



# Taxing problem over rental property

**My husband and I own a rental property, and, against a backdrop of rising rents, are concerned about our tax liability. It looks like any extra we get in rental income will go towards the tax bill. Also, we reached an agreement on the mortgage on this property with the bank two years ago, and we can't afford to pay any more. Will the bank now look for extra income? Would we be better off reducing our rental income to reduce our tax liability? There seems to be no benefit to us in increasing the rent.**

*Clare, Dublin*

Rising rents are certainly topical at the moment, and have been the subject of much debate in recent months.

Last week saw the government unveil a package of housing measures, including measures geared at the rental sector, which will mean changes for landlords and tenants alike. Among the measures announced are a longer period between rent reviews and a longer notice of new rent.

Bear in mind these policy changes when deciding how to proceed with your rental property, and think carefully about what course of action to take, as you could find yourselves locked into a rental agreement for longer than you had initially expected when setting the rent.

Overall though, you should try to look at the positive in your situation, said John Leahy, the founder of [Irishlandlord.com](http://Irishlandlord.com), and the author of the book *Renting in Ireland*.

"An opportunity to increase your income stream is a positive," Leahy said. "It will allow you to bring down the overall debt and improve your position with the bank."

Setting the rent artificially low is unlikely to keep the bank happy, however. After reviewing your question, Trevor Grant, chairman of the Association of Expert Mortgage

Advisers (AEMA), said that lenders "will be aware of market rents when agreeing forbearance arrangements on buy-to-let properties, so pushing down the rent below market levels is not an option".

"Generally lenders look for 75 to 80 per cent of gross rent on buy-to-let arrangements, and do not include any tax liability in their calculations," Grant said. "In my opinion, where tax liabilities are applicable due to rent received, and they impact on the borrower's capacity to meet the proposed lender repayment, it is important to make the lender aware of this and negotiate on this basis."

Leahy also suggested that you work on a net income basis, if possible. His advice: do your sums, based on various rent levels, and get them verified by an accountant. "You can't avoid the tax, so try to come to an arrangement with the bank on a net income basis, so that you are not down in real terms as a result of an increase in gross rental income," he said.

According to Grant, if the property – and the mortgage on it – is becoming a financial burden, perhaps you should consider selling it.

"If you are in financial distress and in a buy-to-let arrangement which does not make sense for you financially, I recommend engaging with your lender with a view to disposing of the property and reaching a full and final settlement if possible," he said.

But, don't go it alone, he cautioned. "Borrowers should engage the services of a suitably authorised and qualified firm to assist them in their negotiations with their lender," he said.

It's a tricky situation. I'd recommend that you get independent advice before.

Email your financial questions to [yourmoney@sbpost.ie](mailto:yourmoney@sbpost.ie)

*Emma Kennedy is Money Editor at The Sunday Business Post and is also a qualified financial adviser*

**An opportunity to increase your income stream is a positive. It will allow you to bring down the overall debt and improve your position with the bank**