Tax Strategy Group
Taxation of Property

Introduction
Outline of paper
1. This paper deals with the taxation of immovable property. It looks at the history of property taxation in Ireland and explores the main current form of property related taxation, Stamp Duty. It then outlines current and possible future developments in property taxation, in light of the legislation forthcoming from the Department of the Environment, Community and Local Government to introduce a "household charge" in 2012 as a prelude to a full property tax, and the current commitment in the Memorandum for Understanding with the ECB/EU/IMF. The paper examines various possible property tax and the relationship of any property tax with Stamp Duty.

2. Other property-related taxes such as Capital Gains Tax and Capital Acquisitions Tax are covered in the earlier paper on Capital and Savings Taxation (TSG 11/06). The Department of the Environment, Community and Local Government will present a separate paper on the "household charge" to this meeting of the Tax Strategy Group.

Programme for National Government
3. The Programme for National Government contains a commitment to consider various options for a site valuation tax. The Programme for National Government also states that 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.

Memorandum of Understanding with the EU/ECB/IMF
4. The EU/IMF Programme of Financial Support for Ireland under its fiscal consolidation measures commits the Government to the introduction of a property based tax for 2012 and to an increase in this tax in 2013. The Programme reflects the need, in the context of the State's overall financial position, to put the funding of locally delivered services on a sound financial footing, improve accountability and better align the cost of providing services with the demand for such services.

5. Although the "actions" in the MoU do not specify the form of the tax, the "Memorandum of Economic and Financial Policies" (paragraph 24 on page 30 of the MoU) states:

   we will build on the base-broadening measures outlined above and establish a sound basis for sub-national finances through a new residential-property based site value tax[.]

6. The introduction of a property tax would be a major structural reform of taxation in Ireland and could provide a stable long-term revenue. A property tax would require a comprehensive property database and valuation system. Accordingly, to meet the revenue requirement in the EU/IMF Programme, the Government has agreed the proposal from the Minister for the Environment, Community and Local Government to introduce a household charge in 2012.

Background – Property Taxation in Ireland
7. A notable feature of Irish taxation in recent decades has been the almost complete absence of an annual and/or recurring tax on residential property. Developments in this policy area since the abolition of domestic rates on residential property in 1978, including Residential Property Tax and Farm Tax, are summarised in Appendix A.

8. Apart from the absence of a property tax, the OECD has reported that Ireland “has some of the most generous tax provisions for owner-occupied housing” as Ireland is the only country to allow tax relief on rent, mortgage interest payments, capital gains (principal private residence relief) and capital acquisitions (dwelling house relief).

Non-Principal Private Residence charge (NPPR)

9. An annual recurring annual tax on some residential properties was introduced via the Non-Principal Private Residence (NPPR) charge under the Local Government (Charges) Act 2009. This is an annual €200 charge on non-principal private residences (rental, holiday and vacant properties) with the revenue provided to the Local Authorities where the property is located. Properties exempted from the charge include new unsold properties, local authority and social housing, persons moving home, “granny flats”, and mobile homes used for holidays. If a house is divided into a number of rental properties, each of those properties is liable to a €200 charge. Responsibility for the NPPR charge rests with the Department of the Environment, Community and Local Government.

10. The NPPR yield was €66m in 2010 and over €61m to date in 2011. xxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxx, the late payment charge of €20 per month (equivalent to 120% per annum) is a significant incentive to pay the tax on time; and the legislation provides that any NPPR liability will rest with the property, so property purchasers will want to establish that any NPPR liability has been paid by the vendor.

Local authority commercial rates

11. Apart from the NPPR charge, the only other form of recurrent property tax is local authority rates on commercial premises; this system, which is similar to the abolished domestic rates[1] is outside the ambit of this paper.

Stamp Duty on Property

12. Stamp Duty is a tax on documents or instruments. It is imposed on instruments effecting the transfer of property and is charged as a proportion of the value of the property transferred. Appendix B sets out the current levels of Stamp Duty for residential and non-residential (commercial) property and Appendix C sets out existing reliefs and exemptions.

13. The existence of Stamp Duty on property transactions has been used as an argument against the introduction of a tax on residential property. However, Stamp Duty on property co-existed with domestic rates before the abolition of rates in 1978; and in many jurisdictions (including those with similar legal systems, such as the UK and the USA; and those with similar sized property markets, such as Denmark and the Netherlands) an annual residential property tax exists in conjunction with a transactions-based tax which operates in the same manner as Stamp Duty.

14. In recent years there have been substantial changes to the residential Stamp Duty regime as policy responses to changing market conditions (supply, affordability, investment, etc). Some of these changes had conflicting objectives, for example:

- 2000: imposing a higher rate of Stamp Duty on investor purchasers of residential property to cool the property market (in response to the “Bacon report” recommendations);
- 2001: removing the differential between investor purchasers and owner-occupier purchasers, which had the effect of driving up prices;

[1] There are two elements to the commercial rates: (i) rateable valuation (tax base) of a property, determined by the Commissioner of Valuation and based on net annual letting value of a property, and (ii) an annual rate on valuation (tax rate) that is determined by the local authority as part of its budgeting process.

- 2004 to 2007: making concessions to owner/occupiers, more specifically first time purchasers, to make homes more affordable and to redress, among other factors, the investor impact.

The main changes since 1997 are set out below.

Year	Change
1997	Three additional Stamp Duty rates of 7% to 9% introduced for residential property (to coincide with the abolition of residential property tax).
1998	Finance (No 2) Act 1998 increased the thresholds under which no Stamp Duty was payable on residential property transfers from £5,000 to £60,000. This was in response to recommendations in the first Bacon Report.
2000	New Stamp Duty regimes for first-time buyers (preferential treatment) and a new single rate of 9% for investors of new residential property to discourage investors.
2001	Effective reversal of previous years changes with investors charged at normal residential stamp duty rates to address downturn in purchases by investors.
2003	Three additional rates of 7% to 9% introduced for non-residential property up from the existing 6% top rate.
2004	Stamp duty rates and thresholds for first-time buyers further reduced.
2007	Abolition of stamp duty for first-time buyers.
2008	Residential property: two rates of duty replace five rates Non-residential property: top rate reduced from 9% to 6%.
2010	Reform of residential property Stamp Duty with the abolition of reliefs and exemptions and a reduction in the rates to 1% on all residential property under 1€m and 2% on the excess over €1m

15. The yield from Stamp Duty on property transactions is dependent on transaction levels and values and is particularly subject to fluctuations, especially in times of buoyant property prices and markets which occurred over the 2003-07 period. The yield since 1999 is shown in the following table:

Year	Residential Property Stamp Duty (€m)	Non-residential Property Stamp Duty (€m)	Total Property Stamp Duty (€m)	Charge: €/% (Y-on-Y)
1999	263	288	551	-
2000	282	392	674	+€123m (22.3%)
2001	265	406	671	-€3m (-0.5%)
2002	349	317	666	-€5m (-0.8%)
2003	528	547	1,075	+€409m (+61%)
2004	752	709	1,461	+€386m (+36%)
2005	945	1,056	2,001	+€540m (+37%)
2006	1,311	1,678	2,909	+€908m (+45%)
2007	1,018	1,363	2,381	-€528m (-18%)
2008	445	600	1,045	-€1,336m (-56%)
2009	150	179	329	-€716m (-67 %)
2010	107	91	198	-€131m (-40%)
2011 (to June)*	21	57	78	-€100m (-50%) **

*Out-turn to end-June, provisional figures
**Comparison with figures for first half of 2010.

16. The yield from property Stamp Duty in 2010 was 6.7% of the yield in the peak year of 2006.

Stamp Duty on Property - Measures in Budget/Finance Bill 2011

17. Budget 2011 contained significant changes to the residential property Stamp Duty regime. Properties valued up to €1million are now liable at 1% with any balance in excess of €1million liable at 2%. [The previous rates were 0% on the first €125,000, 7% on values between €125,000 and €1 m, and 9% on the balance over €1 m.] In tandem with the rate reduction a number of reliefs and exemptions were abolished, namely:

   - First Time Buyers' relief;
   - Exemption for new houses over 125m^2 in size;
   - Relief for new houses over 125m^2 in size;
   - Consanguinity relief for residential property transfers;
   - Exemption for residential property transfers valued under €127,000; and
   - Site to child relief.

18. The combined impact of these reliefs and exemptions was that an estimated 40% of all residential property transactions were exempt from Stamp Duty. Almost all residential property transactions are now within the Stamp Duty charge[2]. This will facilitate the collection of information on property transactions, which may assist in the development of a property tax.

Property Stamp Duty issues for consideration in Budget/Finance Bill 2012

Rate of non-residential property Stamp Duty

19. The current rate of Stamp Duty on non-residential property is 6% for all properties valued over €80,000 (lower rates apply to properties valued below this amount). Consideration could be given to reducing this rate – for example, to 3% (half the current rate, costing €45 million) or to the same rate as residential transactions (as noted above, 1% on amounts up to €1 m and 2% on any balance over that amount, costing €70 million). If it was decided to align residential and non-residential Stamp Duty rates, some of the current yield could be protected by making the aligned rates higher than the current residential rates (for example, 1% on the first €500,000, 2% on values between €500,000 and €1 m and 3% above €1 million).

20. Given the sharp fall in the yield from property Stamp Duty, the cost of reducing the duty is much less significant than in recent years, and the move could be presented as an attempt to stimulate the commercial property market (including NAMA disposals).

Resting in contract, licensing, etc.

21. Finance Act 2007 contained anti-avoidance provisions to counteract mechanisms used by developers to avoid Stamp Duty on the acquisition of land for development and subsequent sale. These measures were made subject to a commencement order and were the subject of a study by Goodbody Economic Consultants in 2007 which recommended that they should not be commenced at that time in case they had a negative impact on the property market. The measures were amended in Finance (No. 2) Act 2008 (to exclude public private partnerships and certain capital allowance schemes) but these amended measures were also made subject to a commencement order and have yet to be commenced. A reduction in non-residential property Stamp Duty could facilitate the commencement of these measures – their effect would be less onerous if the Stamp Duty payable was 1% or 2% rather than 6%.

Recent property taxation developments

New household charge

22. The Minister for the Environment, Community and Local Government (DoECLG) submitted a Memorandum to Government in July this year proposing a household charge on residential

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[2] The exception is transfers of residential property to local authorities and housing associations, which continue to be exempt from Stamp Duty. Transfers of property *by* local authorities and housing associations were previously exempt but are now subject to a maximum Stamp Duty of €100.

property. Approval has been granted to implement a €100 household charge on residential property in 2012 as an interim measure.

23. The DoECLG estimates that there are c.1.6 million households in the country which could be liable for a tax on residential property, excluding local authority properties. The Department has therefore projected the yield from the household charge as being €160 million in 2012.

24. While a flat rate household charge is arguably regressive (everyone will pay the same amount regardless of the size or value of the property), this approach has the most potential of any short-term option to be implemented quickly.

25. It is proposed to exclude local authority, voluntary and co-operative housing, and vacant properties, from the charge. Notwithstanding the argument that imposing the charge on local authority properties leads to a circular flow of revenue, it might be preferable to establish the principle that the property tax will be applied universally.

26. This measure will deliver the main element of structural reform envisaged in the EU/IMF programme for the introduction of a property tax.

27. Introducing a flat-rate residential property charge has the advantages of:
    - being easy to administer and understand;
    - providing an immediate yield to the Exchequer;
    - the NPPR charge, also a flat-rate, has been perceived to be a success;
    - little information is needed to administer the tax – inspections would only be required to verify the existence of a residence.

28. Notwithstanding the administrative advantages, there are disadvantages to consider:
    - As outlined above, a flat-rate tax will be perceived as regressive because the same amount of tax will be levied on expensive and inexpensive properties - this perception could be reduced by the use of waivers and exclusions;
    - Given its application to all households in the State, regardless of valuation or size, there will be calls for allowances to be made for low income households, etc;
    - Introducing a simple system may not help collect, collate and use valuable data to put in place a more sustainable system.
    - Once this was introduced as an initial first step, it may be difficult to develop a more detailed and sustainable, system.

29. Although the NPPR model has been proposed as a simple and cost-effective way to implement the household charge, the coverage of the household charge is far wider than the NPPR and it is likely that greater enforcement and collection issues will arise.

30. In particular, the proposed late payment fee of €10 per month (120% per annum, similar to the rate for the NPPR charge) could lead to difficulties. The high rate of late payment fees is essentially the main enforcement and collective mechanism. It may be seen as a punitive charge for a tax on family homes. Revenue's interest and penalty rates (c. 8% interest per annum and penalties of 5% for late filing within two months of the due date and 10% for returns filed more than two months late) are an accepted form of deterrence and may be more appropriate.

31. The household charge system should collect the data necessary to establish a more long term property tax system, and the data should dovetail with the information that is available in various public service bodies (such as the Property Registration Authority, Ordnance Survey Ireland, the Property Services Regulatory Authority, the Central Statistics Office, and the Revenue Commissioners).

Property taxation considerations

32. In the context of tax, there is a strong three-fold rationale for the introduction of an annual property tax on residential property:
    - Its economic impact would be relatively small;
    - It would be a reliable and sustainable source of revenue; and
    - It would be a significant source of revenue

33. *Economic impact:* The taxation of property through a recurring annual tax is less economically distortionary than the imposition of tax on either income or capital. This is supported by economic literature and recent OECD analysis. The OECD has highlighted that annual taxes on land and buildings have a relatively small adverse impact on economic performance because of the following factors:
    - lack of a direct effect on labour, either supply or demand;
    - with a stable tax base, there is a predictable tax yield; and
    - an immobile tax base is less likely to distort economic behaviour.

34. *A reliable and sustainable source of revenue:* An annual property tax provides a reliable and sustainable source of revenue as compared to the transaction taxes on property which characterised Ireland's recent approach to property taxation. Stamp Duty on property transactions, which is dependent on transaction levels and values, is particularly subject to fluctuations, especially in times of buoyant property prices and markets which characterised the 2003 to 2007 period. Capital Gains Tax and Capital Acquisitions Tax which involve taxing the appreciation of an asset on sale or inheritance are also subject to fluctuations closely related to changes in asset values and the level of transactions in the property market. From 1998 onwards the strong relationship between economic growth and the resultant increase in the taxation yield from property transfers and rising asset values led to an over-reliance on this source of revenue. This over-reliance has led, in turn, to serious difficulties for the Exchequer in the context of the decline in economic activity which particularly impacted on the property market in recent years with an associated sharp decrease in property transfers and values – by way of illustration, a table showing the yield from property related taxes (Stamp Duty and CGT) since 2000 is shown below:

Transaction Taxes (Stamp Duty and CGT) yields, 2000 to 2010

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
€ bn	1.9	2.1	1.8	3.1	3.6	3.7	6.8	6.3	3.1	1.2	1.0
% of overall tax take	6.9	7.6	6.1	9.8	10.1	11.9	15.0	13.3	7.6	4.5	3.2

35. *Significant source of revenue:* A property tax would constitute a valuable means of bridging the gap between revenue and expenditure. The Commission on Taxation proposed a self-assessed annual recurring valuation tax[3] on a proposed self-assessed valuation tax and estimated that a 0.3% rate would raise a potential €1.476bn (€1.112bn after exemptions) and a 0.25% rate would yield €1.231bn (€926m net), once allowance was made for exemptions for low income households. These estimates must be adjusted in line with the current decline in property values but they demonstrate the potential significant revenue yield from a property tax. It would not be unreasonable to project a yield in the order of up to €500 million based on 2010 property values. Even this would be a substantial contributor to the Exchequer, equivalent to a circa 1% rise in the standard Income Tax rate (or c. 2.5% on the higher rate). As noted earlier, the Department of the Environment, Community and Local Government has estimated that there are c. 1.6 million non-local authority residences in Ireland – if a yield of €500 million was

[3] The Commission used House Price Data for 2004 and data for 2009 covering the number of houses.

to be achieved, the mean average property tax charge would be over €300 per annum. This average would reduce if local authority properties were brought within the charge.

Interaction of a property tax with Stamp Duty and the NPPR charge

Stamp Duty

36. As mentioned earlier, consideration must be given to the interaction of any potential annual residential property tax with Stamp Duty and NPPR charge. In common with most other jurisdictions (notably the UK, Denmark and most States in the USA), it is suggested that the any annual property tax should operate in conjunction with a Stamp Duty, our transaction tax, rather than as a replacement for it.

NPPR charge

37. The new household charge will co-exist with the NPPR charge, so that owners of second houses will have to pay both. Any property tax should also be in addition to the NPPR rather than an alternative – it would be invidious if owners of second properties ended up paying lower property tax than is paid on the family home. Consideration might also be given to having different rates of the NPPR charge for different types of property depending on policy requirements – for example, it might be more appropriate to charge a lower rate on rental properties, where the owner is providing a service, than on second homes.

Issues to be considered in the development of a property tax

38. A number of structural issues will have to be considered whatever form of property tax is introduced. These include:

(a) Equity - general perception amongst taxpayers that the tax is equitable with assessment based on measurable criteria.
(b) Types of property subject to a property tax: limited to residential or other non-commercial land-uses, the possibility of aligning the planning and taxation definitions of land may have to be considered.
(c) Persons liable for payment: Owners or occupiers – although even if a landlord (owner) pays, the tax will most likely be passed onto tenants (occupiers) via higher rents[4].
(d) Tax base: Coverage as wide as possible, but with possible exclusions for local authority and social housing.
(e) Reliefs/exemptions: Based on ability to pay with either full or partial exemptions for persons on low incomes; the possibility of deferred payment until disposal of the property; treatment of people with mortgage difficulties or in negative equity.
(f) Frequency: annual tax, but payable in a flexible manner (e.g., via the PAYE system or online) spread over frequent intervals over the year.
(g) Rate - a low rate of tax which can be proportionate, progressive or flat.
(h) Basis of taxation: either the market value of a property or its floor/area size or an amalgamation of both; may include a flat charge per property as an alternative.
(i) Administration, collection, audit and enforcement: administered as a national tax for the Exchequer by the Revenue Commissioners or by the Local Authorities – includes issues relating to audit and enforcement (placing a charge on a property until the tax is paid).
(j) Valuation and Assessment: either self-assessment (property owner) or direct assessment (Revenue, Local Authority or specialised agency) – requirement for up-to-date national property valuation register.
(k) Application of the revenue: If administered as a national tax, whether it is hypothecated or raised and spent locally by Local Authorities.
(l) Information: comprehensive database on properties covering ownership, locations, valuations and floor space, including details of sale prices – this would be updated on an ongoing basis.
(m) Transparency: public availability of the property database and information used to construct the charge (i.e., valuations and assessment methods).

[4] Advocates of land value tax (LVT) sometimes argue that this tax would not be passed on by owners to occupiers because occupiers would move to another property whose owner did not pass on the tax. This probably underestimates the costs and difficulties involved in moving property.

(n) Interaction with a transaction tax: operation of a tax (Stamp Duty) on property transactions in conjunction with a property tax to secure some benefit to the State from such operations and to gather information on prices and levels of trading.

Department and agency responsible for a property tax

39. The Government has not decided who should ultimately be responsible for the collection and enforcement of a full-blown property tax. There are strong arguments that the Department of the Environment, Community and Local Government should have Departmental responsibility with collection and enforcement duties devolved to an agency under its remit. That Department has taken control of the household charge, and since that charge is an interim measure pending the introduction of a full property tax, it would make sense if it were responsible for the full property tax. The international norm is that property taxes are collected locally.

Consultations with interested stakeholders

40. As part of its work to examine all potential taxation measures and in the context of the need to raise additional revenue and identify more stable streams of revenue, the Department of Finance has engaged in consultation on property tax matters in recent years. It has analysed systems used in other jurisdictions[5], and considered the Annual Residential Property Tax recommended by the Commission on Taxation. There have also been a number of engagements since early 2010 between this Department and other Departments and State Agencies who would be expected to be involved in the infrastructure necessary to underpin any potential property tax. This included a discussion of their available data sources and work processes, the feasibility and practicality of introducing particular options and the adoption of certain approaches. The bodies consulted include:

- the Department of the Environment (the local authority financing section, which developed the NPPR charge and the household charge; and the section developing a proposed house price register);
- Ordnance Survey Ireland (OSi);
- the Property Registration Authority of Ireland (PRAI);
- The Property Services Registration Authority (PSRA), which is developing a house price index based on Revenue data;
- the Valuation Office;
- the Central Statistics Office (which has recently announced the launch of a national house price index, separate to the PSRA initiative); and
- the Revenue Commissioners.

41. The Department of Finance, in consultation with the Department of the Environment, Community and Local Government, and the Department of Public Enterprise and Reform, held a "round table" meeting of the public sector bodies who would have useful data and expertise for designing a possible property tax. The intention was to provide assistance for whichever Department and agency have the responsibility for introducing the tax.

42. Discussions were also held with the Land and Property Services in Northern Ireland which is responsible for the domestic rates system (which is distinct from the Council Tax system in Great Britain). The Department also received representations from academics and other interested bodies (including the Construction Industry Federation; Smart Taxes, which advocates a site value or land value tax; and the Royal Institute of Chartered Surveyors).

Property tax options

43. A number of property tax options are considered below. These have been identified following the Department's research and consultation process:

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5 This analysis takes account of papers delivered at a Colloquium on Property Taxation in April 2009, a seminar on Site Valuation Tax in March 2010, and the annual meeting of the International Property Tax Institute, held in Dublin in May 2011. These events attracted academics and practitioners from State Agencies, from Ireland and abroad.

(i) The Commission on Taxation's proposal for an 'Annual Residential Property Tax' (ARPT) which is self-assessed and banded by property valuations.
(ii) Self-assessed property tax based on either the floor/area size or valuation.
(iii) A discrete residential property tax, using valuation data (similar to the current system in Northern Ireland)
(iv) "Classic" Land Value Tax or Site Value Tax
(v) Land Value Tax based on 'Land Value Zones'.

The options are not exhaustive, but are representative of the type of systems which could be introduced.

44. The first two options could be introduced reasonably quickly with a short lead-in/preparatory stage enabling realisation of a revenue stream to the Exchequer at a relatively early stage. If desired, these options could be used as an initial step toward a more sophisticated property taxation system at a later stage through, for example, gathering information on ownership, building types and size, locations and valuations. However, these options may be sustainable as long-term options in their own right.

45. Adoption of a short-term option would probably benefit from being set within a more medium term framework in order to ensure that any perception of unfairness could be presented as simply transitional.

46. Options (iii) to (v) could not be introduced *de novo* without a considerable degree of preparatory work; this factor would militate against their introduction to raise significant amounts of revenue for the Exchequer over the next 1-5 years. In overall terms, they should not be seen as 'better' than some of the short-term options; instead, they are different systems which might be more sustainable over time.

(i) Commission on Taxation's 'Annual Residential Property Tax' (ARPT)

47. The Report of the Commission on Taxation provided an illustrative model for an annual, self-assessed, property tax based on the valuation of a residential property. The Commission proposed that properties be grouped in eight valuation bands – five bands of €150,000 each from €0 to €750,000 (€0 - €150,000, €150,001 - €300,000, etc); €750,001 to €1,000,000; €1,000,001 to €1.5 million; and over €1.5 million – with properties taxed at the midpoint of the valuation band. A small allowance could be made available to householders who wished to secure the services of a property-valuer: this could be set-off against the first year's tax.

48. The Commission estimated that a 0.25% property tax rate would yield €1.231 billion if no waiver was applied, and €926 million if a waiver of 25% was applied to the five lowest bands; and that a 0.3% rate would yield €1.476 billion before a waiver and €1.112 billion after a waiver. In both cases, no yield was estimated for properties valued over €1.5 million because values for those properties were not available. However, these estimates would have to be scaled back because of the decline in property values.

49. The advantages of this proposal include:
- Perceived as 'fairer' than a flat-rate charge on all households;
- Self-assessment allows a relatively easy and fast collection of valuation data;
- Unlike other options, it is not based on unavailable information; and
- Over time, the system could be developed into a more accurate system (i.e., through external assessment by the agency administering the system) which did not rely on self-assessment.

50. The disadvantages of this proposal include:
- Self-assessment is likely to lead to inconsistent estimation of property values (large numbers of properties at the top end of the bands and very few at the bottom);

- A relatively small portion of the population is currently subject to self-assessment, so imposing self-assessment on most of the population is likely to pose problems;
- The system could be difficult to move to a more developed system (i.e., external assessment by the agency administering the system) once it is implemented;
- It does not allow for future improvements to accuracy;
- Information about building use is not currently available, which would hinder the enforcement and compliance of the tax;
- There may be difficulties with valuing properties which are close to the edges of the bands (this could be tackled by choosing narrower bands than those recommended by the CoT, or by narrowing the bands as time goes on); and
- Any tax based solely on valuations would probably be higher in the Dublin area and, to a lesser extent, other urban areas, so the tax could be open to similar criticisms to the old RPT.
- The lack of property transactions in certain parts of the country may lead to difficulties in establishing valuations, at least in the initial period.

(ii) Property tax based on either floor/area size or valuation

51. Under this option, taxpayers would self-assess a property tax based on an alternative of either the floor size of their residence or the plot size of their property, or the valuation of the property. The rates could be, for example, €5 per full square metre of floor space or plot size, or €2 per full €1,000 of value. Property owners could then choose to pay whichever method produced the lower liability.

52. As with the first option, a small allowance could be made available to householders who used the services of a property valuer, which could be set-off against the first year's tax. It is envisaged that the tax base for this charge would be relatively wide with low fixed rates – there would be very limited scope for waivers and/or exclusions.

53. Given the lack of data on house valuations and house size, it is not possible to estimate the potential yield from this tax. The rates could be set to ensure that the yield was comparable to that from the other systems explored; and the data collected as part of the household charge and from the new house price indices may assist in estimating the possible yield in the future. The fact that the house price indices are at an early stage of development makes it difficult to assess what rates should be applied to achieve a particular yield. The rates could be set so that an "average" house (say 100 square metres or €200,000 in value) would pay a particular amount.

54. The advantages of this system include:
    - It would be self-assessed and relatively easy to administer.
    - It should be easy for taxpayers to measure their property or obtain a cheap valuation.
    - This urban/rural divide would be avoided because taxpayers could choose whatever system would produce the lower value (probably size for urban dwellers and valuation for rural dwellers).
    - If the graduations in the amount payable were made small (as in the example above, €2 per €1,000 of value or €5 per full square metre) there would be a lower likelihood of a serious underestimation of liability.
    - The system would also collect valuable data (building use, building size, and valuation) which could be fed into refining the system or producing a more sophisticated system, if required.

55. In terms of possible pitfalls:
    - There is no known example of a similar system.
    - The rate chosen would have to be carefully determined to obtain the required yield and to set the tax at an acceptable rate for most taxpayers.
    - Self-assessment could lead to inconsistent estimation of property values
    - As with other self-assessment options, a relatively small portion of the population is

currently subject to self-assessment, so imposing it on most of the population is likely to pose problems.

- As with the first option, the lack of property transactions in certain parts of the country may lead to difficulties in establishing valuations, at least in the initial period.

(iii) A discrete residential property tax using valuation data similar to the current system in Northern Ireland

56. The current domestic rates system in Northern Ireland is based on the capital value of property, which involves discrete or individual property valuations and direct assessment by an agency rather than self-assessment. The Land and Property Services agency in Northern Ireland conducts a large amount of valuations each year, based on site visits and sales data, to assess the rates. The system is robust with few appeals or attempts to evade. The average annual domestic rates bill in Northern Ireland was c. Stg£770 in 2009.

57. As previously noted for the other options, it is not possible to construct estimates for the yield from this proposed system.

58. The advantages of this system are:
    - Property values will be more accurately assessed than under a self-assessed system;
    - Can be used as part of the process to create a Site Valuation Tax; and
    - Individual valuations means the system can be seen to be fair.

59. The disadvantages include:
    - Heavy reliance on information which is either currently unavailable or difficult to obtain, such as current asking and sale prices, or mortgage/loan to value ratios, (if it was decided to make allowance for such factors in striking the rate);
    - The process involved are complex and would take time to implement; and
    - Could not be introduced from scratch – another system would have to be put in place first before the necessary valuation infrastructure was in place.

(iv) "Classic" Land Value/Valuation Tax or Site Value/Valuation Tax

60. Land Value Tax (LVT) or Site Value Tax (SVT) is an alternative approach to the use of valuations or the floor space of buildings as the traditional basis for the taxation of property. LVT or SVT is a recurring tax on the land or site value of a property irrespective of any buildings or structures upon it[6]. Underpinning this approach is a principle that land is valued according to its optimum potential use ('highest possible use') as defined by the planning process rather than on the current use which is disregarded. Therefore, a site with a profitable commercial activity or an expensive house would be worth more (and would be liable for more tax) than less valuable land uses.

61. An LVT or SVT has a number of theoretical attractions:
    - it is arguably more equitable than other forms of property taxation;
    - it counteracts market disincentive to develop the land;
    - it encourages compact city centre development and productive use of land;
    - less information and fewer inspections are needed for the calculations; and
    - owners who have developed land are rewarded for so doing, while those who have not developed valuable land are encouraged to do so

62. The Commission on Taxation concluded that while there is an economic rationale for a SVT, it is rarely used for tax collection in other jurisdictions. The most notable examples are certain local authorities in Sweden, Pennsylvania, New Zealand and Australia; Estonia; and previously South Africa (which has recently moved away from LVT). Some jurisdictions have a tax on land values as well as a tax on buildings. There are practical difficulties in the implementation of

[6] Although LVT and SVT are often used interchangeably, some sources describe SVT as a tax on a site which takes account of whether the site is serviced, whereas LVT only takes account of the land per se.

LVT/SVT, including the requirement of a comprehensive database of properties which is constantly updated for ownership, boundary and valuation changes.

63. There are existing data sources held by a number of State Agencies (primarily the Property Registration Authority and Ordnance Survey Ireland), but they have been developed over time on an independent basis and a considerable degree of preparatory work is required before the required robust procedures and processes needed to underpin an LVT/SVT are in place.

64. In this Department's discussions with these State Agencies, the practical difficulties with introducing an LVT/SVT have been highlighted. Mirroring the experience in other jurisdictions, there would be costly and time-consuming infrastructural issues to be resolved in advance of developing an LVT/SVT. While the introduction of an LVT/SVT was possible, it was stressed by the Agencies that an initial first-step would involve the development of a transitional property tax followed in time by an LVT/SVT.

65. For the reasons outlined in its analysis, the Commission considered that a long lead-in for this approach would be needed which would involve a long and sustained challenge for policy makers to implement. These factors probably explain why SVT is not widely found in other jurisdictions.

(v) Land Value Tax based on 'Land Value Zones'

66. An alternative method of introducing an LVT/SVT could be to use geographic information currently available under the existing *GeoCode* system, developed by the OSi for An Post. The GeoCode is essentially a postcode system under which each individual property, such as units at one address e.g. industrial premises, has a unique identifier. These could be used in an integrated computer assessment system to generate 'Land Value Zones'. Each of these zones could be valued at representative points within them to measure zone boundaries and provide the value of units within the zone (i.e. a sample of houses within a homogeneous estate would be surveyed externally and subsequently fact-checked using a variety of sources). Each residence would not be valued individually, but would be valued as a proportion of the size of the 'Land Value Zone'.

67. The advantages of this system include:
   - a significant portion of the work would already have been done under the existing *GeoCode* system – it would only require an extension of this work;
   - it would be the most accurate representation of land values;
   - it would not rely on historic or out of date data or on unavailable information about building use, etc;
   - its accuracy could be improved by adding data each year; and
   - this system would also avoid some of the pitfalls mentioned above of traditional LVT systems – sale price information would not be required and the system would have a large amount of evidence available to back up valuations.

68. The disadvantages of this system include:
   - it would require significant input from property-valuers throughout the process;
   - it would require a longer timeframe for implementation; and
   - not all boundary areas are conclusive, so area bands would be needed to address this problem.

Conclusion

69. The examination into the *Programme for National Government* commitment to examine a Site Valuation Tax, combined with analysis into other jurisdictions and initial work undertaken by a number of State Agencies, highlights a number of issues which hinder the short-term introduction of an LVT/SVT.

70. While it remains possible to introduce an LVT/SVT, there are practical difficulties in its

implementation, including the existence of a comprehensive database of properties which is constantly updated for ownership, boundary and valuation changes. This was the basis for the Commission on Taxation's finding that a long lead-in for this approach would be needed which would involve a long and sustained challenge for policy makers to implement. These factors are probably also relevant for its unpopularity in most jurisdictions with a scale of socio-economic development at a par with Ireland. Even with the development of new property price indexes, the task of identifying the "land value" portion of any property value would remain.

71. It is possible to develop and introduce a property tax based on one of the options outlined in this paper which can provide a flow of revenue to the Exchequer in a relatively short time period. However, this advantage has to be balanced with a risk that the quicker a tax is developed and introduced, and the longer a flat rate is in place, the greater the possibility that the nuances of the interplay between the valuation and size of properties may be lost while the chance of moving towards a tax charge/rate approximating to a flat-rate becomes stronger.

72. The household charge of €100 by the Department of Environment, Community and Local Government should be designed to collect data which can be used to develop a more sustainable property tax system, whichever option is ultimately chosen.

73. The Tax Strategy Group may wish to discuss.

Appendix A

Property Taxation in Ireland: Developments, 1978 – 97

Abolition of Domestic Rates: 1978

Until 1978, a comprehensive millage system existed through the application of rates on commercial and domestic property which were used to fund Local Authorities. Rates were based on two elements: rateable valuation of a property (tax base), which reflected the net annual letting value, and an annual rate (tax rate) set by each Local Authority as part of its annual budgeting process. This system was in place since the mid-nineteenth century.

Domestic rates were abolished by the Fianna Fáil Government in 1978 in line with a commitment in that party's 1977 General Election Manifesto. The funding shortfall was subsequently met by direct Exchequer transfers to Local Authorities and by the other means of funding, primarily the use of fees and charges for Local Authority services. Rates on commercial property remain in place.

Residential Property Tax (RPT): 1983-97

Domestic Rates were partially replaced by the introduction of a Residential Property Tax (RPT) in April of 1983 to address some of the considerable problems in the public finances at that time.

Once the market value of a residential property exceed a given limit (increased yearly in accordance with the New House Price Index), that value was subject to a RPT rate of 1.5% provided that the owner's income exceeded an income threshold.

The nature of the RPT, particularly the income and house valuation exemptions, meant that in practice it was based on an extremely narrow tax base which led to relatively insignificant revenue yields, high administrative costs and a perception of it as a predominantly urban-based and, more specifically, a 'Dublin tax'.

Over the fourteen years of its existence from 1983 to 1997, the level of assessments never exceeded 20,000 taxpayers, apart from 1994 when a flat rate was introduced (as opposed to a proportion of valuation). In 1996, which was its final full year of operation, there were 21,500 assessments representing less than 2% of all households. In the last two full years of operation (1995 and 1996), RPT raised an average of €16.5 million per annum; by contrast, over the same period the estimated yield from residential Stamp Duty was an average of €134 million per annum.

In overall terms, the RPT was an inadequate response to the shortfall in revenue created by the abolition of Domestic Rates because of its narrow tax base, perception of unfairness, complicated administration and low yields.

Farm Tax: 1986-87

A farm tax was introduced in 1986 as a source of revenue for Local Authorities. Based on the concept of 'adjusted acreage', which contained a mixture of Income Tax and property tax elements, it was abolished in 1987.

Appendix B

Current Stamp Duty Rates: Residential and Non-Residential Property

Residential Stamp Duty Rates

Aggregate Consideration	Rate of Duty
Up to €1m	1%
Excess over €1m	2%

Non-Residential Stamp Duty Rates

Aggregate Consideration	Rate of Duty
Up to €10,000	Exempt
€10,001 to €20,000	1%
€20,001 to €30,000	2%
€30,001 to €40,000	3%
€40,001 to €70,000	4%
€70,001 to €80,000	5%
Over €80,000	6%

Appendix C

Current reliefs and exemptions from Stamp Duty on property

Consanguinity Relief

A property transfer between certain blood relatives qualifies for Consanguinity Relief which reduces the rate of Stamp Duty to one-half of the rate which would otherwise apply. This relief applies to non-residential property only.

Young Trained Farmers

There is an exemption for qualified young trained farmers receiving farmland. Farmers aged below 35 who have a specific agricultural qualification may apply for this relief. Budget 2009 extended this scheme for a further four years until 31st December 2012.

Commercial Woodlands

No Stamp Duty is payable on the value of trees grown on a commercial basis (the land itself is subject to Stamp Duty).