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BUYING RESIDENTIAL
INVESTMENT PROPERTY
IN THE REPUBLIC OF IRELAND

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CAPITAL APPRECIATION

Property prices have seen spectacular growth over the last decade in the Republic of Ireland. Despite some negative media sentiment, the rate of increase has stabilized and prices would appear to be rising at a more sustainable pace. The rate of increase is still significantly ahead of the rate of inflation. While the huge returns made on residential property in the last ten years may not be repeated in the next ten, better than average investment returns should still be achievable.

I propose to take you through the costs, expenses and tax implications of a Northern resident purchasing, for example, an apartment in the Republic of Ireland as an investment with the intention of generating enough rental income to finance all or part of the mortgage repayments. Slightly different considerations will apply if it is an investment with no borrowing involved or if it is the purchase of a holiday home.

ARRANGING FINANCE – NORTH OR SOUTH?

The first matter to look at is how finance would be arranged. Do you go to your local Bank in Northern Ireland and ask it to finance the purchase or do you go to a Bank based in the Republic of Ireland and ask it to finance the proposed transaction? If you intend to mortgage the Southern Irish property then you will have to deal with a Southern Bank. Your own bank my well operate in the South e.g. First Trust, Ulster Bank and Bank of Ireland and, as such, they can direct you to the right channels. In any event most Southern banks or building societies will be happy to entertain enquiries from Northern residents without any formal introduction from your Northern bank.

You also have the option of remortgaging an existing Northern property in order to raise the necessary finance to purchase the Republic of Ireland property. This would avoid the requirement of having to deal with a Southern Irish bank. If, however, the Northern property you are remortgaging is you family home then you must be mindful of the risks in placing your home on the line for an investment in another jurisdiction.

There is probably something to be said for (a) using the asset you are buying as the security and (b) borrowing in euro as the rental income to repay the mortgage will be in euro. If you borrow in Northern Ireland in sterling, then you are exposing yourself to an exchange rate risk, as you will be using the euro to repay a sterling mortgage. As such borrowing in the Republic of Ireland would tend to be more attractive.

DOING YOUR SUMS

For instance, if one were to purchase a two bedroom Apartment for €175,000 (Stg£125,000 approx), anything up to 90% of the purchase price could be funded by a

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Southern Irish bank. Say, for example, one was granted an 80% mortgage i.e. €140,000 (STG£100,000). Repayments over a 20 year period are likely to cost about €840 a month or £600 Stg. presuming current low interest rates continue. A two bedroom apartment is likely to generate enough gross rental income to cover the repayments on a 60-80% loan to value mortgage. So, in our example, the likely monthly income will be in or about €750 per month (£535 Stg.) Therefore, there will be an ongoing monthly shortfall of about €90 (£65 Stg.). You will also need to factor in the hidden costs e.g. the Management Company fee for the maintenance and insurance of the apartment block. Furthermore, there may be periods where the apartment is unlet. We will explore hidden costs in detail next later.

RENTAL YIELDS

The ongoing cost to the purchaser will depend on the rental income the Apartment in question will generate and the amount of borrowing required for the purchase. Certainly in areas close to Dublin a rental income of €1,000.00 to €1200.00 per month is achievable for a two bedroom apartment but unfortunately no such apartment could be purchased for €175,000.00 within a three or four mile radius of the city centre. The average price for a two bedroom apartment in Dublin in an "up and coming area" will be at least €300,000 (£214,000 Stg.). In busy towns just south of the border, rents of up to €750.00 may be achievable for a 2 bedroom apartment where apartments may still be purchased for €175,000 (£125,000 Stg)

COSTS

With an initial outlay of €35,000 (£25,000 Stg.) representing 20% of the price and an ongoing monthly commitment of €90 (£65Stg) you are well on the way to owning a two bedroom apartment in the Republic of Ireland purchased for €175,000 (£125,000 Stg.). It must be noted that proper professional advice and trustworthy local sources are vital in making a decision on where to purchase. I now propose to deal with some of the less obvious costs associated with buying and owning the property.

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STAMP DUTY

The first tax one needs to take into account is stamp duty. Our example is a two bedroom apartment purchased for €175,000 (£125,000 Stg.). Assuming it is an investment property, stamp duty will be charged at a rate of 3% of the price i.e. €5,250 (£3,750 Stg.) Higher rates up to 9% are chargeable for more expensive property.

SOLICITORS FEES AND OTHER OUTLAYS

Solicitor's fees and outlays such as Land Registry fees etc. must also be paid. As a rule of thumb, the solicitor's professional fees will be about 1% of the purchase price i.e. €1,750 plus VAT at 21%, although such fees are negotiable. In addition to that amount, Land Registry fees would ordinarily be around €500.00 to include the registration of a mortgage on the property. When these costs are added to other usual outlays such as Law Searches, the total will amount to in or about €2,750 (£1965 Stg.). Therefore, Solicitors fees and other legal costs and outlays when added to stamp duty will add an extra €8,000 (£5,715 Stg.) to the purchase price of €175,000 (£125,000 Stg.).

INCOME TAX

Apart from Stamp Duty, there are two other taxes, which should concern a Purchaser of property in the Republic of Ireland; Income Tax, and Capital Gains Tax. Assuming that you are resident in Northern Ireland for tax purposes then you will not be entitled to the full tax-free allowances or reliefs available to Southern Irish resident tax payers. You will, however, be entitled to some tax free allowances and reliefs based on the proportion your Republic of Ireland income bears to your world wide income. In effect this means that you will be obliged to pay income tax in the Republic of Ireland on your rental profits to the extent such profits exceed your tax free allowance. The standard rate of income tax is 20%, and there is a higher rate, known as the marginal rate of 42% which could apply to part of your rental profits if you have other significant sources of income in the Republic. A once off investor in Southern Irish presidential property who has no other Southern Irish income is unlikely to have any exposure to the 42% rate, although specific advice should always be sought.

YOUR TENANT BECOMES A TAX COLLECTOR

Obviously, the Revenue Commissioners in the Republic of Ireland are concerned about potential tax evasion by non-resident landlords. To ensure income tax compliance there are special provisions under Republic of Ireland law where the tenant of a non-resident Landlord (e.g. Northern Ireland resident Landlord) is obliged to deduct 20% tax from each rental payment and return that money directly to the Revenue Commissioners. In effect, the law requires the tenant to become a tax collector. For instance, instead of your tenants handing you €1000 rent per month, the tenant is legally obliged to hand over €800 to you and to remit the other €200 to the Revenue Commissioners.

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Many tenants are unaware of this requirement when they are renting from a non-resident Landlord. The tenant can, however, be held personally liable to pay the non resident Landlord's tax if the tenant fails to deduct the 20% from each rental payment and remit it to the Revenue Commissioners. This is also a very unfair system to the non-resident Landlord in question as he has no guarantee that his Tenant is acting honestly and actually making the appropriate payments to the Revenue Commissioners after making the 20% deduction from the rent. The system is somewhat unworkable and is often ignored but it nevertheless remains the law.

A REPUBLIC OF IRELAND TAX RETURN IS REQUIRED

It should be noted that you will be obliged to make an income tax return in The Republic of Ireland every year in respect of your rental income there. As such you are likely to require the services of an accountant which will add another ongoing expense to the investment. Your Southern Income tax liability is not assessed on the gross rental income but on the rental profits, i.e. rental income after deduction of certain allowable expenses such as mortgage interest repayments, letting fees, management company fees, depreciation of furniture and fittings, certain accounting costs and the cost of any other services you are providing to your tenant. If you have a significant mortgage on the property then your income tax liability will be quite small as the mortgage interest can be fully offset against rental income. Do not confuse mortgage interest with the capital repayments element of a mortgage which is not tax deductible. See sample calculation below:

Sample Income Tax Calculation The Republic of Ireland Year Ending 2003

Rental Income for year		€8,400
Less Deductions		
Mortgage Interest Repayments	€5460	
Auctioneers Letting Fees	€250	
Repairs	€240	
Management Co. Charge	€250	€6,200
Taxable Rent		€2,200

Tax: €2,200 @20%	€440
Less Irish Tax Credit (Tax Free allowance)	€380
Tax Due	€60

DOUBLE TAXATION AGREEMENT

It should be noted that once your liability has been settled in The Republic of Ireland, you are liable to file a return and pay tax on the rental income in Northern Ireland. Under the Ireland UK Double Taxation Agreement you are allowed to claim the Irish income tax paid as a credit against your Northern Ireland income tax liability. So, you will also have

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to file a tax return in Northern Ireland in respect of your Southern Irish rental income but the Double Taxation Agreement means that you will not suffer double taxation.

While you will not pay tax twice on the same income, this does not mean that you might not have a further liability in Northern Ireland if the effective tax rate there is higher for rental income. Whether the income tax liability is higher in the North or the South depends on a number of variables and you should seek advice specific to your individual circumstances in this regard. Taking the earlier example, €60 income tax was paid on a rental income of €8,400 (£6,000 Stg.). For the purposes of this example, we will assume that the Northern Ireland income tax liability on this €8,400 (£6,000 stg) rental income comes to £200 Stg (€280). You will only owe the Northern Ireland Inland Revenue a further £157 Stg. (€220) as you get a credit for the £43 Stg (€60) income tax already paid in the South.

CAPITAL GAINS TAX

The final tax one needs to be concerned about is Capital Gains Tax which arises when you sell your property or give a gift of it to someone other than your spouse. In effect this is a tax on the increase in value of the property, the "gain", since the time you acquired it. The tax is only triggered in the event that you dispose of the property. So, if you bought a property for €175,000 and sold it for €200,000 then on the face of it you made a gain on €25,000 which is liable to be taxed. Certain deductions are allowed for expenditure incurred on the property and certain other expenses which may help to reduce the overall size of the gain. The rate of Capital Gains Tax is currently 20% of the gain.

PROCEEDS OF SALE RESTRICTION

Once again there are special collection arrangements put in place under Republic of Ireland law to ensure that non-resident vendors do not evade their responsibilities to pay CGT. In the event a non-resident sells their property, before their solicitor can release the proceeds of sale to them, the Solicitor is obliged to obtain clearance from the Irish Revenue Commissioners. If your solicitor does not obtain this clearance then the solicitor can be made personally liable for the CGT liability. Often the Revenue Commissioners will insist that the tax liability be paid up front before they will authorise release of the proceeds of sale out of the jurisdiction. In effect, this is a way for the Irish Revenue Commissioners to ensure that a non-resident Vendor will pay the CGT due.

DOUBLE TAXATION AGREEMENT

It should be noted that a gain on the sale of Republic of Ireland property will be subject to Capital Gains Tax in Northern Ireland. In common with income tax, the CGT paid in the Republic of Ireland can be offset against any Northern Ireland CGT liability under the Ireland UK Double Taxation Agreement and as such you will not suffer double taxation. While you will not pay tax twice on the same gain, this does not mean that you might not have a further liability in Northern Ireland if the effective tax rate there is higher for

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capital gains. Whether the CGT liability is higher in the North or the South depends on a number of variables and you should seek advice specific to your individual circumstances in this regard.

Taking the earlier example, a taxable gain of €25,000 (£17,860 Stg.) was realised on the sale of the apartment in the Republic of Ireland. Applying the 20% rate of tax this gives a liability of €5,000 (£3570 Stg.) due to the Revenue Commissioners in the Republic. For the purposes of this example, we will assume that the Northern Ireland CGT liability on the sale was £5,000 Stg. (€7000). You will only owe the Northern Ireland Inland Revenue a further £1430 Stg. (€2000) as you get a credit for the £3570 Stg (€5,000) CGT already paid in the South.

SUMMARY

It is clear that there is a significant amount involved in purchasing a property in the Republic of Ireland for investment purposes. Clear and concise legal and tax advice from professionals who have a full understanding of the cross border elements is vital so that you do not fall foul of any traps. If you take proper advice you will have nothing to fear.

Investment in residential property in the Republic of Ireland carries with it a significant number of advantages that you should bear in mind:

1) Consistently high capital growth.
2) The investment has the capacity to be self-financing i.e. rental income will cover part or all of the mortgage repayments.
3) Residential property is not subject to Local Authority Rates or Council taxes.
4) Low Capital Gains Tax environment of 20%.
5) Ireland UK Double Taxation Agreement means you do not pay tax on the double.
6) Diversification of your investment portfolio in terms of market and currency zone.

It should further be noted that in the event that you are merely buying the property for the purposes of a holiday home then there will be no income tax issue at all provided the property is un-rented at all times. You will, however, have exposure to Stamp Duty and Capital Gains Tax as if it was an investment property.

Please note that you should always consult your legal adviser before proceeding with any property transaction and that this Article is merely intended to give an over-view of the law and is not intended as comprehensive advice to any person.

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