



# Tax-efficient investment in Irish real estate



The Irish rental market has changed considerably over the last number of years, with lack of supply becoming a critical problem. In August 2017 Daft.ie reported that there were fewer than 3,000 properties to rent nationwide – the lowest figure on record for the country. The most important knock-on effect from this undersupply is, of course, a rise in cost. Rents are now 13% higher than their 2008 peak.

With little visibility on new residential housing stock coming to the market or a relaxation on strict mortgage lending rules, it is envisaged that this current crisis will be here for some time to come.

However, one person's problem is another's opportunity. With interest rates on bank deposits and investment returns on bonds remaining so low, investors have returned to the residential investment property market to earn a better return on their capital. With rising capital values and increasing rents across the country, investors who bought at the right time are now seeing a healthy return on their investment through capital appreciation and annual rental income.

One drawback for investors is the level of taxes to be paid on rental income in Ireland which can soon reduce any profits.

Regardless of residency status, owners of Irish residential investment real estate are subject to Irish taxes. Residential investment property can be held personally, through a corporate entity or can be made via a real estate fund and each investment option comes with its own tax implications. Below we outline the key tax rates facing investors as well as some worked examples to illustrate how the various tax rates are applied to each investment.

## Irish resident individual vs. Irish resident company

Table 1 below sets out the different rates of taxes and surcharges on rental income as well as the tax on gain in the event of sale for both an individual Irish resident and an Irish resident company.

**Table 1: Rents and gains – Irish individual vs. Irish corporate**

	Irish Resident Individual	Irish Resident Company
Tax on rental profits - entity level	55%*	25%
Withholding tax on distributions	–	20%
Surcharge on undistributed income **	–	20%
% of interest charge deductible	Restricted to 80%†	Restricted to 80%
Capital allowances available ***	Yes	Yes
Tax on gains on sale	33%	33%

\* Income tax (40%), USC (11%) and PRSI (4%) \*\* Only applies to closely held companies e.g. family owned company. \*\*\* Additional 5% USC surcharge applies to an individual which claims allowances considered to be specified reliefs. † Going to 85% in 2018, 90% in 2019, 95% in 2020 and 100% in 2021.

## Irish resident individual vs. Irish resident company cont.

A worked example of an Irish individual's tax charge on a rental income €25,000 against that of an Irish resident company with 5 or less shareholders (close company) with the same profit is highlighted in table 2 below. For the purpose of this example the company did not distribute any rental income.

**Table 2: After tax income – Irish individual vs. Irish corporate (undistributed income)**

	Irish Resident Individual	Irish Resident Company
Rental income for 1 unit	€25,000	€25,000
Interest expense	(€7,500)	(€7,500)
Local property tax (LPT)	(€500)	(€500)
Management fees and other costs	€2,000	(€2,000)
Rental profit before tax	€15,000	€15,000
Disallow LPT	€500	€500
Interest disallowed for tax purposes	€1,500	€1,500
Taxable profits	€17,000	€17,000
Tax at 55%	(€9,350)	
Tax at 25%		(€4,250)
Undistributed income		€10,750
Surcharge on undistributed income at 20%		(€2,150)
Total after tax income	€5,650	€8,600
<b>Effective tax rate</b>	<b>62.3%</b>	<b>42.7%</b>

It is worth noting in the example above that if the company were to make a distribution then the recipient (assuming Irish residency) would be liable to tax at 55%. In this instance the total after tax income would be €5,063 with an effective tax rate (tax on rental income profit in the company and on making a distribution to an individual) increasing to 66% as can be seen in table 3 below. The company will have to apply a 20% withholding tax on any distribution made with the recipient claiming a credit for the amount withheld.

**Table 3: After tax income – Irish corporate (distributed income)**

	Irish Resident Company
Taxable profits	€15,000
Tax at 25%	(€3,750)
Distributable income (assume all distributed)	€11,250
Tax at 55% (assume Irish-resident)	(€6,188)
After tax income	€5,063
Effective tax rate for individual extracting rental profit from an Irish Resident Company	66%
Tax payable in respect of distributed income	€6,188
Less credit for withholding tax	(€2,250)
Tax payable by individual	€3,938

## Alternative Property Investment Vehicle

Individuals may wish to invest in property via a property vehicle such as a Qualifying Investor Alternative Investment Fund (QIAIF), Irish Collective Asset-management Vehicle (ICAV) or an Irish Real Estate Investment Trust (REIT). The table below highlights the withholding tax rates on distributions and Capital Gains Tax (CGT) rates from such investment vehicles are highlighted in table 4 below.

**Table 4: Irish-resident investor vs. non-resident investor (QIAIF, ICAV or REIT)**

	Irish-Resident Investor in Irish QIAIF or ICAV	Irish- Resident Investor in Irish REIT	Non- Resident Investor in Irish QIAIF or ICAV	Non- Resident Investor in Irish REIT
Withholding tax on distributions	41% /60% *	20%	20%	20%
Tax on gains on sale	41% /60% *	33%	20%	**

\* Rates here are for individuals rather than companies. 60% where Personal Portfolio Investment Undertaking (PPIU) rules apply. \*\* An Irish REIT must distribute annually 85% of its property income in order for the REIT exemption to apply.

Table 5 below highlights how an individual investor is better off investing in a residential REIT or a fund which provides for a better after tax return. The worked example below highlights the differing tax charge between and Irish individual investing in property and an Irish individual investing in a REIT.

**Table 5: Irish resident individual vs. Irish resident individual investing in an Irish REIT**

	Irish Resident Individual	Irish Resident Company
Rental income for 1 unit	€25,000	€25,000
Interest expense (80% of interest charge)	(€7,500)	(€7,500)
Local property tax (LPT)	(€500)	(€500)
Management fees and other costs	(€2,000)	(€2,000)
Rental profit before tax	€15,000	€15,000
Disallow LPT	€500	
Interest disallowed for tax purposes	€1,500	
Taxable profits	€17,000	€15,000
Distribution of 85% of taxable profit		€12,750
Undistributed profit 15%		€2,250
Tax at 55%	(€9,350)	
Income tax on distribution received at 55%		(€7,013)
Unrealised CGT on undistributed profits at 33%		(€743)
Total after tax income (less tax on unrealised gain)	€5,650	€7,245
<b>Effective tax rate</b>	<b>62.3%</b>	<b>48.3%</b>

## Conclusion

It is clear that there are good yields to be made from residential investment properties in the current market. However, some thought needs to be put into the tax implications of the different investment options available in order to maximise profit from your investment. If you are considering investing in the Irish property market, we can help you to make property investments in a tax efficient manner. If you would like to learn more about finding the right investment structure to suit your requirements, contact a member of our [specialist real estate team](#).