



**Creating a Fair, Sustainable and Transparent
Property Taxation System**

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Executive Summary

The Household Charge, as currently exists, is a flat-fee created by statute in the Local Government (Household Charge) Act 2011. It is payable by owners of residential property. The introduction of an annual property tax is part of the EU/IMF Programme of Financial Support and the current flat fee is an interim measure to support local government.

The government proposes introducing a comprehensive and equitable valuation-based property tax as soon as possible. The Society of Chartered Surveyors Ireland believes that the introduction of an annual property tax is an opportune moment to revise the way in which local government is funded and property taxed in Ireland.

In this submission, the Society sets out how an annual property tax can support regional development through the creation of a regional investment fund, and how it can contribute to the sustainability agenda and assist in economic recovery. A section exploring options for the basis of the charge is also set out.

1. Background

The Programme for Government commits the incoming Fine Gael/Labour government to:

Consider, arising from the previous Government's deal with the IMF, various options for a site valuation tax. Any site valuation tax must take into account the significant number of households in mortgage distress and provide local government with a reliable stream of revenue.

In the interim, the government has introduced legislation to provide for a flat-fee charge on all owners of residential property in Ireland, in advance of the introduction of a more comprehensive annual property charge. The current Household Charge follows a similar template in the Local Government (Charges) Act 2009 which introduced a "200 annual charge on non principal private residences, payable by the owners to the local authority in whose area the property concerned is located.

In advance of this flat-charge being replaced by some form of site valuation tax in subsequent Budgets, the Society of Chartered Surveyors Ireland has convened a working group to explore the workings of such a tax and to contribute to Government deliberations in this regard.

This paper proposes answers to the following six broad questions regarding the movement from a flat fee to a more complex form of household charge to fund local government services:

- Who should pay?
- How should they pay?
- Who should set taxes?
- How should taxes and property contribute to the sustainability agenda?
- How should an annual property tax contribute to the national economic recovery?
- How can property help to successfully deliver required infrastructure?

2. Principles of a Fair Property Tax

A well-developed policy on taxing property can not only improve revenue collection, but also improve macro-economic stability, improve resource allocation, lower economic inequality and improve environmental and sustainability issues. Thus, when the government proceeds with the introduction of a more equitable household charge, its focus must be much wider than simply maximising the amount of money they can raise.

The Society believes that any household charge should be:

- Simple to understand, and transparent in the range of services it is used to fund.

Simplicity refers to the need for a tax system to be straightforward and unambiguous, transparent and clear, low cost to collect and capable of being easily understood.

- Creates a predictable, stable and quantifiable revenue stream to the exchequer.

Stability refers to the maintenance of a steady flow of taxes to allow for adequate planning, retaining existing levels of revenues and contributing towards macroeconomic stability.

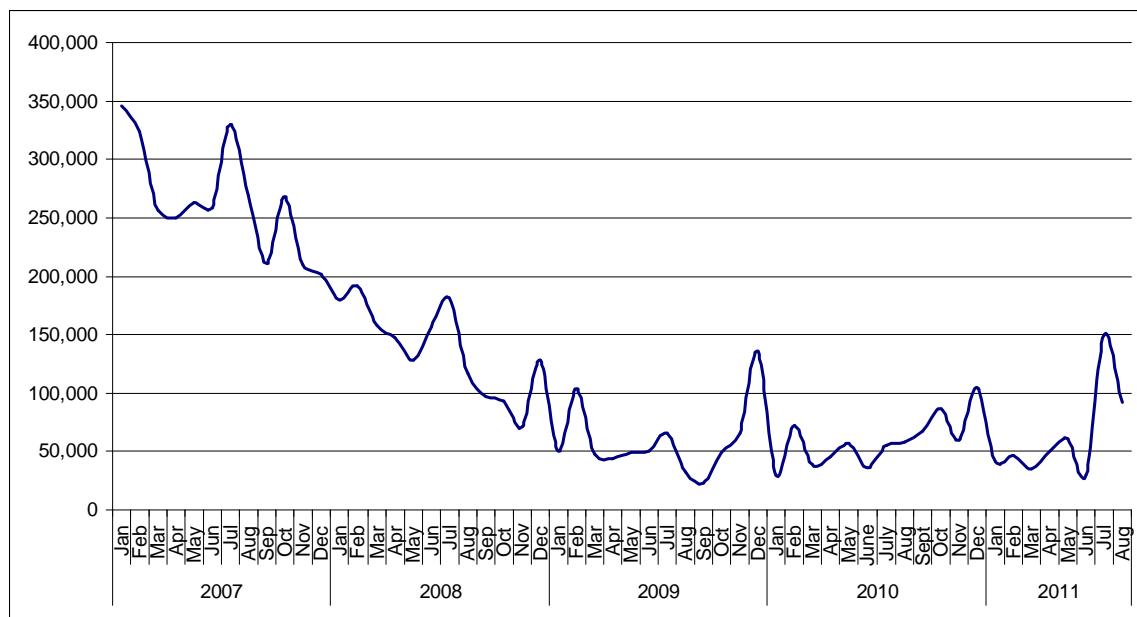
- Promotes efficiency in the Irish property market

Efficiency means that taxes should not unreasonably interrupt or diminish the flow of trade . unless the express purpose is to manage scarce resources or behaviours, in which case they should in all other respects preserve the flow of the markets.

3. Problems with the Current Property Taxation Model

Since the removal of an annual tax on residential property, the Irish exchequer has become extremely heavily reliant on property transaction taxes to fund central and local government services. At the peak of the property market in 2006, 14% of monthly exchequer income was from stamp duty alone. As the property market declines, this has reduced to less than 2%.

Chart 1: Monthly Exchequer Stamp Duty Receipts 2007 - 2011

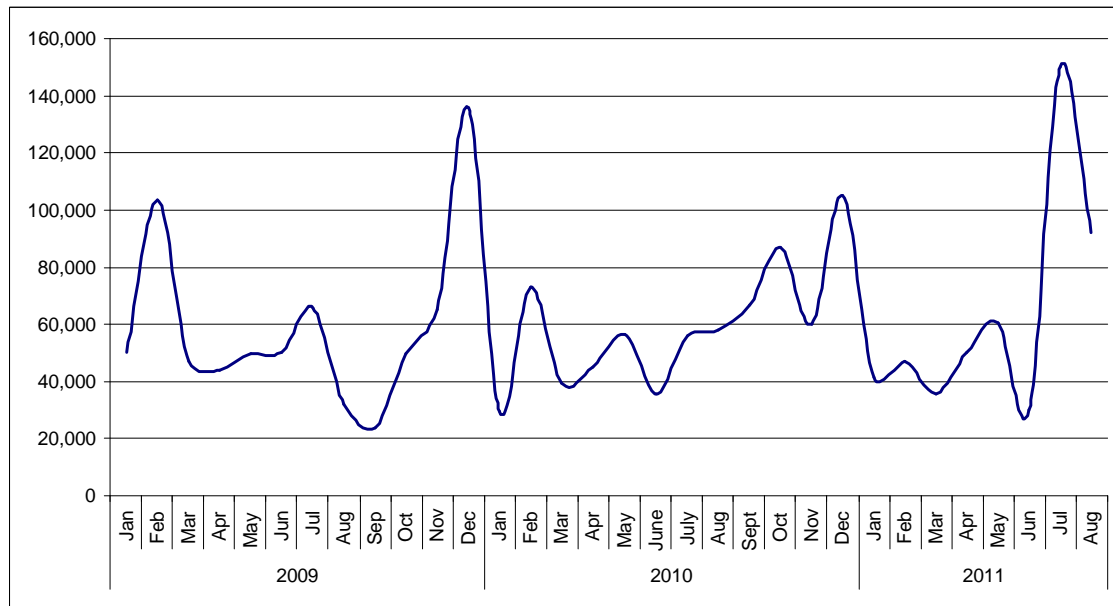


A reliance on stamp duty as the only source of taxation on residential property is predicated on two independent but unpredictable factors:

- (a) changes in the price of houses
- (b) changes in the volume of transactions

Since 2006, and the international banking crisis, Ireland has seen a significant collapse in house prices. The crisis in the banking sector and a lack of consumer confidence has led to a simultaneous collapse in the volume of transactions taking place. This has led to enormous fluctuations in the income of the exchequer from the sale of residential and commercial property since 2009. This unpredictability is damaging to policy-making and resource allocation.

Chart 2: Fluctuations in Stamp Duty receipts 2009 – 2011



For both of these reasons, the Society believes that the Irish model of property taxation should move away from taxing property at the point of transaction, to taxing it on an annual basis and supports the Governments intended policy approach in this regard. Ireland is moving closer to the European norm in terms of property tenure mix, and as more people begin to prefer long-term renting rather than purchasing property. This trend towards renting will undermine any attempts to rely on high volumes of property transactions as a source of exchequer income.

The Society believes that event-based taxes such as property transactions create market distortions, prevent clarity and certainty to the market. It therefore believes that a fair and transparent form of annual property tax has the opportunity to:

- (a) bring stability to exchequer finances and prevent sudden and unpredictable increases and decreases in income levels
- (b) reduce the barriers to entrance to the property market, and promote market efficiencies
- (c) restore a reliable stream of funding to local government.

4. Proposals for a Fair, Sustainable and Transparent Property Taxation System

In response to the questions posed earlier, the Society believes that the following principles should be applied to the annual residential property tax.

4.1 Who should pay?

The annual property tax should be used to fund public services on a local and regional basis, and therefore should be levied on the occupiers of property as the users of local services, rather than the owners of property. The principle that the occupier pays is appropriate as it is the occupier who actively benefits from the facilities provided by the local authority, albeit that the owner of the property will have a role in determining the annual property tax applying to the property. The Society believes that if landlords or owners of property are required to pay, the cost will likely be transferred to rent, undermining the principles of simplicity and efficiency.

The Society recommends that recognition should be given to those who are in financial distress and lower rates of household charge should apply following a means test, especially for those who are disabled, have low incomes or are students.

4.2 How should they pay?

The household charge should be on a self-assessed basis, using an online collection mechanism. This should be centrally co-ordinated to prevent un-necessary duplication of collection, and thus lower the cost of collection.

Government should explore the option of annual, six-monthly or monthly collection. This would have a significant positive impact on collection rates. One possible means of collecting the charge would be to utilise An Post to co-ordinate payments as they do for the television licence fee . online, by post or in post offices.

There is a good opportunity to exploit opportunities for data analysis. According to DIT, 88% of Irish property is registered and site geo-codes, addresses and areas are available. The remaining 12% is to be transferred from registration of deeds to land registry. This is a good opportunity to exploit the streamlining and creation of databases of properties, in line with the PSRA.

4.3 Who should set taxes?

The Society believes that the setting of the annual property tax should be as transparent and comprehensible as possible.

The three tiers of government in Ireland should each have a role in setting the property tax.

- (a) **Central Government** should set the target for collection of income on a national level, based on a financial needs assessment submitted by the local authorities to the Department of Environment, Communities and Local Government. The Department should then set the maximum and minimum annual levy which each local authority may charge for each house in a five-point banding system (A to E) based on a calculation using the following factors:
 - (i) the market value of the property
 - (ii) the size and value of the land on which the property is situated
 - (iii) the energy efficiency of the property

- (b) **Local Government** will then publish the exact annual levy for property within each band, based on the maximum and minimum amounts set by central government, and with regard to the funds they need to raise and the property type in the county. As part of the rollout of the annual property tax, it should be legislated that no local authority may exceed the maximum levy set by the Department of Environment. The local authority should set out:
 - (i) what income this will provide for the local authority each year
 - (ii) on what services the income is being spent.

- (c) 20% of all income should be collected at **regional level** and distributed to the local authorities in that region to fund wider strategic infrastructure and sustainability programmes.

4.4 Worked Example

In the example below, the Maximum and Minimum annual charge for each band of property is set out by the Department of Environment, and the local authority has calculated its own rate within that band, based on (a) the property mix in their county and (b) the budgetary forecasts. The final two columns show how the income from each property will be split between the county and the regional investment fund.

Worked Example

Value Band	Department of Environment Bands		Local Authority Levy	Allocation of Income	
	€ Min	€ Max	€ per annum	For Local Authority (80%)	For Regional Investment Fund (20%)
A	800	850	830	664	166
B	900	950	920	736	184
C	950	1,000	960	768	192
D	1,000	1,100	1,000	800	200
E	1,200	1,400	1,400	1,120	280

4.5 How should taxes and property contribute to the sustainability agenda?

By introducing the energy efficiency of the property as a factor for the calculation of the property tax, the Government can incentivise retrofitting of the existing built environment. Levying tax on the size and value of the site on which the property is based will lead to an efficient use of land. As noted earlier, the movement seen in Ireland towards renting property rather than purchasing it, especially in urban areas, may mean that properties are sold less often. This not only reflects changing demographic and employment issues, but has a consequence for the long-term use of properties, land management and sustainability. By allowing local government to set its own charge, a powerful tool in terms of promoting regional development is created.

Furthermore, linking service provision by local authorities with the household charge promotes transparency in local government. By requiring local authorities to publicise what the basis of their charge will be, it directly links tax-payers with officials and councillors.

4.6. How should an annual property tax contribute to the national economic recovery?

The Society believes that Irish economic recovery depends on an overhaul of the Irish property taxation model. Funding of local government is in urgent need of reform, and in the past, funding of local government services has been too-reliant on commercial property rates and development contribution income. The Society believes that income from the annual property tax should be ring-fenced to fund local and regional services on a transparent basis, and not simply vanish into the black hole of the national exchequer.

By pooling services at a regional level, funded by the strategic regional investment fund from 20% of the property tax collected by the county and city councils, local government should be better placed to make efficiencies without reducing the range or quality of services for the public.

4.7 How can the property tax help to successfully deliver required infrastructure?

The Society believes that by creating a strategic regional investment fund from 20% of all income raised each year by local authorities, the annual property tax will facilitate the funding of regional infrastructure. The formation of this fund should be undertaken by the regional authorities in conjunction with the proposed New ERA body and state agencies.

5. Options for the basis of the charge

The Society believes that residential property in Ireland should be placed into nationally-created bands, which each local authority setting its own levy for property in each band, within broad parameters.

The Society believes that several methodologies are available to the government in creating the property tax:

5.1 The market value of property

The emergence of computerised online Automated Valuation Models (AVMs) allows for the valuation of residential property for taxation purposes on a regular self-assessment basis, either by the owner or their representative. A short term solution could be to move to a process where individual properties are re-valued every three years, with valuation date set one year earlier. However, whilst this would be a dramatic improvement on the existing system, in a period of fluctuating house prices, it could result in valuations being up to three years out of date. A longer term solution would be to gradually reduce the valuation cycle until valuations were carried out annually. This would require investment by the State on Automated Valuation Model software, inspections and appeals processes. The growth in scheme houses and estates makes the group valuation of similar properties much easier, and mechanisms should be put in place to make the multiple valuation of property in estates or apartments as simple as possible.

Most other taxes involve some degree of self-assessment . corporation tax and VAT are primarily based upon figures prepared by the taxpayer or their accountants. Moving towards a system where the responsibility for new valuations falls to a greater degree on owners and their representatives, rather than on State valuation officials would reduce the likelihood of appeals. A regular nation-wide revaluation process would also have a positive impact on achieving transparency in the market place and provide useful data for local government to assist their medium-term budgeting.

5.2 The size and value of the land on which the property is situated

The government is committed to using site value as the basis for calculating the annual property tax. While it is the case that there is no international best practice in

terms of creating an annual property tax, the Society is concerned that using site value as the sole criterion for the tax will lead to perceptions of unfairness, and difficulties amongst occupiers in assessing their tax liability.

Nonetheless, the Society believes that a well-developed form of annual property tax can assist the State in a better use of its land, and as such using the value of the property's site as an input factor would help maximise land-use management in Ireland. This would necessitate a significant public education programme and far better data on existing site/land values in Ireland.

5.3 The Rental Value of the property

Another option for calculating the charge which will be levied is to use the rental value of the property. This would reflect the nominal income which the property would receive on the rental market, and provide a fair reflection of the underlying economy. As the economy and prices rise, so the rental value of the property would increase and this would be reflected in the charge which is levied by local authorities.

5.4 The energy efficiency of the property

The Society believes that the annual property tax can be used as a progressive means of promoting the retrofitting of existing residential properties to improve their energy efficiency and lower the household charge which will be levied on the property.

The public is increasingly familiar with the BER concept, and the Society believes that the sustainability agenda can be served by using the energy efficiency of a building as one of the criteria for calculating the levy which will be charged. It will be possible, through investment in the quality of the property, to reduce occupier liability for the annual property tax.

5.5 The cost of rebuilding the property

The Society of Chartered Surveyors Ireland produces an annual guide on the cost of re-building existing residential buildings for insurance purposes, from data supplied by chartered quantity surveyors practicing in all regions of Ireland. The report shows the likely cost of a complete re-building of residential property different types, sizes and ages in different regions, to the same standards and using the same materials in the current climate. This data provides a detailed level of data on the materials cost

of the property and may be useful in calculating the underlying value of property for taxation purposes on a self-assessment basis.

6. Conclusions

1. We need better data on property and land prices in Ireland before any transparent and comprehensible property tax can be introduced.
2. A flat-rate tax should be only an interim measure. It is not a long-term solution for property taxation in Ireland.
3. The Society is committed to the principle of transparency in the property market and all local authorities should be clear about which public services are being funded at local or regional level from the property tax.
4. The Society believes that efficiencies in local government service provision can be derived from pooling certain government services at a regional, rather than local level, if appropriate funds are given to them at regional level. The Society believes that the creation of an investment fund from household charge income can facilitate this process.

7. About the Society of Chartered Surveyors Ireland

Dating back to 1895, the Society of Chartered Surveyors Ireland is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in partnership with RICS, the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the world's leading qualification when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is the recognised mark of property professionalism.

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction, land and property industry.

All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and RICS, in the public interest.

This valuable partnership with RICS enables access to a worldwide network of research, experience and advice.