



## **Pre-letting expenditure on vacant residential properties**

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Prior to Finance Act 2017, pre-letting expenditure expenses (i.e. expenses incurred before a property is rented out for the first time) were only deductible against Case V rental income on a very limited basis. Deductions of pre-letting expenses were restricted to letting fees and legal fees for the set-up of a lease (as they are required to be incurred before the letting commences). Therefore, expenses such as interest paid on borrowings before the first letting of property commences were not allowable as a deductible expense (though such expenses when incurred between lettings were deductible).

However, Finance Act 2017 provides that expenses incurred on vacant residential premises **prior to it being first let after a period of non-occupancy** are deductible against rental income from that premises. In other words, if a landlord acquired a vacant residential property, incurred expenses on that property while the property was unoccupied prior to its first letting by the landlord, then some or all those expenses may now be deductible if certain conditions are met.

The new provisions apply to expenditure on a premises that has been **vacant for at least 12 months and which is let as a residential premises between 25th December 2017 (the date of the passing of the Finance Act 2017) and 31 December 2021**. A 'vacant premises' means any premises that is not occupied for the entire 12 month before a period beginning on or after 25th and which is first let as a residential premises after the end of the period during which it was not occupied.

The expenditure must have been incurred in the twelve months before the premises is let as residential premises and must have comprised of expenditure that would ordinarily be deductible under general Irish tax rules had it been incurred after the property was let e.g. interest.

The deduction authorised is capped at €5,000 per vacant premises. If the person who incurs the expenditure ceases to let the property as residential premises within 4 years of the first letting, the deduction will be clawed-back in the year in which the property ceases to be let as a residential premises. This cessation can be either on sale of the property or change of use from rented residential property. The claw-back will be made by deeming the deduction previously allowed to be a rental profit or gain of the year of cessation i.e. if a deduction of €5,000 was taken in 2018 and renting of the property as a residential property ceased in 2020, rental income of €5,000 will be deemed to have been received in 2020 and taxed accordingly.

It is understood that in applying the test as to whether a property ceases to be a rented residential premises that reasonable periods of vacancy, for example, to clean or upgrade a property between lettings, will not result in a clawback provided the property continues to be available for rent during the 4-year period in question.

It should be noted that amounts allowed as a deduction under this section cannot also be allowed under another section of the Act. This prevents double deduction of the expenditure.

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