

# Countrywide Refurbishment Scheme

## Tax relief for the refurbishment of rented residential accommodation



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## 1. 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 is to improve the standard of the existing stock of rented residential accommodation.

The scheme provides 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' type relief.

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

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.

## 2. Qualifying Period

The qualifying period for the scheme commenced on 6 April 2001 and is due to terminate on 31 July 2008. This is the period during which qualifying expenditure on the refurbishment of the house must be incurred. The scheme was originally open-ended but, following Finance Act 2006, is now due to terminate on 31 July 2008 in line with most of the other property-based incentive schemes. However, unlike most of these other schemes, there are no conditions attaching to the new termination date for the Countrywide Refurbishment Scheme. Thus, there is 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.

## 3. Meaning of 'refurbishment'

What constitutes 'refurbishment' has a particular meaning for the purposes of this scheme. Refurbishment (as defined in section 372AK TCA, 1997) 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 for the purposes of compliance with the requirements of the Housing (Standards for Rented Houses) Regulations 1993 (S.I. No. 147 of 1993)”.<sup>1</sup>

It should be noted that construction expenditure is only allowed where it is 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 can only be 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 does not qualify for relief under this scheme. Thus, for example, a project that involves the conversion of a

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<sup>1</sup> Statutory Instruments are available at [www.irishstatutebook.ie](http://www.irishstatutebook.ie)

building such as a convent or a mill into a number of individual residential units does not qualify for relief under this scheme which is focussed on improving the standard of the existing stock of rented residential accommodation.

## **4. Qualifying expenditure**

### **4.1 Work carried out during qualifying period**

Relief is only available for expenditure on refurbishment work that is carried out during the qualifying period. Where some of the work is carried out after the end of the qualifying period, the house will 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 is incurred, only the amount of the expenditure that is attributable to work that is 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 will be carried out after the termination date.

### **4.2 Allowable costs for determining qualifying expenditure**

In general, it is only the direct costs of refurbishment that are 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 engages a builder to carry out the refurbishment work, the amount that is paid to the builder, including the builder's profit, is the qualifying expenditure.

Costs that are not allowed include any costs that are attributable to conversion or construction work other than incidental construction work carried out in the course of refurbishment as defined in section 3. The cost of acquiring the house to be refurbished and any costs attributable to a person's own labour where the person carries out the work themselves are also not allowed.

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 has been paid can only be included in the qualifying expenditure where it cannot be claimed back by the person who has paid it.** In other words, relief is only available where VAT is a **net** cost to the person paying that VAT.

Where a person is not registered for VAT, he or she can use the VAT inclusive price of the building materials, building agreement etc. for the purposes of calculating relief. Prior to 2 April, 2007, i.e. the date of passing of the Finance Act 2007, (subject to certain transitional arrangements) it was possible for a person who engaged in short-term letting of property (i.e. leases of less than 10 years) to elect to register for VAT. This meant that the person could reclaim the VAT that was paid in connection with the refurbishment work on the property but had to charge VAT on the rents received under the lease. Where a person has elected to waive the VAT exemption on the short-term lettings, the costs of the refurbishment for the purposes of calculating relief should be VAT exclusive.

### **4.3 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.

#### **4.4 Provision against double relief**

Expenditure cannot qualify for relief under this scheme if it also qualifies, or could have qualified, for relief under any other provision of the Tax Acts. For example, expenditure on refurbishment of a house might qualify for 'section 23' type 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.

#### **4.5 Where refurbishment 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 qualifies for relief after 31 December 2006. Eligible expenditure incurred during 2006 can 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 can qualify for relief. As stated in section 4.1, expenditure is treated as incurred, not when it is payable, but to the extent that it is attributable to refurbishment work that is actually carried out.

### **5. Qualifying conditions**

Expenditure must be incurred, within the qualifying period, on the refurbishment of the house in accordance with the definition of refurbishment as set out in section 3. 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.

#### **5.1 Lease requirements**

On the date of the completion of the refurbishment the house must be let to an existing tenant, or where it was not let on that date, without having been used following the refurbishment must be 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.

#### **5.2 Department of Environment, Heritage and Local Government requirements**

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

Any person who is authorised in writing by the Minister for the Environment, Heritage and Local Government must be 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)".<sup>2</sup> 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.

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<sup>2</sup> Statutory Instruments are available at [www.irishstatutebook.ie](http://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)”<sup>3</sup> 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 Private Residential Tenancies Board 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, contain articles on the registration requirements. It is available at [www.revenue.ie](http://www.revenue.ie) under ‘Publications’.

Information about the Residential Tenancies Act and the registration requirements is available at [www.environ.ie](http://www.environ.ie) or [www.prtb.ie](http://www.prtb.ie). Enquiries about the registration requirements should be addressed to the PRTB and not to Revenue. The contact details are:

Private Residential Tenancies Board  
Canal House  
Canal Road  
Dublin 6

Tel: 8882960  
Fax: 8882819

E-mail: [prtb@environ.ie](mailto:prtb@environ.ie)  
Website : [www.prtb.ie](http://www.prtb.ie)

## 6. How relief is given

A person who has 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 is 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 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.

For the year of assessment 2005 and following years, a person with PAYE income who also has gross income from a non-PAYE source(s) of €50,000 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 €50,000 limit applies to gross income from **all** non-PAYE sources and not from

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<sup>3</sup> Statutory Instruments are available at [www.irishstatutebook.ie](http://www.irishstatutebook.ie)

each separate source. A person who became a 'chargeable person' in 2005 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 €3,174 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.

### 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>
	8,500
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.

## 7. 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 will be 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.

### Example

Mr Brennan incurred qualifying refurbishment expenditure of €100,000 in 2000. The house was first let after the refurbishment in 2001. He claimed a deduction of €15,000 for each of the 5 years 2001 to 2005. He sold the house in January 2006. He received rental income of €1,000 to the date of sale in 2006.

2006	€
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

## 8. 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 :–*

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

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.

### **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 2006. He is 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 continues to own and let the house for the remainder of the 10-year period.

## **9. Restriction on use of tax reliefs by high-income individuals**

Finance Act 2006 introduced restrictions on the use of certain tax reliefs by high-income individuals. From 1 January 2007, individuals whose income in a year exceeds €250,000 will not be able to fully avail of certain tax reliefs in calculating their taxable income for that year. Relief under the Countrywide Refurbishment Scheme is one of these restricted reliefs.