

## **Submission on behalf of ‘IMHO’ to the Committee on Budgetary Oversight**

I have provided a brief summary of my understanding on ‘Rented Residential Relief’ and ‘Mortgage Interest Relief’ for Budget 2024, along with my interpretation of the consequences of such.

### **Rented Residential Relief**

As you are aware, a new tax relief for landlords will be available against rental income from residential property for tax years 2024 to 2027 inclusive.

The relief is capped at the tax liability on the rental income and will be apportioned in the case of joint ownership of a property. The exemption will be in the form of a tax relief at 20% of residential rental income up to €3,000 for 2024, €4,000 for 2025 and €5,000 for 2026 and 2027. This is equivalent to an annual tax credit for landlords of up to €600, €800, and €1,000 respectively.

Housing is undoubtedly the biggest domestic challenge we face today. There has been much discussion around the importance of small-scale landlords in the Irish private rental sector. In acknowledgement of their vital role, and to address the decline of ‘small landlords’ in the private rental market.

It is not yet clear if it is intended for the Rented Residential Relief to apply in addition to ‘rent-a-room relief’ or whether it will be possible to claim both reliefs. Has this been cleared up?

A recent survey states that more than 80% of landlords in the market own just one or two properties which in my opinion is why the government is introducing a temporary tax relief, which will primarily benefit ‘small landlords’. The goal here is to encourage landlords to enter or stay in the market. I personally think this is not enough incentive.

The Residential Tenancies Board reported that 5,735 notices to quit issued by landlords in the second quarter in 2023, and some 63% of these were as a result of a landlord’s intention to sell the property.

Will these short-term kickbacks really stop the landlords fleeing? Can we implement a more concrete longer-term plan to look after the smaller landlords to alleviate their major concerns down the line.

The help-to-buy scheme has been criticised by political parties and economists, who have said it could further inflate house prices. Do you think this has a knock-on effect of the constant increase in house prices? Albeit it helps the first-time buyer with their deposits to get on the property ladder, however the scheme is giving prospective homeowners more buying power in a market already struggling for supply just creates more demand and further pushes up prices.

To retain our current ‘small landlords’ in this testing market, we must look at more than putting some money in their pockets at year end.



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The current housing market is not enticing for small landlords due to the regulatory impediments for private landlords, particularly for those who own properties in Rent Pressure Zones, where rent increases are limited. Rent Pressure Zones have led to a situation whereby many landlords are restricted to substantially below market rent, and therefore find themselves in an unsustainable situation with costs increasing and income restricted.

Private landlords in Ireland pay the same rates of tax on their rental profit as they do on any other income they have, and their rental income less deductible expenses is added to their other Irish-sourced income, such as employment income. This often results in private landlords paying tax over 50% whereas institutional landlords are treated differently and pay less tax on their rental income. Can we implement a more favourable tax system or is there any wiggle room? The current tax status for future prospective 'small landlords' is very unappealing, and we are having great difficulty to retain the smaller landlords we currently have.

Can we fast track planning for new rental schemes?

I think one of the errors that is easily made in prescribing solutions to the housing crisis is only looking at one aspect of it and not seeing how everything is interlinked, and how one action can make things worse elsewhere, and that's something we must consider.

## **Mortgage Interest Relief**

Additionally, a temporary one-year tax credit will be introduced for taxpayers who have made payments in respect of a qualifying loan for a principal private residence.

It is a 20% tax relief on the increase in interest paid on relevant loans between 2022 and 2023. Relevant loan balance range is between €80k and €500k at 31 December 2022. The amount qualifying for relief at the standard rate of tax will be capped at €6,250 per residence, equivalent to a maximum tax credit of €1,250.

It is estimated that approximately 165,000 mortgage holders will benefit from this measure. To qualify taxpayers must be compliant with LPT obligations. The relief operates by way of a credit offset against the taxpayer's income tax liability in 2023. To claim the mortgage interest tax relief, the taxpayer must file a tax return with Revenue and provide the requisite information and it is anticipated that the relief may be claimed in early 2024.

The implementation of this relief was a measure to alleviate some of the financial burden faced by mortgage holders due to significant increases in interest rates, a temporary one-year mortgage interest tax relief provision is being introduced. The mortgage interest relief is highly targeted and quite heavily capped and therefore will make only a small difference to those experiencing material interest rate increases.

The relief is aimed at offsetting some of the impact of 10 successive interest rate increases. The measures are as promised, targeted at the people who have been asked to pay a very high price for multiple rate hikes imposed by the European Central Bank since July 2022. This is namely tracker mortgage holders and those on variable rates.

It will benefit about 165,000 homeowners, while more than half a million others who have fixed-rate mortgages or mortgages of less than €80,000 or more than €500,000 will see no benefit from the tax relief. Can you explain why this range is in place from €80,000 to €500,000. Is it fair on those who don't qualify?

It is undoubtedly true to say that for many years tracker mortgage holders benefited from ECB-imposed interest rates which were at, or close to, zero. Meanwhile, people on standard variable rates and fixed rates with Irish banks were paying substantially more for their home loans. Those who have been paying higher rates for years could be forgiven for questioning why tracker holders are being looked after now but the flipside of that is that, through no fault of their own, many homeowners have seen the cost of servicing their loans go through the roof as a result of the ECB hikes. That has placed many people of whom bought at the height of the last boom when tracker mortgages were commonplace and are now paying thousands more than what they might have budgeted for. That has left many exposed and vulnerable to falling into arrears.

This incentive is better than nothing but, according to a report by a financial advisor, many will see savings of closer to €500. It was forecasted that someone with €80,000 left to pay on their home loan might see relief of about €250 while someone with €132,000 outstanding might benefit to the tune of €410.

No borrower on a variable or tracker rate mortgage will turn down extra money back in their pockets but will this make any real difference to the ongoing worsening cost of living crisis?

However, the savings are limited and are retrospective, and the fact that the scheme will only operate for one year and will be based only on the increased amount of interest paid in 2023 compared to 2022 means the benefit to individual borrowers will be relatively small in nature. Can a long-term plan be introduced to provide some comfort to those vulnerable borrowers paying extortionate interest rates?

Can we seek to have this implemented every year there is rate rises and give the people that assurance so they can sleep better at night?

These figures are not going to rescue those who are drowning, as it is basically some pocket change.

The Central Bank need to look at the Capital Rules with the Banks to stop many of the loans being sold in the first place. It's crazy in the current climate with the rising interest rates and the rule if someone goes into arrears and stays in arrears that the bank is effectively encouraged to sell it to a vulture fund which already has higher rates. This is lunacy.

We have to look to the statutory functions of the central bank to intervene when customers are being gauged by the vulture funds and put a cap on the interest rates that they can charge those on tracker or variable rate mortgages.