaping. Works on a dwelling which are aimed at preventing the risk of flooding, where they otherwise meet the terms of the Incentive, qualify for relief.

Expenditure to which the 23% rate of VAT applies does not qualify for relief.

Note: in certain circumstances, a transaction which at first sight appears to be the supply of a service may nevertheless be taxed as a supply of goods if the value of the goods supplied in carrying out the work exceeds two-thirds of the total charge, otherwise known as the "two-thirds" rule.

For example, the supply of carpet (i.e. supply of goods) attracts the 23% rate of VAT and the installation of the carpet (i.e. supply of services) attracts the 13.5% rate of VAT. Based on the "two-thirds" rule, if the supply and installation of the carpets are invoiced as a single item this could attract the 23% VAT rate. Where the "two thirds rule" is breached the supplier may, by concession, invoice the materials and labour separately, thus alleviating the impact of the provision i.e. where the labour qualifies for the reduced rate, then only the materials will bear the higher rate.

The claimant will need to satisfy himself or herself that the correct rate of VAT is being applied.

Auditors should be mindful that the split as between materials and labour on any qualifying works must be realistic, and attempts to avoid VAT by reducing the consideration for the materials while inflating the consideration for the labour, should be challenged and the total value of the supply assessed at the higher rate, as appropriate. The invoicing of separate considerations for materials and labour is concessional and attempts to use it to avoid VAT should be rigorously challenged.

More information on this topic is available in the chapter 5 of the VAT Manual, “Services taxable as a supply of goods – The “two-thirds” rule” on www.revenue.ie.

Example 1

A homeowner/landlord paid a VAT registered and tax compliant building contractor €11,350 (inclusive of VAT at 13.5%) for qualifying work which was carried out on a property. The qualifying expenditure is calculated as follows:

Gross payment (payment including VAT at 13.5%):	€11,350
VAT (€11,350/113.5 x 13.5)	<u>€ 1,350</u>
Net payment (payment excluding VAT at 13.5%)	€10,000
Qualifying expenditure	€10,000

5. Qualifying residence

A qualifying residence originally (i.e. from 25 October 2013) referred to a principal private residence. From 15 October 2014, a qualifying residence also includes a rental property.

Principal private residences

A qualifying residence is a residential premises which is owned and occupied by the individual incurring the expenditure and which is his or her only or main residence. The property must be situated in the State.

Also, where a property, which has previously been occupied as a residence, is acquired for the purpose of occupation as the only or main residence of the new owner, qualifying work on the property will qualify for relief.

Relief is not available for the purposes of fitting out a newly built house where the fitting out is necessary to make the house habitable.

Rental property

From 15 October 2014, a qualifying residence also includes a rental property where the landlord is subject to income tax on the rental income. The property must be situated in the State, owned by an individual and occupied under a tenancy registered with the Private Residential Tenancies Board (PRTB). Where the property is not occupied by a tenant, the landlord must intend it to be so occupied, and it must be occupied by a tenant under a tenancy registered with the PRTB within 6 months of completion of the qualifying works.

It is important to note that where a property is converted into more than one rental unit, each rental unit would be deemed a qualifying residence for the purposes of the Incentive provided the tenancy for each rental unit is registered separately with the PRTB. If a rental property is in 6 units prior to qualifying work being carried out, but following the carrying out of such work is converted into 4 rental units, the Incentive will be available in respect of each of the 4 final units and not each of the initial 6 units.

Example 2

Seán is a landlord and he owns a property at 1 Graham Close, Dublin. The property contains 6 rental units and each of the 6 units satisfies the conditions for a qualifying residence. Seán pays a VAT registered and tax compliant electrician €5,000 (exclusive of VAT) for rewiring each rental unit (i.e. €5,000 x 6 rental units = €30,000). Each rental unit will qualify for HRI separately.

6. Qualifying contractor

The contractor engaged by a homeowner/landlord to carry out qualifying work must be registered for VAT and must also be tax compliant. Tax compliant means that a contractor has a Relevant Contract Tax (RCT) rate of either zero or 20%.

It is the responsibility of the homeowner/landlord to satisfy himself or herself that the contractor is a qualifying contractor.

Before any work starts and before any money is paid to a contractor, the homeowner/landlord should check that the work details have been entered on the Home Renovation Incentive online system by the contractor.

7. Tax credit/relief

The relief is calculated as 13.5% of the VAT exclusive amount of qualifying expenditure incurred by the homeowner/landlord. Therefore, the amount of relief to which the homeowner/landlord is entitled depends on the amount of qualifying expenditure incurred by him or her over the duration of the Incentive.

The minimum expenditure which a homeowner/landlord must incur over the duration of the Incentive is €4,405 (excluding VAT) which equates to €5,000 including VAT. This would give rise to a tax credit of €595 (which is 13.5% of €4,405).

Where expenditure exceeds €30,000 (excluding VAT), the relief will be capped at €4,050 (i.e. €30,000 @ 13.5%).

The relief will be granted equally over the two tax years following the year in which the qualifying work is paid for subject to the following exceptions:-

- where payments are made for qualifying work on a principal private residence during the period from 25 October 2013 to 31 December 2013, those payments will be deemed to have been made in the year of assessment 2014; and
- where payments are made for qualifying work on a rental property during the period from 15 October 2014 to 31 December 2014, those payments will be deemed to have been made in the year of assessment 2015.

Example 3

A homeowner/landlord paid a VAT registered and tax compliant plasterer €3,000 (excluding VAT) for plastering work and also paid a VAT registered and tax compliant painter €2,050 (excluding VAT) for internal and external painting work on her home/rental property. The work was carried out in 2015 and payments for the qualifying work were made in 2015. No grants or insurance payments were received in respect of this qualifying expenditure.

The tax credit is calculated as follows:

Total VAT exclusive amount €5,050 x 13.5% = €682

Relief is granted as follows:

2016: €341

2017: €341

Example 4

A homeowner/landlord paid a VAT registered and tax compliant electrician €5,000 (exclusive of VAT) for rewiring his home/rental property. The work was carried out in 2014 and the payments for the qualifying works were made in 2014. No grants or insurance payments were received in respect of this qualifying expenditure.

The tax credit is calculated as follows:

VAT exclusive amount €5,000 x 13.5% = €675

Relief is granted as follows:

2015: €338

2016: €337

Example 5

A homeowner paid a VAT registered and tax compliant landscape gardener €6,000 (excluding VAT) for landscaping work in her garden. Work on the garden commenced on 11 September 2013 and the first payment of €2,500 (in respect of the work completed on 16 October 2013) was made to the contractor on 30 October 2013. The remainder of the work was carried out in November 2013 and payment of €3,500 for this work, was made on 30 November 2013. No further work was carried out.

In this case, the first payment of €2,500 is not covered by the Incentive as the associated work was carried out prior to the start date for the Incentive (i.e. 25 October 2013).

The qualifying expenditure of €3,500 for the work carried out and paid after 25 October 2013 (i.e. in November 2013) is below the minimum expenditure threshold of €4,405 (excluding VAT). As a consequence, no relief is due in respect of the November payment.

Example 6

A landlord paid a VAT registered and tax compliant plumber €10,000 (excluding VAT) for bathroom renovations. Work on the bathroom commenced on 19 September 2014 and the first payment of €4,000 (in respect of the work completed on 10 October 2014) was made to the contractor on 30 October 2014. The remainder of the work was carried out in November and December 2014 and payment of €6,000 for this work, was made on 20 December 2014. No further work was carried out.

In this case, the first payment of €4,000 is not covered by the Incentive as the associated work was carried out prior to the Incentive start date for rental property (i.e. 15 October 2014). The qualifying expenditure of €6,000 for the work carried out and paid for after 15 October 2014 (i.e. in November and December 2014) qualifies for relief.

Example 7

A homeowner paid a VAT registered and tax compliant electrician €7,000 (excluding VAT) for rewiring his home. Works on the house commenced on 9 October 2013 and the first payment of €3,000 was paid to the contractor on 16 October. The remainder of the work was carried out in November 2013 and payment for the balance of the work, €4,000 was made on 20 November 2013.

In this case, the first payment of €3,000 does not qualify for relief as the payment was made before the commencement date of the Incentive (i.e. 25 October 2013). As the remainder of the qualifying expenditure i.e. €4,000 for the work carried out and paid for after 25 October 2013, is below the minimum expenditure threshold of €4,405 (excluding VAT), no relief is due in respect of the work done in November 2013.

However, in May 2015 the homeowner pays a VAT registered and tax compliant contractor €4,500 (excluding VAT) for painting his house.

The total amount of qualifying expenditure (excluding VAT) incurred by the homeowner over the duration of the Incentive is as follows:

2013:	Payment for rewiring work	€4,000
2015:	Payment for painting work	<u>€4,500</u>
		€8,500

As the total amount of qualifying expenditure now exceeds the minimum threshold of €4,405 (excluding VAT), relief is due.

The tax credit is calculated as follows:

- (i) Payment for rewiring deemed to be made in 2014.

$$€4,000 \times 13.5\% = €540$$

Relief for this portion of the expenditure is granted as follows:

2015: €270

2016: €270

- (ii) Payment for painting work made in 2015

$$€4,500 \times 13.5\% = €608$$

Relief for this portion of the expenditure is granted as follows:

2016: €304

2017: €304

The maximum amount of relief which a homeowner can claim in respect of qualifying expenditure incurred on his or her qualifying residence is €4,050. This is 13.5% of €30,000. As noted above, where the cost of the work exceeds €30,000 (excluding VAT), relief is capped at €4,050.

Example 8

A homeowner/landlord paid a VAT registered and tax compliant builder €40,000 (excluding VAT) for an extension to her home/rental property which was carried out and completed in 2015. Payment for the qualifying work was made in the year 2015. No grants or insurance payments were received in respect of this qualifying expenditure.

The tax credit is calculated as follows:

$$€30,000 \text{ (maximum)} \times 13.5\% = €4,050.$$

Relief is granted as follows:

2016: €2,025

2017: €2,025

8. What must a contractor do before work commences?

Before commencing work, the contractor must provide the Revenue Commissioners with the following information, through the Home Renovation Incentive online system (ROS):

- the Local Property Tax reference number of the property on which the qualifying work is to be carried out;
- the name of the claimant;
- the address of the property at which the work will be carried out;
- a description of the work to be carried out;
- the estimated cost of the work to be carried out;

- the estimated start date and estimated end date;
- whether the property is a rental property; and
- where the rental property will be converted into more than one rental unit, the number of rental units.

On receipt of the information required from the contractor as set out above, the contractor will be notified, through the Home Renovation Incentive online system, whether or not he or she is a qualifying contractor for the purposes of the Incentive. If the contractor is a qualifying contractor, he or she will be allocated a unique reference number for the work.

In addition, if the contractor is a qualifying contractor, the homeowner/landlord will be able, through the Home Renovation Incentive online system, to check that the contractor is a qualifying contractor for the purposes of the Incentive. The homeowner/landlord will also be provided with the unique reference number for the work when checking the Home Renovation Incentive online system.

The confirmation in relation to the contractor and unique reference number for the work will be available for the homeowner/landlord to view at any time through the Home Renovation Incentive online system.

It is the responsibility of the homeowner/landlord to check the online system to confirm that the contractor is a qualifying contractor.

If work is not notified to the Home Renovation Incentive online system, the homeowner/landlord will not be able to claim a tax credit in respect of payments for the work.

9. What must the qualifying contractor do when payment is received from the claimant?

When the contractor receives any payment for the works, the following information must be provided by him or her to the Revenue Commissioners, through the Home Renovation Incentive online system:

- the unique reference number for the work,
- the amount of the payment, separately identifying the VAT element,
- the name of the individual from whom the payment was received and,
- the date of the payment.

The information on the payment will be available through the Home Renovation Incentive online system for the homeowner/landlord to view. If the contractor does

not provide this information, the homeowner/landlord will not be able to claim a tax credit in respect of payments for the work.

At the time of a payment, the contractor must also give a statement to the claimant showing the amount of the payment and separately identifying the amount of VAT.

The homeowner/landlord should retain proof of payment in the event that his/her claim is the subject to a Revenue audit.

10. Making a claim

Claims for relief must be made by the homeowner/landlord through the Home Renovation Incentive online system. Claims can be made from 1 January in the year following the year in which the qualifying work has been paid for (subject to the minimum qualifying expenditure of €4,405 (excluding VAT) being incurred during the timeframe for the Incentive).

In the case of a principal private residence, it will be possible for the homeowner to submit a claim from 1 January 2015 in respect of payments made (or deemed to be made) in 2014. A homeowner will be able to submit a claim from 1 January 2016 in respect of payments made in 2015. A landlord will be able to submit a claim from 1 January 2016 in respect of payments made (or deemed to be made) in 2015.

On making a claim, the claimant will be asked to provide the following information, through the Home Renovation Incentive online system:

- his or her name and tax reference number (PPSN) (provided as part of the logging-on process);
- the unique reference number for the work (see section 8 above);
- the Local Property Tax reference number of the property on which the qualifying work was carried out;
- details of any grants, insurance or compensation receivable, directly or indirectly, in respect of the qualifying work;
- confirmation as to whether the property is a rental property; and
- if a rental property is converted into more than one rental unit, the number of rental units and the address of each rental unit.

The claimant will also be asked, via the Home Renovation Incentive online system, to confirm that:

- the amount of each payment that the contractor advised to Revenue is in accordance with the amount of the payment made by the claimant to that contractor;
- the date of each payment provided by the contractor is correct;
- the work in respect of which payment was made was qualifying work carried out on the claimant's qualifying residence;
- the work in respect of which payment was made to the contractor has been completed;

Note: Where stage payments are made, relief can be claimed in respect of such payments provided the work to which the payments relate has been completed and the minimum expenditure of €4,405 (excluding VAT) has been incurred. In those circumstances, it is not necessary for a taxpayer to wait until the entire job has been completed before submitting a claim for relief.

- the contractor has received full payment from the claimant in respect of the work; and either
 - the property on which the qualifying work was carried out was occupied by the individual as his or her only or main residence on completion of the work; or
 - in the case of a rental property, each rental unit was occupied by a tenant within 6 months of completing the works and that each such tenancy is registered with the PRTB.

11. When is the relief granted?

The relief is spread over the two years following the year in which the work is paid (or deemed to be paid) for. This is provided the claimant has sufficient tax liability in each year to absorb the relief (see section 16 below).

For example, relief for qualifying work paid for in 2016 will be given in the tax years 2017 and 2018 with 50% of the relief being given in each year.

For homeowners, payments made from 25 October 2013 and up to 31 December 2013 will be deemed to have been made in 2014.

For landlords, payments made from 15 October 2014 and up to 31 December 2014 will be deemed to have been made in 2015.

Example 9

On 13 December 2013, a homeowner paid a VAT registered and tax compliant painter €3,000 (excluding VAT) for internal and external paint work on her home. On 1 April 2014, she also paid a VAT registered and tax compliant plasterer €2,050 (excluding VAT) for plastering work on her home. No grant or insurance payments were received in respect of any of this qualifying expenditure. As the total expenditure exceeds the minimum threshold of €4,405 (excluding VAT), a tax credit is due. The payment made on 13 December 2013 is deemed to have been made in 2014. The tax credit is calculated as follows:

$$€5,050 \text{ (total payment)} \times 13.5\% = €682$$

Relief is granted as follows:

2015: €341

2016: €341

Example 10

On 20 November 2014, a landlord paid a VAT registered and tax compliant painter €2,000 (excluding VAT) for internal and external paint work carried out on her rental property in November 2014. On 1 February 2015, she also paid a VAT registered and tax compliant plasterer €4,000 (excluding VAT) for plastering work on the same rental property. No grant or insurance payments are received in respect of any of this qualifying expenditure. As the total expenditure exceeds the minimum threshold of €4,405 (excluding VAT), a tax credit is due. The payment made on 20 November 2014 is deemed to have been made in 2015. The tax credit is calculated as follows:

$$€6,000 \text{ (total payment)} \times 13.5\% = €810$$

Relief is granted as follows:

2016: €405

2017: €405

As noted in section 3 above, in certain circumstances relief may be given for work carried out in the period from 1 January 2017 to 31 March 2017, i.e. where planning permission for qualifying works is required and is in place before 31 December 2016, any work carried out on or after 1 January 2017 and up to 31 March 2017 will qualify for the relief.

Example 11

A homeowner applies for planning permission for an extension to his home in September 2016, and planning permission is granted in November 2016. The work does not commence until January 2017 and will be completed in March 2017. The work will be carried out by a VAT registered and tax compliant contractor. Payment of €35,000 (excluding VAT) will be made in May 2017 to the contractor for the work.

As planning permission will be granted before 31 December 2016 and as the work will be completed before 31 March 2017, relief is due.

The tax credit is calculated as follows:

$$€30,000 \text{ (maximum)} \times 13.5\% = €4,050.$$

Relief is granted as follows:

2018: €2,025

2019: €2,025

12. Excess relief

Where a homeowner/landlord does not have a sufficient income tax liability to utilise the tax credit in either or both the two years following the year in which the work was paid for, then the excess relief will be carried forward to the following year and each subsequent year until the relief has been used in full.

The amount of the excess relief used in any tax year cannot be greater than the amount which reduces the income tax charged on the claimant in that tax year to nil.

Example 12

A homeowner paid a VAT registered and tax compliant builder €36,000 (excluding VAT) for an extension to his home. The work was carried out in 2014 and payment for the qualifying work was made in November 2014. No grants or insurance payments were payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

$$€30,000 \text{ (maximum)} \times 13.5\% = €4,050.$$

Relief is available as follows:

2015: €2,025

2016: €2,025

The homeowner was unemployed in 2014. He recommenced employment in late 2015 but due to the availability of personal tax credits, has no income tax liability for 2015. He does however have an income tax liability of €10,000 in 2016. Relief is therefore granted as follows:

2015: Nil

2016: €4,050 (€2,025 due for 2016 plus €2,025 carried forward from 2015)

Example 13

A homeowner paid a VAT registered and tax compliant builder €33,000 (excluding VAT) for an extension to her home. The work was carried out in 2014 and payment for the qualifying work was made in October 2014. No grant or insurance payments were payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

€30,000 (maximum) x 13.5% = €4,050.

Relief is available as follows:

2015: €2,025

2016: €2,025

The homeowner became unemployed in 2015 and her income tax liability for the year was only €1,200. She recommenced employment in mid 2016 and paid income tax of €6,000. Relief is granted as follows:

2015: €1,200 (maximum amount allowable to reduce her tax liability to nil)

2016: €2,850 (€2,025 due for 2016 plus €825 carried forward from 2015)

13. Compensation, insurance, and grant payments

Where a grant (e.g. an insulation grant from the Sustainable Energy Authority of Ireland (SEAI)), insurance payment or some form of compensation is paid (or due to be paid) in respect of qualifying work, then in calculating the tax credit, the amount of the VAT inclusive payment or payments made in respect of qualifying expenditure will be reduced.

Depending on the nature of the receipt, the following reductions will apply:

- in the case of amounts received from the State or any public body or local authority, the reduction will be three times the amount received or receivable, and
- in the case of payments received under any contract of insurance or by way of compensation or otherwise, the reduction will be the amount received or receivable.

These reductions affect the amount of the credit available under the Incentive but they do not operate to reduce the amount of the qualifying expenditure for the purpose of determining if the minimum threshold of €4,405 (excluding VAT) has been reached (see examples 14 to 16).

Example 14

A homeowner/landlord paid a VAT registered and tax compliant builder €10,000 (including VAT) for external wall insulation. The work was carried out on the home/rental property in 2015, and payment for the qualifying expenditure was made in September 2015. The homeowner/landlord received a €2,700 grant under the Better Energy Home Scheme in respect of the insulation. Relief for qualifying expenditure is calculated as follows:

The payment of €10,000 is reduced by €8,100 ($€2,700 \times 3$) leaving expenditure of €1,900 i.e. ($€10,000$ less $€8,100$).

As this €1,900 includes VAT of 13.5%, the qualifying expenditure is €1,674 ($€1,900 \times 100/113.5$).

Tax credit is calculated as follows:

$$€1,674 \times 13.5\% = €226$$

Relief is granted as follows:

2016:	€113
2017:	€113

Example 15

A homeowner/landlord paid a VAT registered and tax compliant builder €8,000 (including VAT) for supplying and fitting a bathroom. The work was carried out in July 2015 and payment for the qualifying expenditure was made in August 2015. The homeowner/landlord made a claim to her insurance company in respect of the qualifying expenditure and was awarded a payment of €2,000. Relief for the qualifying expenditure is calculated as follows:

	€8,000 paid for the bathroom. (Note: this is inclusive of VAT)
Less:	€2,000 paid under an insurance claim.
	€6,000

As this €6,000 is inclusive of VAT at 13.5%, the qualifying expenditure is €5,286 ($€6,000 \times 100 / 113.5$)

Tax credit is calculated as follows:

$$€5,286 \times 13.5\% = €714$$

Relief is granted as follows:

2016:	€357
2017:	€357

Example 16

A homeowner/landlord paid a VAT registered and tax compliant plumber €7,500 (including VAT) for work on his home/rental property. The work was carried out in November 2014 and payment for the qualifying expenditure was made in December 2014. He made a claim to his insurance company in respect of the qualifying expenditure and was awarded a payment of €4,000. Relief for the qualifying expenditure is calculated as follows:

	€7,500 paid for the plumbing work. (Note: this is inclusive of VAT)
Less:	€4,000 paid under an insurance claim.
	€3,500

As this €3,500 is inclusive of VAT at 13.5%, the qualifying expenditure is €3,084 ($€3,500 \times 100 / 113.5$).

The tax credit is calculated as follows:

$$€3,084 \times 13.5\% = €416$$

Relief is granted as follows:

2015:	€208
2016:	€208

Note: Even though the €4,000 insurance payment received reduced the cost to the homeowner/landlord to €3,500 (including VAT) i.e. below the minimum threshold of €4,405 (excluding VAT), as the total expenditure exceeded the minimum threshold, relief is allowed.

14. Married couples and civil partners

In the case of married couples and civil partners who are jointly assessed for income tax purposes, any payments made by the non assessable spouse/civil partner in respect of qualifying expenditure is deemed to have been made by the assessable spouse/civil partner.

Example 17

John and Mary are both employed and are jointly assessed for income tax purposes. Mary paid a VAT registered and tax compliant builder €13,000 (excluding VAT) for an attic conversion on their home which was carried out in July 2014. Payment for the qualifying work was made in September 2014. No grant or insurance payments were payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

$$€13,000 \times 13.5\% = €1,755.$$

As the couple is jointly assessed, relief will be granted to John and will be included in his tax credits as follows:

2015:	€878
2016:	€877

15. Properties that are jointly owned

The maximum tax credit of €4,050 applies to the qualifying residence for the duration of the Incentive. Therefore, if the property is jointly owned, the maximum tax credit of €4,050 still applies. The tax credit will be apportioned between the owners based on the level of qualifying expenditure incurred by each owner.

Example 18

Aoife and Oisin (mother and son) own a rental property. In 2015, they paid a VAT registered and tax compliant builder €60,000 (excluding VAT) for an extension to their home.

Of this €60,000, Oisín paid €40,000 and Aoife paid €20,000. No grant or insurance payments were payable in respect of this qualifying expenditure.

The maximum amount of relief which Aoife and Oisín can claim on their qualifying residence is €4,050. This is 13.5% of €30,000 (maximum qualifying expenditure (excluding VAT)).

$$\text{Relief due to Oisín is } \text{€4,050} \times \frac{\text{€40,000}}{\text{€60,000}} = \text{€2,700}$$

This is granted as follows (subject to Oisín having sufficient income tax liability in each of the years):

2016: €1,350

2017: €1,350

$$\text{Relief due to Aoife is } \text{€4,050} \times \frac{\text{€20,000}}{\text{€60,000}} = \text{€1,350}$$

This is granted as follows (subject to Aoife having sufficient income tax liability in each of the years):

2016: €675

2017: €675

16. What if the property owner does not have an income tax liability?

The tax credit is only available to the homeowner/landlord who incurs the qualifying expenditure and only to the extent that the homeowner/landlord has an income tax liability in any year. Where there is more than one owner and not all of the owners have an income tax liability, the tax credit can be claimed by those paying tax, based on the level of qualifying expenditure incurred by each owner.

Example 19

Mary, Joan and Ann (sisters) own their home jointly. In 2015, they paid a VAT registered and tax compliant builder €60,000 (excluding VAT) for an extension to their home. They each contributed €20,000 towards the cost of the qualifying works which were carried out in 2015. Mary is the only person with an income tax liability. No grants or insurance payments were payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

Maximum relief due in respect of the work is €4,050

$$\begin{array}{rcl} \text{Relief due to Mary is } \text{€4,050} & \times & \text{€20,000} \\ & & \text{€60,000} \\ & & = \text{€1,350} \end{array}$$

This is granted as follows:

2016: €675

2017: €675

As Joan and Ann do not have an income tax liability, no relief is due in respect of the payments made by them for the qualifying work.

Note: in order for a landlord to qualify for the Incentive, the landlord must have income subject to income tax. The tax credit is only available to the landlord who incurs the qualifying expenditure and only to the extent that the landlord has an income tax liability in any year. Therefore, in the case of a landlord who operates through a company i.e. whose rental income is subject to corporation tax as opposed to income tax, the rental property will not qualify for relief under the Incentive.

Example 20

Alan and Brian (brothers) jointly own a rental property together with their Uncle Charlie. However, Charlie owns his share in the rental property indirectly through his investment company, Charlie Properties Limited. Both Alan and Brian are registered for income tax. In 2015, Alan, Brian and Charlie Properties Limited pay a VAT registered and tax compliant builder €60,000 (excluding VAT) for an extension to the property. Alan, Brian and Charlie Properties Limited each contributed €20,000 towards the cost of the qualifying works which are carried out in 2015. No grants, insurance or other compensation payments are payable in respect of this qualifying expenditure.

Alan and Brian qualify for the HRI tax credit. Charlie Properties Limited does not qualify for the HRI tax credit as the company is subject to corporation tax as opposed to income tax. If Charlie decides to contribute personally the €20,000 towards the cost of the qualifying works in respect of the property, Charlie would not qualify for the HRI tax credit as he does not own a share in the property (i.e. Charlie Properties Limited owns the share in the property).

17. Relief due in cases where an individual sells their home and buys another

As stated in section 15, the maximum tax credit of €4,050 applies to the qualifying residence. However, subject to the terms of the Incentive, an individual who, having claimed the Incentive in respect of one home, sells that home and purchases a new home may be able to claim the Incentive in respect of qualifying works carried out on

the second home. Clearly, if the individual also owns a rental property or several rental properties, the maximum tax credit of €4,050 would apply to each property.

Example 21

Leo owns his home at 1 The Park. He paid a VAT registered and tax compliant contractor €35,000 (exclusive of VAT) for an attic conversion to his home. The payments for the qualifying work were made on 1 May 2014 with the work having been carried out between November 2013 and April 2014. No grants or insurance payments were payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

$$€30,000 \text{ (maximum)} \times 13.5\% = €4,050.$$

Relief is granted as follows:

2015: €2,025

2016: €2,025

Leo sold his home in October 2014 and bought a new home at 1 The Terrace in November 2014. This is not a new house and had previously been occupied as a residence by another individual. Leo pays a VAT registered and tax compliant contractor €20,000 (exclusive of VAT) for an extension to his new home with work carried out between January 2015 and April 2015. The payments for the qualifying work are made in May 2015. No grant or insurance payments are payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

$$€20,000 \times 13.5\% = €2,700$$

Relief is granted as follows:

2016: €1,350

2017: €1,350

Notwithstanding that Leo claimed the maximum credit in respect of qualifying work carried out in 2013/2014 on his then home (1 The Park), he is still entitled to relief for expenditure incurred on his second home (1 The Terrace). The total amount of relief due to Leo in respect of qualifying expenditure is as follows:

2015: €2,025 (for qualifying expenditure on 1 The Park)

2016: €3,375 (€2,025 for qualifying expenditure on 1 the Park, plus €1,350 for qualifying expenditure on 1 The Terrace).

2017: €1,350 (for qualifying expenditure on 1 The Terrace).

18. Relief due in cases where a landlord owns more than one property

As outlined in section 15, the maximum tax credit of €4,050 applies per qualifying residence. Therefore, subject to the terms of the Incentive, it is possible for a landlord to avail of the Incentive in respect of qualifying works carried out on multiple properties or multiple rental units.

Example 22

Patrick is a landlord and owns three rental properties. The properties are occupied by tenants and the tenancies are registered with the PRTB. He pays a VAT registered and tax compliant contractor €40,000 (exclusive of VAT) for an attic conversion to each of the properties. The payments for the qualifying works are made on 1 June 2015 with the work having been carried out between January 2015 and May 2015. No grants or insurance payments were payable in respect of this qualifying expenditure.

The tax credit is calculated as follows:

Property 1.	€30,000 (maximum) x 13.5% = €4,050.
Property 2.	€30,000 (maximum) x 13.5% = €4,050.
Property 3.	€30,000 (maximum) x 13.5% = <u>€4,050.</u>
Total due	€12,150

Relief is granted as follows:

2016: €6,075

2017: €6,075

19. Local Property Tax

Before any relief is granted to a claimant under this Incentive, all Local Property Tax and Household Charge obligations must be met in respect of making returns and paying local property tax and the household charge.

This means that the Local Property Tax and Household Charge obligations must be up to date for the property where the qualifying expenditure is incurred. In addition,

where the claimant is responsible for the Local Property Tax and Household Charge obligations for any other property, those obligations must be up to date before relief under the Home Renovation Incentive will be granted in respect of qualifying expenditure on any the claimant's properties.

20. Universal Social Charge (USC)

The tax credit is only available against income tax paid. It is not due as a credit against USC.

21. Transitional arrangements in advance of the Home Renovation Incentive Online System coming into operation

The Incentive operates through the Home Renovation Incentive online system which was made available for homeowners from 10 April 2014. The Home Renovation Incentive online system is available in respect of rental properties from 13 December 2014.

Key points to note in relation to transitional arrangements which applied prior to the launch of the online system for homeowners and the updated version for landlords are as follows:

- The homeowner/landlord should have satisfied himself or herself that the contractor was a qualifying contractor before the work commenced.

For this purpose, the contractor should have demonstrated that they were a qualifying contractor by providing the homeowner with the following:

- evidence of business name and VAT registration number, and
- a 'Relevant Contracts Tax (RCT) rate notification' issued to the contractor no more than 30 days before the work start date which showed either a zero or 20% rate (see sample at Appendix 2) OR a current 'Tax Clearance Certificate'.
- Details of all payments received and made should have been retained by the contractor and the homeowner. Such details should have included the name of the person who made the payment, the date of payment, the amount of payment, the rate of VAT applicable and the amount of VAT charged.

22. Rental properties – interaction with other reliefs

A landlord who claims the Home Renovation Incentive relief is also entitled to claim other reliefs available under the Taxes Consolidation Act 1997 and the VAT Acts. The number of reliefs available to a landlord depends on whether or not the landlord is registered and chargeable to VAT in respect of the letting. Below are examples of how the Incentive operates.

Example 23 – revenue expenditure

A landlord incurs revenue expenditure on repairs of €6,000 (including VAT at 13.5%) - €5,286 net of VAT. Assume the landlord is subject to income tax at the higher rate of 40%.

If the landlord is **not VAT registered**, he or she is entitled to:

- a deduction against rental income of €6,000. In tax terms, this is worth €2,400; and
- a HRI credit of €714 (13.5% of €5,286).

The total tax 'benefit' or 'saving' to the landlord is €3,114.

If the landlord is **VAT registered**, he or she is entitled to:

- a deduction against rental income of €5,286 (the net of VAT amount). In tax terms, this is worth €2,114;
- a HRI credit of €714 (13.5% of €5,286); and
- a VAT input credit for the VAT incurred on the repairs i.e. €714.

The total tax 'benefit' or 'saving' to the landlord is €3,542.

Example 24 – capital expenditure on items qualifying for wear and tear allowances

There are not very many capital items that qualify for wear and tear allowances and qualify for HRI. However, one such item could be the supply and installation of a kitchen (provided the expenditure would constitute fixtures and fittings and would not be regarded as part of the general fabric of the property). A landlord incurs capital expenditure on the supply and installation of a kitchen in a rental property of €6,000 (including VAT at 13.5%) - €5,286 net of VAT. Assume the landlord is subject to income tax at the higher rate of 40% and that the supply and installation of the kitchen qualifies for straight line wear and tear allowances over 8 years at 12.5%.

If the landlord is **not VAT registered**, he or she is entitled to:

- a deduction for wear and tear allowances against his rental income of €750 per annum over 8 years. In tax terms, this is worth a total of €2,400 over the 8 years (assuming the wear and tear allowances rate remains 12.5%); and
- a HRI credit of €714 (13.5% of €5,286).

The total tax 'benefit' or 'saving' to the landlord is €3,114.

If the landlord is **VAT registered**, he or she is entitled to:

- a deduction against his rental income for the wear and tear allowances of €660.75 per annum for 8 years (the net of VAT amount). In tax terms, this is worth a total of €2,114 over the 8 years;
- a HRI credit of €714 (13.5% of €5,286); and
- a VAT input credit for the VAT incurred on the supply and installation of the kitchen i.e. €714.

The total tax 'benefit' or 'saving' to the landlord is €3,542.

Example 25 – capital expenditure

As noted in example 24, many capital items, for example building works, would not qualify for wear and tear allowances. However, the capital item may qualify for HRI. The refurbishment of a property may create a capital good for VAT purposes and the disposal of a property may lead to a capital goods scheme adjustment. For simplicity the capital good implications are not addressed in the following examples – guidance is available on <http://www.revenue.ie/en/tax/vat/property/index.html>.

A landlord incurs capital expenditure on building works (e.g. adding an extension) in a rental property of €6,000 (including VAT at 13.5%) - €5,286 net of VAT. Assume the landlord is subject to capital gains tax at a rate of 33%.

If the landlord is **not VAT registered**, the consequences are as follows:

- The landlord does not get a deduction for capital allowances or any other deduction against his rental income. However, when the landlord sells the rental property, the cost of the building works of €6,000 is treated as enhancement expenditure (provided the building works are reflected in the state of the property at the date of disposal) and the full €6,000 is allowable as a deduction against the sale proceeds of the rental property. In tax terms, this is worth €1,980; and
- The landlord gets a HRI credit of €714 (13.5% of €5,286).

The total tax 'benefit' or 'saving' to the landlord is €2,694.

If the landlord is **VAT registered**, the consequences are as follows:

- The landlord does not get a deduction for capital allowances or any other deduction against his rental income. However, when the landlord sells the rental property, the cost of the building works of €5,286 (the net of VAT amount) is treated as enhancement

expenditure (provided the building works are reflected in the state of the property at the date of disposal) and is allowable as a deduction against the sale proceeds of the rental property. In tax terms, this is worth €1,744;

- The landlord gets a HRI credit of €714 (13.5% of €5,286); and
- a VAT input credit for the VAT incurred on the cost of the building works i.e. €714.

The total tax 'benefit' or 'saving' to the landlord is €3,172.

23. Penalties

A penalty will apply as a result of (i) failure to do anything required to be done under section 477B of the Taxes Consolidation Act 1997, (ii) the provision of incorrect information, (iii) the making of an incorrect claim for a tax credit, (iv) knowingly or carelessly assisting or inducing others to make an incorrect claim or to make an incorrect statement or declaration to Revenue. For further information on the penalty regime, please refer to the *Code of Practice for Revenue Audit* and the *Compliance Code for PAYE taxpayers* on www.revenue.ie

Appendix 1

Definitions

‘contractor’ means a person engaged by an individual to carry out qualifying work, who is an accountable person for VAT and who has been assigned a VAT registration number;

‘PPS number’ means the individual’s personal public service number within the meaning of the Social Welfare Consolidation Act 2005;

‘qualifying contractor’ means a contractor who satisfies the obligations set out in section 530G or 530H, as the case may be, of the Taxes Consolidation Act i.e. is a zero rated or 20% rated contractor, or in the case of a contractor who is not a subcontractor to whom RCT applies, complies with the obligations referred to in section 530G or section 530H, as the case may be other than the obligations to (i) be a subcontractor engaged in the business of carrying out relevant operations, and (ii) operate from a fixed place of business;

‘qualifying expenditure’ means expenditure incurred by the individual on qualifying work carried out by a qualifying contractor on a qualifying residence;

‘qualifying residence’ means residential premises—

- a) which is owned by the individual and which is occupied by the individual as his or her principal private residence, or
- b) which has previously been occupied as a residence and which has been acquired by the individual for the purposes of occupation by the individual as his or her principal private residence on completion of the qualifying work, provided it is occupied upon completion,
- c) which is owned by an individual and occupied by a tenant under a tenancy for which registration is required under Part 7 of the Residential Tenancies Act 2004, and where such registration requirements have been complied with by the individual, or
- d) which is owned by an individual and which is intended by the individual to be occupied by a tenant under a tenancy for which registration is required under Part 7 of the Residential Tenancies Act 2004, and where such registration requirements have been complied with by the individual and which is occupied by a tenant within 6 months of completion of the qualifying work.

‘qualifying work’ means any work of repair, renovation or improvement to which the 13.5% rate of VAT applies, and which is carried out on a qualifying residence;

‘residential premises means -

- (a) a building or part of a building used, or suitable for use, as a dwelling, and

- (b) land which the occupier of the dwelling has for his or her own occupation and enjoyment with as its garden or grounds of an ornamental nature;

‘rental unit’ means part of a building used, or suitable for use, as a dwelling, which is occupied by a tenant and registered with the PRTB, or which is intended to be occupied by a tenant, and is registered with the PRTB and occupied by a tenant within 6 months of completion of the qualifying works.

‘specified amount’, means 13.5% of the VAT exclusive element of a payment or payments made in respect of qualifying expenditure, subject to a maximum amount of €4,050;

‘tax reference number’, means in the case of an individual, the individual’s PPS number or in the case of a company, the reference number stated on any return of income form or notice of assessment issued to that company by the Revenue Commissioners;

‘tenancy’ has the same meaning as it has in the Residential Tenancies Act 2004;

‘tenant’ has the same meaning as it has in the Residential Tenancies Act 2004;

‘unique reference number’ has the meaning given to it by Section 477B(4)(b) of the TCA i.e. the number assigned to the contractor in respect of qualifying work on notification of that work to the Revenue Commissioners;

‘VAT registration number’ means the registration number assigned to the person under section 65 of the Value Added Tax Consolidation Act 2010.

Appendix 2

Copy of Relevant Contracts Tax (RCT) rate notification

In all correspondence please quote:
 Tax Reference No.: 1234567T
 Notice No.: 01234567-00001A
 District: 001
 Unit: 001

Forename Surname
 Revenue District Name
 Revenue Division Name
 Address
 Address

V423 r6s 778E08TRIN077
 Business Name
 Business Address
 Business Address

Enquiries: Phone Number
 5th Nov 2013

Relevant Contracts Tax (RCT)
Notification of Determination under Section 530I Taxes Consolidation Act, 1997

Dear Sir/Madam,

Your rate of RCT as a subcontractor has been determined by me to be 20%.

This rate of tax will apply to relevant payments made to you (except those already notified to Revenue) by all principals until a further determination is made by the Revenue Commissioners.

If you wish to make an appeal to the Appeal Commissioners that you are entitled to a lower rate of RCT, you should write to me within 30 days of the date of this notification, setting out the grounds of your appeal.

It is not necessary to lodge an appeal in order to request Revenue to review your RCT rate to take account of improved compliance.

Yours faithfully,

Forename Surname
 District Inspector