



IPOA

IRISH PROPERTY OWNERS' ASSOCIATION

Irish Property Owners' Association
National Residential Landlords' Representative Organisation
Ashtown Business Centre
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Pre-Budget 2020 Submission

Landlords assisting the State in the Provision of Accommodation

Key Recommendations

- Rental loss incurred as a result of rent forgiveness, or as a result of the additional rent arrears protections provided by the State due to Covid-19, should be allowable as an expense.
- Treat letting property as a business. Remove the restriction imposed by section 97 on rental business and treat the rental business in the same manner as any other business.
- Allow an exemption from Income Tax for Long-Term Leasing Structures to encourage long-term leasing, changing the mindset of property owners.
- Allow Local Property Tax as a deductible expense.
- Refurbishment Relief withdrawn in July 2008 should be reinstated with clear guidelines.
- Pension Provision – rental income should be treated as reckonable income for pension purposes.
- Building Energy Rating – monies spent on making a rental property more energy efficient should be allowable in the Tax year of expenditure.
- Accelerated Capital Allowances should be introduced for new capital expenditure to increase the supply of accommodation.
- Allow Capital Payment as an expense prior to computing rental income.
- Introduce Double Taxation relief for Letting Agent Fees to help retain landlords in the sector struggling with complex, confusing legislation.
- Allow Wear and Tear over 4 years to assist cash flow.
- Allow market rent restoration on the sale of property.

About the Irish Property Owners Association

Founded in 1993, the Irish Property Owners' Association is a non-profit organisation that seeks to protect and promote the interests of private residential property owners and encourage the supply of good quality accommodation and professional standards of property management.

IPOA believe: -

- In an industry that is professional, one that provides decent quality properties and high standards of property management.
- That Letting Property should be recognised as legitimate businesses.
- In the implementation of reasonable and fair legislation, without imposing unreasonable burdens.
- In the fair and equal tax treatment of our members comparable to other service industries and businesses.
- That bad practice and lawlessness should not be tolerated.
- In a fair and truthful portrayal of the business in all media.
- That education and training improve standards.

The IPOA represent full-time and part-time Landlords, those with just a single letting to those with large property portfolios, no property owner is too big or too small. We provide support to new property owners and to those that are well established in the sector.

Introduction

The private rental sector is very important to the State, assisting the Government in its role of providing accommodation for its' citizens. It is essential that the State value and encourage investment in the sector

Taxing private rental accommodation under Case V is not appropriate for the sector. There must be compliance with the complex laws around the sector and property must be kept to a certain standard. The sector is a business and should be treated by Revenue as a business.

There is a severe shortage of rental property and more investors are leaving the sector than entering the sector. Action is required through the taxation system to prevent the exodus of landlords and increase the supply of rental accommodation. Rent Pressure Zone legislation is a blunt instrument and takes no account of the indebtedness of a property owner or the sustainability of an investment.

Covid-19 has caused chaos in the private rental sector. The Government is supporting tenants, workers and small business but has not introduced any supports for landlords financially damaged by the restrictions introduced. The emergency legislation protected tenants, lengthening the arrears process, and increasing the amount of rent arrears accumulating causing further hardship for effected landlords. IPOA would like to see measures for landlords who supported their tenants by rent forgiveness or who have incurred losses because of rent not paid being allowed to claim these losses as expenses. A short-term measure which will help the sustainability of the provision of rental accommodation.

Recommendations

1. Allow loss of rent to be offset as an expense

In a situation where there has been rent forgiveness by the property owner, allow the amount forgiven to be offset as an expense.

The State has protected non-paying tenants from March 2020 to January 2021, allow the arrears accumulated during this period to be offset as an expense.

2. Remove the Restriction imposed by Section 97

The tax treatment of the sector – particularly whereby it is not generally considered as a business, but rather as “unearned income” – has made previously viable investments now unviable, and will ultimately result in the further reduction of rental units, together with more investors defaulting on loans. Because rental income is not considered as being earned income, direct and indirect taxation on the sector has blown out of all proportion in a most

unfair way. No commercial entity can continue to operate, paying income tax on an operating loss. Remove the restriction imposed by section 97 on rental business and treat the rental business in the same manner as any other business.

3. Exemption from Income Tax for Long Term Letting

Instead of trying to force a European model in regard to the letting of property through legislation that affects all letting, resulting in some investors leaving the sector, a choice should be available, allowing for short letting or longer letting.

IPOA launched a long-term leasing structure--- HOME 4/12— The intention is to offer tenants' unfurnished accommodation; long term leases; in keeping with the provisions of the Residential Tenancies Act 2004, with rents substantially lower than current market trends to reflect the long- term commitment of the tenant with security of tenure.

We are of the view, that in order to change the culture of anything, people's habits and attitudes need to change. We are also of the belief that this is best achieved by providing an incentive to people, and Government support is very important in that context.

We therefore request that an exemption be provided from income tax on the long term letting of residential property. In terms of precedent, we would refer to Section 664 of the Tax Consolidation Act 1997, which provides an exemption from income tax on the long term letting of agricultural land. We understand that Section 664 of the Tax Consolidation Act 1997 was introduced in order to change the culture in agricultural circles around short term leasing of land, to enable longer leases to be entered into thereby giving tenants security of tenure, which in turn provides them with the flexibility to plan for the future and invest in their lease holding.

We believe it would be welcome and appropriate for the Government to introduce a similar exemption in regard to long term letting of residential units to facilitate the cultural change that is required in order for this to become a significant part of residential letting in Ireland generally. We believe that if Government policy were supportive of this concept, it would greatly enhance the ability of the IPOA to convince our members, and landlords generally, of the benefits of this nature of letting. For our part, our Leasing Agreements propose up to 20% reduction on the market rent that would be charged for a furnished short term letting, representing a significant saving to tenants, and echoing the IPOA's commitment to the proposal.

However, the constant rule changing and interference of the State, including the recently introduced rent control undermine long term letting.

4. Local Property Tax

The taxes that are, and have been, introduced to fund local services should be levied on the user. The "user pays" principle is the fairest system, with waivers available in certain circumstances. If users are not levied directly, these are legitimate rental expenses and should be allowable as such. LPT should be allowable as a deductible expense.

5. Refurbishment Relief

Good quality accommodation is required for the 20% of the population living in the private rental sector. Rental property needs to be refurbished regularly to maintain standards. Refurbishment Relief was withdrawn on the 31st July 2008 (Section 11, Finance Act 2006) and should be reinstated with clear guidelines.

The Rent Pressure Zone substantial change restriction has already resulted in the postponement of large refurbishment projects. It makes little financial sense to spend monies where the yield will not be increased, and it is extremely difficult to meet the requirements for “Substantial Change” in older properties or apartments.

6. Pension Provision

The current anomaly where rental income is not considered reckonable income for pension purposes needs to be addressed. Rental income should be treated as reckonable income for pension purposes.

7. Buildings Energy Rating

There is a requirement that all homes become more energy efficient. In the rental market this will benefit the occupants by making their homes more comfortable and cheaper to run. It makes good sense to put in place measures to encourage investment in energy efficiency in the private rental market.

Any money spent on making a rental property more energy efficient should be allowable in the tax year it is spent, rather than as a capital expense. This would:

- encourage Investors to make their property more energy efficient;
- reduce energy costs and benefit tenants;
- help create employment with consequent tax payments;
- reduce carbon emissions and help achieve State targets.

8. Introduce Accelerated Capital Allowances

To encourage the provision of housing stock, accelerated capital allowances should be granted to Investors on new capital expenditure.

9. Allow the Capital Payment element of a mortgage as an expense.

The capital element of a mortgage is currently addressed after the computation of Tax on the rental income. As the mortgage progresses, the capital element increases and the interest level decreases making it uneconomical to continue renting a property. Allowing the capital payment as an allowable expense would encourage more investors and help retain existing stock.

10. Wear & Tear Allowances.

Allow wear and tear allowances on the original purchase price of the rental property. Reduce the time period on fixture and fittings from 8 years to 4 years. It would facilitate cashflow and help promote quality standards in accommodation.

11. Housing Assistance Payment

The Housing Assistance Payment needs to be revised; it is not fit for purpose in its current form. It fails tenants and landlords. The legislation needs to be reviewed and the problems addressed. Market rent needs to pay in full directly to the landlord, in advance. A tenant should be able to approach a landlord with confirmed entitlement; the administration should be simple and quick. It is not guaranteed payment. To assist the take-up of HAP and where a tenant in receipt of HAP is over-holding in a rental property, the payment should be paid to the landlord during the course of the dispute resolution services of the RTB.

12. Restoration of Market Rent when Sold

It is essential to remove the restriction confining rent to the previous rent charged in Rent Pressure Zones when property is sold. The restriction devalues property.