

# **Annual Residential Property Tax Proposal**



Annual Residential Property Tax Proposal following on from the  
joint SCS/IAVI Pre-Budget Submission 2011

## Recommendations

**The IAVI/SCS is proposing an Annual Residential Property Tax based on property size which could be implemented quickly and secure c€440,000,000 in taxation revenue for the exchequer within the coming months.**

### **1) Implementing the residential property tax based on the size of the property.**

It is proposed that a tax rate would be implemented based on the property size. In the interests of equity, all home owners with an income of less than €20,000 would be exempt.

Proposed tax bands:

Size of Property (sq. ft)	Annual Charge
Up to 1000 sq. ft.	€250
1000-2000 sq. ft.	€350
2000-4000 sq. ft.	€450
In excess of 4000 sq. ft	€1,000

As there are approximately 1,250,000 owner occupied homes in Ireland, the estimated revenue to the exchequer based on an average property tax of €350 would amount to approximately €550,000,000.

However, due to the income exemption the figure generated is more likely to be in the order of €440,000,000 (providing for an exemption of 20% of the total).

It is proposed that home measurements would be based on the ‘gross internal’ measurements, which would exclude garages, outhouses and extensions that do not comply with building regulations such as non-habitable attic conversions.

### **2) The property tax should be referred to as a ‘Local Authority Charge’ and not a ‘Residential Property Tax’ which has a negative perception.**

The previous Residential Property Tax which was introduced in 1994 and abolished in 1997 was not a success generating only €17m in revenues in 1996 and has a negative perception with the public. It is proposed to name this property tax as a ‘Local Authority Charge’.

### **3) The proceeds of the tax should be ring fenced for the relevant local authorities.**

This will create a regular and predictable income for local authorities and should create less resistance to the payment of the tax if those paying can see a direct benefit for them in their locality.

#### **4) Zero rating of Stamp Duty.**

Stamp duty, which we consider a regressive tax, should be zero rated as was proposed in the Commission on Taxation report 2009.

#### **5) Exemptions for homeowners who paid stamp duty in the last 10 years.**

It is proposed that the stamp duty paid by homeowners within the past 10 years would be considered as a 'prepayment' on property tax liabilities over the coming years, on a tiered basis. This is a similar proposition to the recent ESRI proposal on property taxation.

#### **6) Administration of the Property Tax.**

It is proposed that a website could be set up, similar to [www.nppr.ie](http://www.nppr.ie) which has been successful, to facilitate homeowners paying their property tax liabilities online. They would register the property address, size, characteristics and all other relevant information, which could be used once a National Property Price Register is established.

To facilitate property owners without internet access, the property tax could be paid via the post office (which was used for the collection of the Italian Property Tax - Imposta Comunale Sugli Immobili (ICI)).

The IAVI/SCS representatives would be delighted to discuss this proposal in further detail and welcome the opportunity to meet with Department of Finance officials at the earliest opportunity, given the close proximity to the upcoming budget.

## Why an annual residential Property Tax?

An Annual Property Tax has been recommended over the past 25 years, from the first Commission on Taxation (1985), to last year's Commission on Taxation report and OECD Report (both 2009).

Given the urgent need of tax revenue for the State, the rationale for a transition from a once-off transactional tax in the form of stamp duty to a recurring and more sustainable annual property tax to fund local Government has become more persuasive, particularly given the significant fall off in stamp duty returns to the exchequer since 2006.

The OECD (2009) stated that "tax revenues became too dependent on construction and housing transaction-related receipts as the market boomed". In one year alone (2006-2007) stamp duties from residential property fell by 300 million euro.

*Table 6.1 The yield from stamp duty from residential housing since 2000*

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
282	265	349	528	752	945	1,311	1,018	445	85*

*\*to end June*

Source: Commission on Taxation Report 2009

According to the Journal of Real Estate Literature study - **Area based Banding for Property Tax Assessment in Transitional Countries: An Empirical Investigation**, Property tax is often considered as an ideal local tax given that real property, as the tax base, is immovable and hence a clearly defined source of potential revenue (Bird and Slack, 2002). In Ireland's case, additional advantages include the fact that it has the potential to broaden the existing tax base and provide sustainable tax revenue for the exchequer that is more recurring than stamp duty. It can also be correlated to the level of services often provided by local Government. Fichel (2001) has argued that the property tax is like a benefit tax because the taxes approximate to the benefits received from local services. An annual residential property tax also improves mobility and provides more efficient use of the national housing stock.

However, an annual property tax based on property values represents one of the most difficult taxes to implement and maintain (Bird and Wallich, 1994). It is a resource-intensive tax as it requires technical skill in determining and maintaining the assessed values; collection and updating of property data; identifying taxpayers, collection, and enforcement (Bahl and Linn, 1992; Kelly, 1994; and Szalai and Tassonyi, 2000).

According to the study, in order to have value based property tax systems it is important to have relatively mature and transparent property markets (Bryson, Cornia and Wheeler, 2004). Linked to this is the availability of market information and transaction evidence

that can be objectively used in determining property values. While the study focused primarily on the challenges of implementing an annual property tax in Central and Eastern Europe (CEE), given the absence of a National Property Price Register and a general lack of transparency in the Irish residential property market due to data protection legislation, the findings in this research are relevant to the Irish property market.

According to the research, one real property attribute that tends to be objectively collected in most, if not all, transitional countries is the **size or floor area of the property**. According to the research, this has led to area-based property tax systems being introduced in recognition of the need to tax real property within local authority areas as a means to raise finance to meet infrastructural and other locally-based expenditures.

As a result, an expanded reliance on the area-based property tax is seen as a more feasible and realistic option to the more traditional value-based property tax (Zorn, Tesche, and Cornia, 1999).

The **area based system** as used has a number of advantages:

- It is relatively easy for taxpayers to understand as it is based on the amount of space occupied (Zorn, Tesche, and Cornia, 1999).
- It is cheaper to administer than value-based assessments given the requirement of the latter to regularly revalue to capture value movements (Almy, 2002).
- Administrations have some familiarity with area-based approaches (McCluskey, Almy, and Rochlickova, 1998).
- Data requirements associated with an area-based tax are less than those associated with traditional measures of valuation.

There are some disadvantages in the sense that it could be perceived that there is also the lack of equity associated with non-value approaches, with properties of similar size being assessed at the same rate irrespective of locational differences (Bryson, Cornia,) and as larger properties are not necessarily more valuable (Balas and Kovacs, 1999).

However, given the urgent need to secure revenue for the exchequer and local Government, the IAVI/SCS has prepared a proposal for the introduction of an annual residential property tax.

### **IAVI/SCS Area Based Annual Property Tax Proposed Methodology**

In a recent joint pre-budget submission to the Minister of Finance (22<sup>nd</sup> September 2010), the Society of Chartered Surveyors (SCS) and the Irish Auctioneers & Valuers Institute (IAVI) proposed 4 possible methods of collecting an annual property tax (p11). These included:

1. Self-certification
2. Qualified Valuer certification
3. Property Size
4. Flat payment

Given the urgent need to broaden the tax base and to increase tax returns to the exchequer, the IAVI/SCS now propose the introduction of an annual residential property tax based on option 3 from the pre-budget submission – basing the tax on the property size (with certain exemptions). It is also proposed that stamp duty is zero rated, as recommended in the Commission on Taxation report 2009.

Recently, the Economic and Social Research Institute (ESRI) proposed the introduction of a simple property tax at a rate of 0.4 per cent of property value which would work out at approximately €950 per annum or €80 per month for homeowners. The ESRI also proposed a property taxation methodology based on an ‘assessed value’ which would incorporate the size of the property and other characteristics such as locational factors.

However, given the urgent need to introduce this property tax and to facilitate its practical implementation within a short-time frame, the IAVI/ SCS believe that the introduction of a property tax based on property size is the most efficient methodology available to Government at this time.

This methodology could potentially secure c€440,000,000 of taxation revenue for the exchequer within the coming months. It would also provide an interim solution ahead of the implementation of a value or site value-based property tax, which would require the establishment of a National Property Price Register and a significant amount of time and resources.

## **Background**

The Irish Auctioneers & Valuers Institute (IAVI), founded in 1922, represents c1850 qualified property professionals nationwide. The IAVI has participated in many Government task forces and working groups throughout its history, including the Auctioneering & Estate Agency Review Group set up to provide the foundations for the establishment of the Property Services Regulatory Authority (PSRA) and most recently, IAVI representatives have contributed to the Expert Group on Unfinished Developments (Department of the Environment) and the working group on transparency in Commercial Rent Reviews (Department of Justice).

The Society of Chartered Surveyors (SCS) represents 3,000 surveyors working in different areas of the building and development industry, including 750 probationers who are undergoing their assessment of professional competence in order to achieve the gold standard of chartered status. The Society also has been involved with many Government working groups and has strong links with the RICS which represents over 140,000 members across 120 countries worldwide and is one of the most respected and high profile global standards and membership organisations for professionals involved in land, valuation, property, construction and environmental issues.

Both the IAVI and SCS are due to merge on March 31<sup>st</sup> 2011 and form the Society of Chartered Surveyors Ireland.

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