



## Finance Act 2022: Residential Property Measures

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## **Introduction**

Ahead of the Budget 2022 speech, much pressure was placed on the Government to look closely at measures to alleviate the housing crisis. The shortage of affordable housing has been felt by potential first-time buyers and renters alike. The lack of housing for first-time buyers has driven up the price and reduced the availability of rental properties. This meant that areas of focus for the Budget were assisting renters financially while encouraging owners to bring properties to the market for sale and/or rent. We consider below some of the measures announced in Budget 2022 and included in Finance Act 2022 that sought to address this.

## **Incentive for Renters**

It has been five years since the previous rent credit was phased out, and it was a welcome announcement for tenants that a new rent credit was being introduced from 2022 until 2025. The new rent tax credit is a maximum of €500 per annum for a single person and €1,000 per annum for a jointly assessed couple. The property must be used by the claimants as their principal private residence (PPR) or, otherwise, used to facilitate their attendance at or participation in their trade or employment or an approved course.

Individuals can make a claim for rent that they pay on behalf of their child provided the child is using the residence as their PPR to participate in an approved course. The tenancy is required to be registered under Part 7 of the Residential Tenancies Act 2004 and to have met all such obligations within those regulations. The child or claimant must not be related to the landlord in these situations.

Although this introduction was good news for renters, the requirement for tenancies to be registered under the Residential Tenancies Act 2004 when paying for children may add a layer of compliance to rental arrangements for college students, which may previously have been more informal. It is also worth noting that no tax credit is available where the payment is made to a State body, a housing authority or an approved housing body or by a tenant who is in receipt of any social welfare rent supplements, housing assistance or support.

## **Incentive for Landlords**

Although there is much negativity in media circles around introducing measures to assist “landlords”, it is important to note that an individual with a second property is often in the higher, marginal tax bracket and

therefore suffers an effective tax rate of as high as 52% on their rental profit. This is obviously a huge disincentive to landlords to rent a property in many instances, especially when it leads to additional compliance charges and obligations to complete tax returns, draw up tenancy agreements and make relevant registrations. Therefore, it was welcome that some small measures were introduced to encourage landlords to bring properties to the rental market.

One of these measures was improvements to the availability for deduction of pre-letting expenses. From 1 January 2023 the amount of pre-letting expenses allowed as a deduction has been increased from €5,000 to €10,000 and the period of vacancy has been reduced from 12 months to 6 months.

Not included in the Finance Bill but contained in the Finance Act was a deduction for retrofitting. This allows a rental deduction of a maximum of €10,000 per property for up to two properties. The spend must have been incurred on improving the energy efficiency of the property, and a grant from the Sustainable Energy Authority of Ireland towards the cost of the work must have been received.

These are two welcome additions to encourage landlords to spend money on older properties that they can then bring to the market.

## **Incentive to Sell**

There was no cut to capital gains tax (CGT) on the sale of non-PPR properties, which certainly would have encouraged movement in the market, but there was the introduction of the vacant homes tax, which is hoped to result in vacant properties coming to the market. This will apply to properties used as a dwelling for fewer than 30 days a year. For such properties, the owner will incur a charge equal to three times the relevant local property tax charge (before the local adjustment factor is applied). There are some exemptions from the charge, including where the property is being actively marketed for sale or rent, which is obviously one of the main aims of the new legislation. The first chargeable period for the vacant homes tax will be the 12-month period beginning on 1 November 2022. The return filing date will be 7 November after the end of the chargeable period. The date for payment of vacant homes tax will 1 January immediately following the chargeable period.

Although they are not directly a measure to encourage property sales, there have been changes to the provisions on rent paid to non-resident landlords that possibly could have the positive effect. In addition to withholding the relevant tax, the tenant or agent must provide Revenue with details on the landlord, the property and the rental payments. In some scenarios this may prove to be too much information/too onerous a compliance requirement for a non-resident landlord, and they may decide to exit the Irish rental market.

We have not looked at the RZLT in this article as it is analysed by Sinead Lew, Aaron Mullan and Clodagh Casey in this issue, “Residential Zoned Land Tax: Latest Updates and Operational Considerations”, but it is another

measure that may give gentle encouragement to landowners to sell sites for development.

## **Incentive to Buy/Build**

The Help to Buy scheme was introduced in 2017 and has been used by more than 35,000 people to date. It currently provides for a refund of tax of up to €30,000 for first-time buyers of new-builds from an approved contractor or for self-builds. The property value must not exceed €500,000, and the mortgage must be for at least 70% of the value. This scheme, which had been due to expire on 31 December 2022, has been extended for two years, to 31 December 2024, which is good news for new entrants to the property market.

The residential development stamp duty refund scheme reduced the stamp duty on a site from 7.5% to an effective rate of 2% where the site was developed for residential use. The commencement date for construction, which was to be before 31 December 2022, has been extended by three years, to 31 December 2025, which is welcome news for people looking to buy a site to develop.

The Living City Initiative, which allows a tax deduction for expenditure on refurbishing or converting a property in specific regeneration areas of our six cities, has been extended by five years to 31 December 2027. Owner-occupiers can now claim the deduction over seven years rather than ten, as previously legislated for, and they can now carry unused losses forward until a full nine years after the spend has elapsed.

These extensions and improvements to schemes are good news for first-time buyers and people looking to purchase a site for developing their home. However, it is difficult to discuss incentives to build arising from Finance Act 2022 without mentioning the disincentive introduced by the concrete levy, which will come into effect from 1 September 2023. The new provisions will apply a 5% levy on all concrete products on the supply date. It is to apply to the first supply of the product. It was initially suggested in the Budget speech that this may be higher, but a 5% levy will still have a negative impact on the cost of building your own home.

## **Conclusion**

Overall, there have been some welcome announcements for renters and house-hunters in Finance Act 2022. However, it may take something more substantial to encourage the supply of residential property to the market that is needed to alleviate lack of supply and increasing cost. An improvement for landlords regarding the potential income tax charge of 52% or a CGT incentive on property sales similar to that in s604A TCA 1997 could potentially see an increase in properties for rent and/or sale.



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