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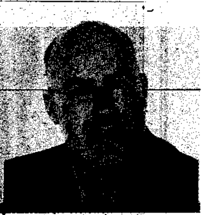
John Fagan
Your Questions



Can I write a makeover off rental tax bill?

I'm planning to rent out a property I have just inherited. It could do with a bit of a makeover. Can I write off the cost of the makeover against my tax bill on rental income if I do up the place before I rent it out? Also, I'm planning to do a lot of repairs and painting myself — is the cost of this tax-deductible?
Geraldine, Raheny, Dublin 5

There are a number of expenses which you can write off your tax bill on rental income — however, the cost of a makeover prior to a first letting is not one of them. One way to get around this is to offer a three-month rental, at a reduced price — to reflect the fact that your property is not up to standard. After the three months, get workmen in and upgrade the property. These expenses are in between lettings and can be written off your tax bill in full.

Revenue or capital expenses are also tax deductible. Revenue expenses include any running repairs to the property, such as a broken window or door lock. These expenses can be claimed in full in the year they are paid.

Capital expenses include things like replacing the heating system or all the windows. You can claim the cost of these back over eight years — at a rate of 12.5pc of the cost a year. So spend €5,000 upgrading your heating system for example and you can write off €625 of this a year against tax — over eight years. If you are renting out your property furnished, the furnishings are also considered a capital expense so you can also write these off your tax bill.

As for painting the place yourself — don't. You can only write the cost of the paint and materials off your tax bill if you do the work yourself. Get contractors in and have the entire bill offset as an expense. Keep all receipts and pay the bill by cheque or bank transfer.

I will be retiring next year. As well as the State pension, I will have a private pension which is worth about €11,000 a year. Will I have to pay tax on the State or private pension?
Eithne, Ardee, Co Meath

Your tax situation will need a little attention. Your State pension will not have tax withheld at source but it may be liable to income tax. Your private pension should operate through a payroll.

Add your State pension to your private pension and you have an annual pension of almost €23,000. The income tax due on this is €4,600 gross a year. At a minimum, your tax credits (which allow you to reduce your tax bill) are €3,300, so your tax bill will probably come to €1,300 a year — or €25 a week.

You now need to decide how to pay that tax. You will have to pay a lump sum if you submit a tax return each year. However, you may be able to have the €25 taken from your weekly private pension if you instruct the people operating your private pension through the payroll to do so.

Remember, the amount of tax you pay on your pension will usually change if you are married, depending on your joint income.

You can claim tax relief on certain expenses which you have paid over the last four years — and this could reduce your overall tax bill. So, if you have not claimed tax relief on medical expenses, bin charges or third-level fees paid since 2010, you can still claim tax relief on these — as long as you do so by December 31, 2014. There are also tax-free exemptions which allow you to stay outside the tax net if you earn €18,000 as a single person or €36,000 if married.

John Fagan is founding partner of Fagan & Associates