Review of the Operation of the Local Property Tax (LPT) Submission

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Introduction

The Society of Chartered Surveyors Ireland is the professional representative body for c 5,000 surveyors and estate agents in the property, land and construction sectors. The Society works in partnership with RICS, the global professional body, and its mandate is to operate in the public interest.

The Society welcomes the opportunity to contribute to the Review of the Operation of the Local Property Tax (LPT) being undertaken by Dr. Thornhill. We believe that in the context of rapid increases in property prices in Dublin and more recently in regional areas, it is a timely opportunity to review the operation of the Local Property Tax.

The SCSI believes that the principles of simplicity (easily understood, transparent and clear), stability (as stable as reasonably possible to allow for adequate planning for future while allowing Government to ensure stable tax revenues from property) and market efficiency.

The Local Property Tax, which was preceded by the Household Charge, was introduced in 2013 via the Finance (Local Property Tax) Act 2012 following the need to broaden the tax base arising from the EU/IMF/ECB recovery programme.

According to Design of a Local Property Tax report by the interdepartmental group, establishing the Local Property Tax was undertaken to address three long standing and important challenges in Irish public policy:

(i) The broadening of the tax base to include residential properties

(ii) the provision of a stable funding base for local government

(iii) and the strengthening of democracy at local level

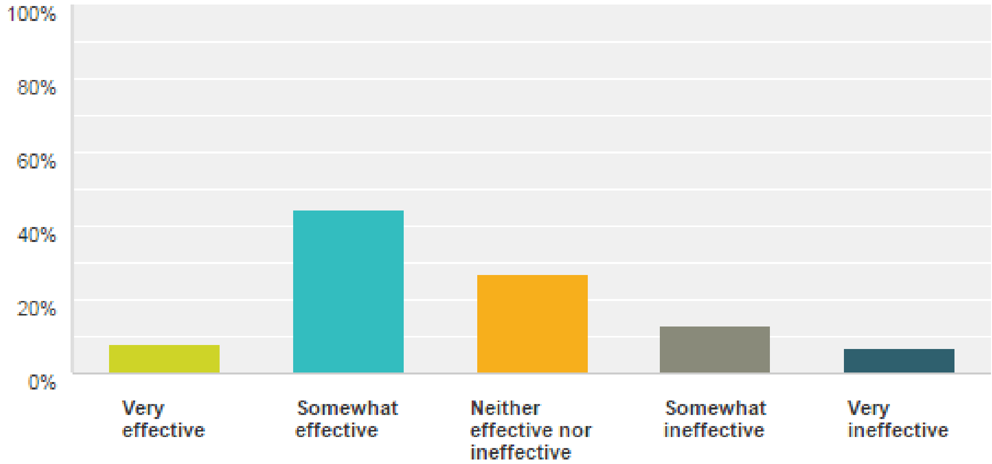
The introduction of the Local Property Tax has been very successful in generating revenue, with approximately €518m raised in 2014, and in addressing the three important challenges outlined above. Compliance with the tax has been high. (See fig. 1).

Figure 1: Total LPT Receipts and Compliance Rates by Year

Year	LPT Receipts	Compliance Rate
2013	**€262m**	**95%**
2014	**€518m**	**95%**
2015 (Jan 2015)	**€123m**	**84%**

SCSI asked its members around the country about their views on how effective the introduction of the Local Property Tax has been in terms of addressing the 3 important challenges raised above.

Q: How effective has the Local Property Tax been in achieving the 3 objectives as set out above?



A large proportion of members believe that the Local Property Tax has been effective in achieving its objectives.

"Administratively it has been an enormous success even if it is a rather blunt instrument from a valuation perspective", SCSI Member

The Society, however, has some concerns around the next phase of the implementation of the Local Property Tax in the context of double digit property price inflation, the current shortages of housing supply and the impact of the tax on new housing completions and the ability of the tax to provide a stable funding base for Government if a situation occurs where house prices declined dramatically again.

In particular, the Society believes that the methodology of how the Local Property Tax rate is calculated should be reviewed and has set out two options in the document. The first option is to retain the 2013 valuation date and include an increase based on consumer price inflation to 2016.

The second option is to revalue properties on a 2016 valuation date and reduce the effective rate of 0.18% (up to €1m) and 0.25% (above €1m) to a level that provides a similar overall return to the exchequer of approximately €500m as the existing tax rate if that is the level required.

Furthermore, the transparency of the expenditure of the receipts of the local property tax at the local Government level could also be enhanced and this would be helpful to homeowners.

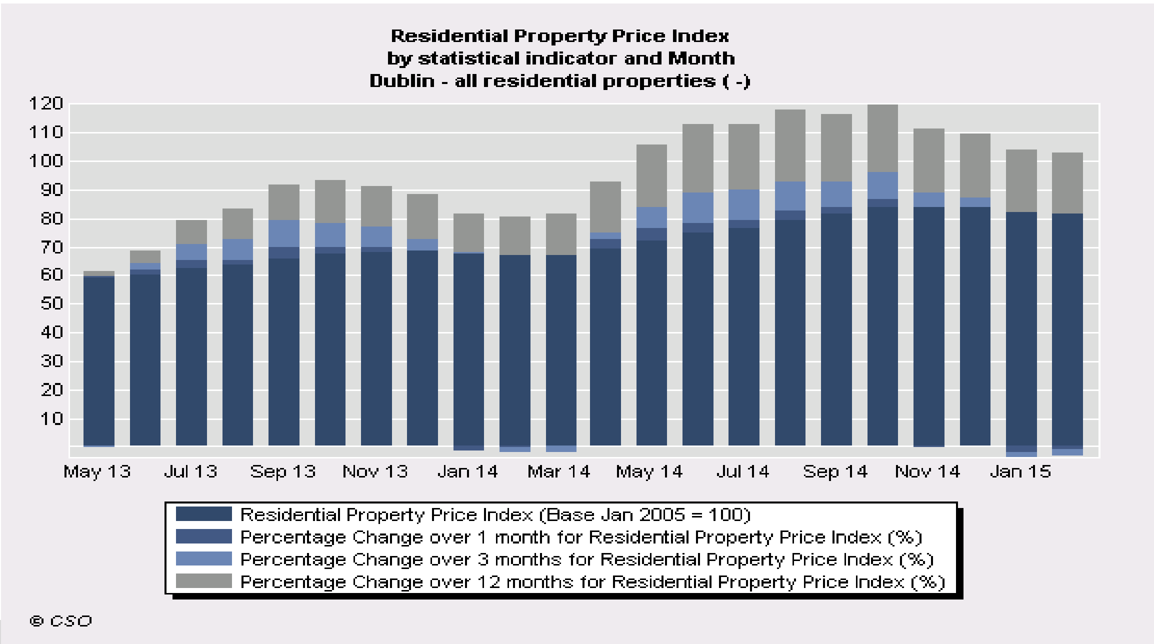
Transparency around the expenditure of the receipts of the Local Property Tax at the local Government level could also be enhanced. The need for more guidance and better data for homeowners to revalue their properties on a self-assessment basis must also be considered.

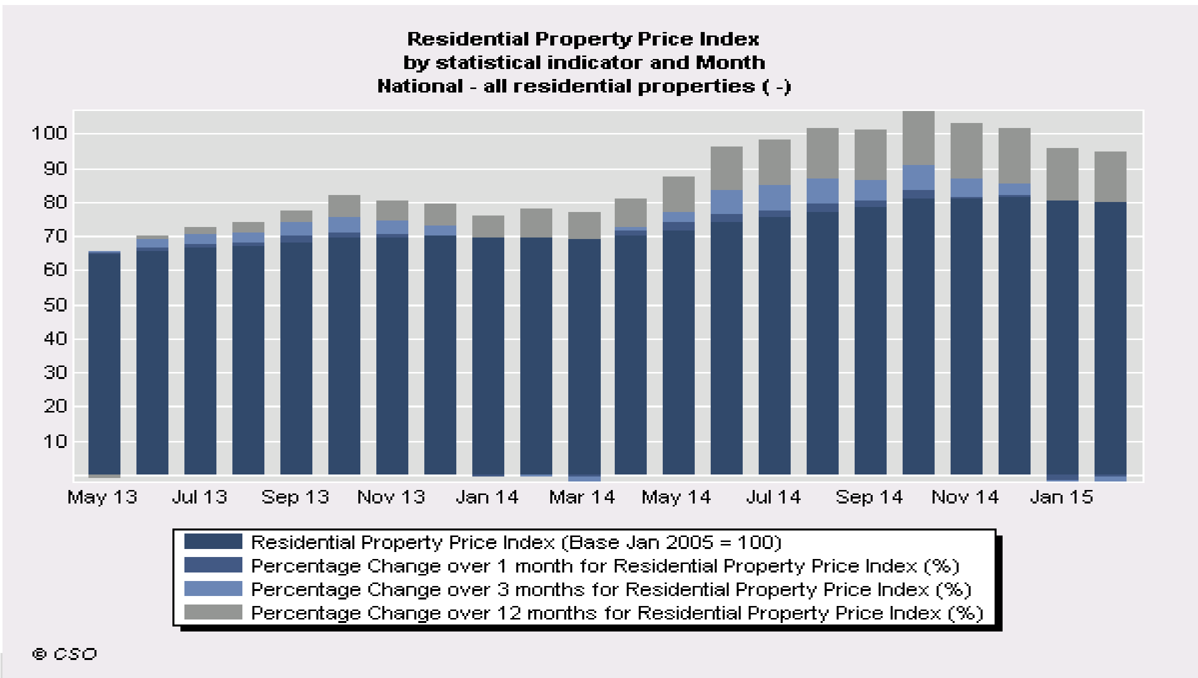
In overall terms, stakeholders in the property market do not like uncertainty and it is very important that the decisions taken by Government arising from the review of the Local Property Tax should be communicated in a timely manner and that the period of the new Local Property Tax should also be clearly articulated to enable homeowners, investors and developers to plan with a degree of certainty for the future and their exposure to the cyclical nature of the property market should be limited as far as possible.

Section 1: Property Price Changes

Average property values have increased significantly since the Local Property Tax valuation date on 1st May 2013. In Dublin, property values increased by approximately 33% and on a national basis by 19.7% to the end of 2014 according to surveys of SCSI members which base the average price changes on property transactions.

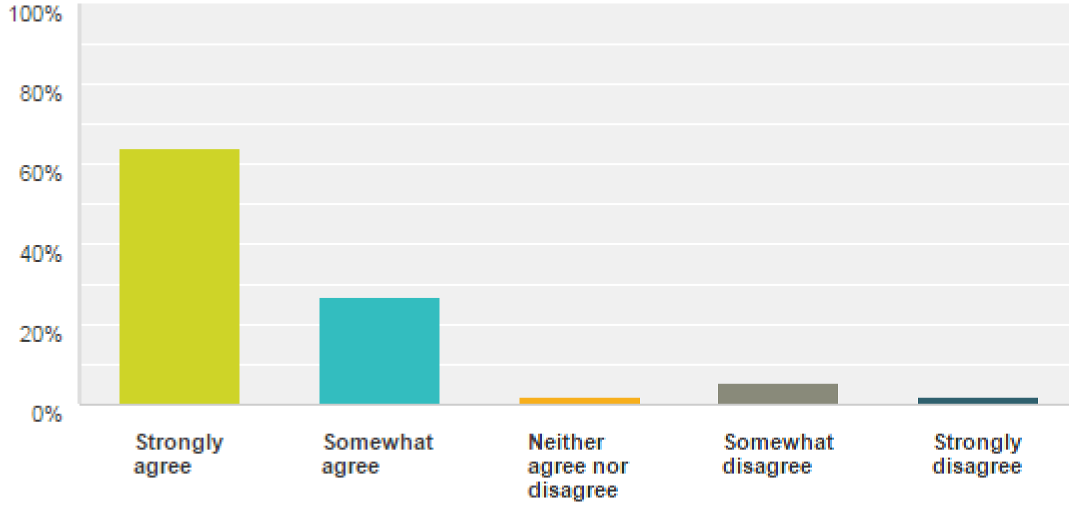
According to the CSO, average Dublin property values increased by 22.4% in Dublin and by 15.2% between May 2013 and February 2015.





The Society has a concern that the double digit increases in values may make the Local Property Tax untenable for many homeowners. 93% of SCSI members surveyed have concerns around the use of market value as the basis for calculating the Local Property Tax in the context of recent property price inflation.

Q: Concerns have been raised about the market value basis of the LPT will expose homeowners in Dublin to substantial LPT increases, given the property price increases in Dublin, and relatively modest increases elsewhere. Do you agree?



Section 2: Basis of the Tax

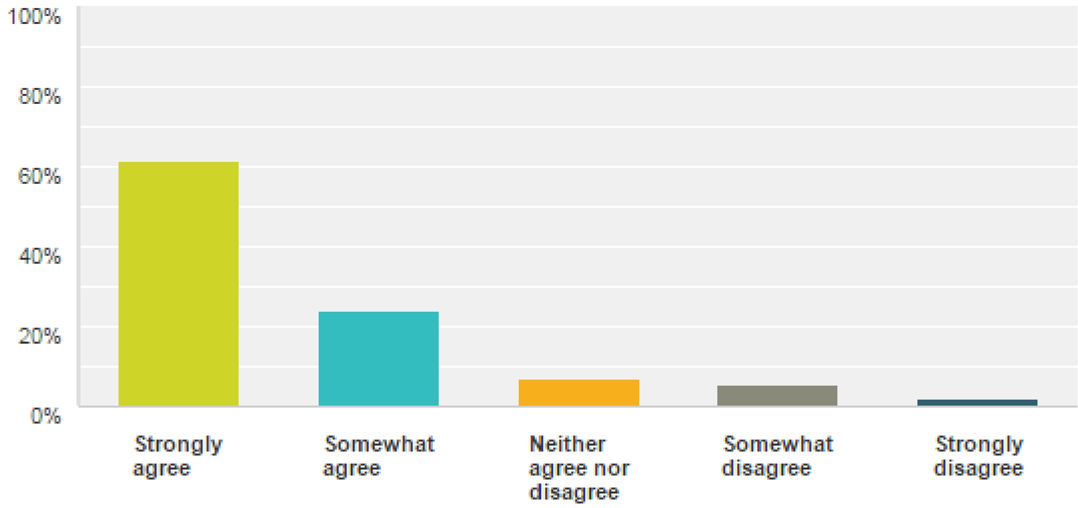
There has been considerable debate among respondents to the SCSI member survey as to the basis of the tax. Some members believe that a tax based on the size of the property would be more equitable than a tax based on market value. That said, the majority of the respondents acknowledge that the tax has already been introduced on a market value self-assessment basis and therefore it makes sense to continue with this approach.

"LPT was long overdue. Market Value is a logical base on which to assess the tax. As much autonomy as possible should be devolved on local authorities in determining the tax rate and the expenditure of the revenue", SCSI Member

" A weighted matrix recognising a mix of house size and market valuation would be a fairer system - but any change in the present system will be politically difficult to implement- I favour consumer price index inflation based on existing values", SCSI Member

Respondents believe that the rate at which the Local Property Tax is applied (0.18% of the value of the property to €1m and 0.25% of the portion of the market value greater than €1m) should be revisited with a view to ensuring that the overall revenue to local government is maintained but that the tax due from homeowners is equitable.

Q: Should the rate of the LPT or the bands be re-examined in light of the impact of property price increases?



For example on a property worth between €250,000 and €300,000 in 2013 could now be worth over €400,000. This would mean that the Local Property Tax of €405 paid in 2014 could almost double to €765 in 2017 if the existing property tax percentage was applied to the current values, albeit the local authority could have reduced it by 15%. It is also likely that many homeowners would be pushed into higher bands.

"A base level should be set from a fixed period, say the initial one when prices were relatively modest. Any increases should be CPI based rather than property based so as to avoid regional or market fluctuations", SCSI Member

"LPT should continue to be assessed by reference to market values which would be fixed for a defined numbers of years with a defined rate being applied to individual local authorities for those time periods", SCSI Member.

"Amount of initial stamp duty paid by home owners should be taken into consideration when calculating property tax. Concessions provided where properties are in negative equity Basing property tax on market value is irrelevant if home owners do not realise this value Introduction of a fixed fee for a fixed term (say 3 or 5 years) which takes consideration of negative equity of property, stamp duty paid, current market rates and general economic considerations such as employment status, income levels etc", SCSI Member

"Revalue all residential properties and have the valuations in place for a period of 5-10yrs. This will bring certainty of liability to occupiers. It should be a revenue neutral process and all increases and decreases phased in over 3 years", SCSI Member.

"Index linked to rate of inflation and capped at no more that 5% in any 3 year period", SCSI Member

It is the SCSI's view that maintaining stability in relation to the local property tax is very important and therefore, if, broadly speaking, the exchequer needs to raise a similar amount to previous years, there are two options that the SCSI would recommend in relation to valuation.

Option 1: 2013 Valuation Date

The first option is to maintain the 2013 valuation date and increase the rate in line with consumer price inflation. Inflation has been at very low levels and so using this measure would support a modest increase in local property tax returns broadly in line with existing LPT liabilities.

Consumer Price Index

Annual Figures 2007 to 2013

Consumer Price Index (Base Dec 2006=100) by Commodity Group and Year

	2007	2008	2009	2010	2011	2012	2013	2014
Food and non-alcoholic beverages	102.6	109.3	105.5	100.7	101.8	102.4	103.5	101.2
Alcoholic beverages and tobacco	101.5	106.4	113.1	110.2	110.1	114.0	119.9	124.4
Clothing and footwear	94.0	89.4	78.9	71.5	70.2	70.1	68.0	65.8
Housing, water, electricity, gas and other fuels	109.9	120.5	94.0	95.2	104.4	105.1	105.8	105.8
Furnishings, household equipment and routine household maintenance	98.2	96.6	93.6	89.8	87.7	85.6	82.6	80.2
Health	102.0	108.1	111.9	112.6	116.4	116.9	117.9	117.7
Transport	103.8	107.3	103.0	106.2	109.8	116.1	114.7	112.9
Communications	100.4	101.4	101.9	103.3	105.7	104.1	100.3	97.5
Recreation and culture	100.7	102.0	101.7	99.9	99.1	97.9	97.9	97.4
Education	101.8	108.0	114.9	122.2	123.1	133.3	139.6	146.1
Restaurants and hotels	103.0	106.2	106.2	103.4	102.7	103.2	105.1	107.4
Miscellaneous goods and services	100.3	102.7	110.5	111.7	119.0	124.7	127.1	131.5
All items	102.8	107.0	102.2	101.2	103.8	105.6	106.1	106.3

The *advantages* of retaining the 2013 valuation date are:

- It is simple because the majority of property owners have already valued their property at this date
- Homeowners are already familiar with the system and it will reduce the administrative burden on homeowners who would otherwise have to revalue their properties on a self-assessment basis
- There is an increase in historical data available on property transactions given the time lag in populating various indices, such as the house price register

The *disadvantages* are as follows:

- Over time, the 2013 valuation date becomes out of date
- It may be difficult to capture certain increases in property values due to renovations, new homes etc

Option 2: 2016 Valuation Date

An alternative is to require all property owners to revalue their properties at 2016 values. Given the fact that property values have increased by an average of over 30% since May 2013, SCSI recommends that the tax rate should be revised to a level that still returns approximately €518m to the exchequer. In this way, the overall level of local property tax remains the same but the rate changes.

The *advantages* of this option are:

- The valuation date captured by Revenue is up to date and therefore the information is more relevant and useful
- It encompasses increased property valuations for new homes, renovations etc in a fair manner.

The *disadvantages* are as follows:

- There is a large administrative burden on property owners to revalue their properties

SCSI Recommendations

- The review of the local property tax should be every five years and this should be stated to provide certainty for homeowners and stability for local authorities
- Option 2 should be considered whereby the valuation date is set at May 2016 and the rate of property tax could be reduced to result in approximate overall revenues to a similar level of previous years.

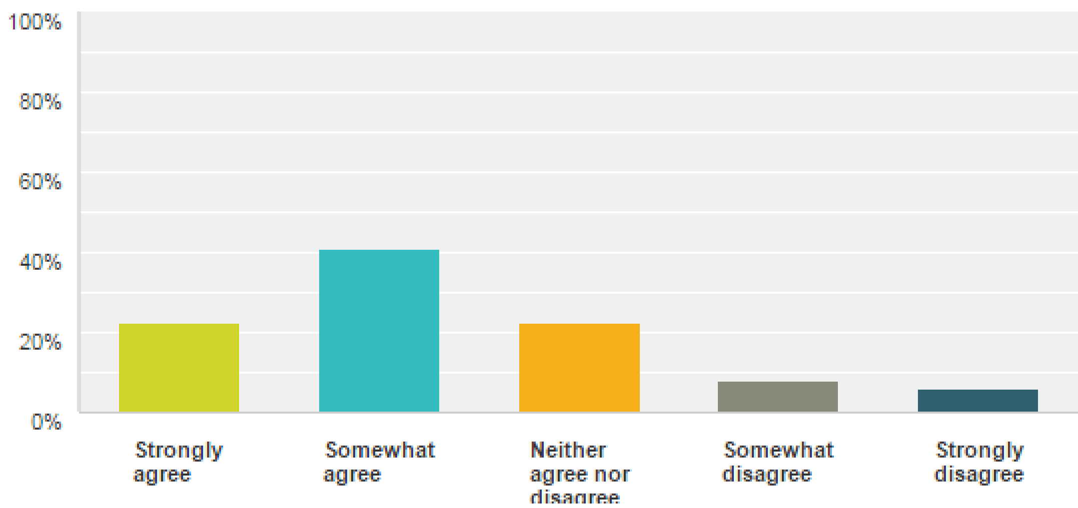
Section 3: Local Government Funding Stability

According to SCSI members, it is important that any change to the percentage applied to the market value is considered on the basis of preserving Local Authority Revenue stability and there are concerns that the level of funding available to local government could be affected by the inevitable cycles in the Irish property market. This would contravene the intention of the Local Property Tax which was to create a more sustainable source of revenue for local government.

"A guarantee from local authorities that the gross amount of tax collected will not change. Similar to the case with the commercial rates revaluation process", SCSI Member

In the case of commercial rates, the local authority has an agreed budget that it must fund from commercial rates. Commercial properties are revalued and a multiplier is decided on the basis of rebalancing the contribution of the commercial property rate payers to the local authority.

Q: A key objective of the LPT was to provide a relatively stable source of funding for Local Authorities. Concerns have been raised that the cyclical nature of the property market may affect the stability of funds received by the local authorities from the LPT. Do you agree with this statement?



While the local authority has discretion around increasing or decreasing the Local Property Tax by +/- 15% on an annual basis, there is a concern that if property values declined significantly in the coming years, there would be a very negative impact on the stability of local authority revenues.

SCSI Recommendation

- The Local Authorities should be given more direction to increase/decrease local property tax in their area by more than 15% over the period.

Section 4: Shortages in Housing Supply

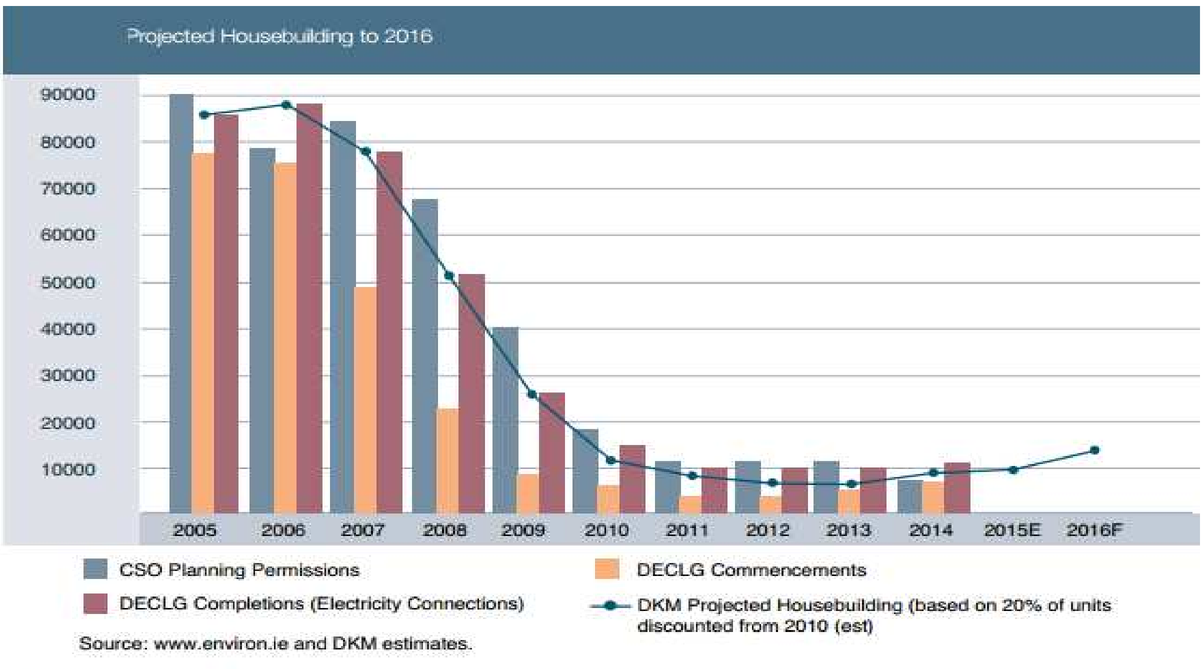
One of the key drivers of the double digit house price inflation is due to the shortage of supply. Government announced that it would introduce a series of measures to improve the sustainability of the property and construction sector through its Construction 2020 strategy.

The SCSI has a concern that if the Local Property Tax liability for property owners is significantly higher than the existing rate, it could negatively impact people purchasing homes and reduce demand, and limit supply as a consequence.

The existing exemption on new homes is very effective and a similar exemption should be introduced effective from the new local property tax effective date.

"Give a 3yr exemption for families who trade down there house to a smaller one. This should help getting some housing supply back into the market".

According to a new report by the Society of Chartered Surveyors Ireland (SCSI), the number of units actually built within a given year is less than the official figure suggests as it is based on 'completions' i.e units which are connected to the electricity supply. The SCSI forecasts that approximately 10,000 units will be actually built in 2015 and 14,000 in 2016 as the large number of units from unfinished estates washes through the system. That said, the annual average demand is for 26,000 units a year so we are still some way off reaching a sustainable level of output.



The impact of the rate of Local Property Tax also needs to be considered in the context of housing supply. If housing supply is adversely affected by a higher rate of Local Property Tax, it could have the effect of prices continuing to increase. If adequate housing supply is available, property values will moderate and be more sustainable, the Local Property Tax revenues will also be more sustainable and the numbers of homeowners will increase therefore providing an overall increase in the receipts to local government. In order for this to happen however, there needs to be better planning, infrastructure and support from the local authorities who will, on the other side, receive the increased Local Property Tax revenues.

Furthermore, the impact on the Private Rented Sector must be considered. Rents increased by an average of 10% last year according to the PRTB. If the Local Property Tax is too high, it would be a disincentive to the providers of rental accommodation and could negatively impact the supply of rented accommodation and accommodation for social housing provided by the Private Rented Sector. There could also be some merit in providing a tax allowance on Local Property Tax for private landlords who pay tax as individual rates as opposed to at a corporate rate like in other countries.

SCSI Recommendation

- The existing exemption on new homes is very effective and a similar exemption should be introduced effective from the new local property tax effective date.

Section 6: Homeowners Guidance and Data for property revaluations

SCSI members believe that in order for the efficient and effective operation of the Local Property Tax to continue, there needs to be enhanced guidance from Revenue in relation to the self-assessment property valuation process.

In 2013, many homeowners used online property portals and revenue sources. However, the prices listed on the property portals are asking prices and do not reflect the transaction values.

A positive development since 2013 has been the increase in transactions and the level of information available on the property transactions. That said, there is a need for more comprehensive information in relation to the property type in order for self-assessment to be carried out at a more accurate level.

"Keep assessment methods as simple as possible so that property owners know what to expect", SCSI Member

In 2013, the SCSI partnered with the Irish Taxation Institute and published guidance on Local Property Tax and ran public seminars to inform people around compliance with Local Property Tax. The SCSI would be available to participate in such initiatives again and to support the development of property valuation guidance if required http://www.taxinstitute.ie/Portals/0/Tax%20Policy/SCSI%20Local%20Property%20Tax%20Public%20Guide.pdf

- Greater guidance for homeowners and online data sources for self-assessment

Section 6: Phasing of next Local Property Tax

The property market does not react well to uncertainty and SCSI believes that clear guidance must be conveyed to the public in advance of the Budget detailing the methodology, the period for the next Local Property Tax and detailed information about where the funding from Local Property Tax is expended by the local authorities must be provided.

"Fixing the price for a period of 1-5 years regardless of increases in value to allow homeowners to comfortably budget for the cost each year.", SCSI Member

"Having a review of values / % would every 5 years would give better long term stability", SCSI Member.

SCSI Recommendation

- The Local Property Tax could be reviewed on a 5 year phased basis

Section 7: Conclusion

The implementation of the Local Property Tax has been very successful with 95% rates of compliance. It is the Society's view that due consideration must be given to ensuring that the rate for the next phase is applied in an equitable manner and in a way that supports stable local government funding. Its impact on the housing supply shortage must also be considered as well as ensuring there is adequate guidance for homeowners.

Issues such as whether the occupier should pay the tax as is the case in the UK should also be considered and the phasing of the tax will be important.

Overall, the decision to review the operation of the Local Property Tax is a positive measure and above all, the next phase should include clarity and equity for homeowners, transparency on how the funding is used and stability for Local Government.

Appendix - Property Tax systems elsewhere (RICS Report)

America
Key facts
· Income taxed at federal and state levels
· Four types of income: wages, business income, investment income (including rental), and capital gains.
· CGT reduced to 0% since end 2007, previously 20% and 10%
· Annual property taxes on market value are levied locally. Rates vary from 0.4% to 4%, paying for local infrastructure
· Tax increment financing (TIF) also used
· Inheritance tax 18-45%, exemption of up to $2m

Australia
Key facts
· Property (or land) rates. Rates and frequency determined by local councils
· Each council has land valuers. Land's worth is value of land only, not including existing dwellings.
· Various exemptions including for principal residence
· Rental tax and Capital Gains tax are additional to this
· CGT: 50% reduction of taxable gain if held for >12months
· No direct taxes on inheritance
· Buying costs: transaction costs up to 21%, split across buyer and seller. Buyer stamp duty ranges 1.5-6.75%

Canada
Key facts
· Many provinces levy real estate tax based on current use and land value and some have established annual reassessment cycles
· Rental income is subject to fixed 25% tax
· Capital Gains Tax on 50% of capital gains
· No inheritance or estate tax
· Buying costs up to 11% of the value. Transfer tax differs in each province, ranging up to 2%.
· Good and Services Tax (multi-level VAT)

France
Key facts
· Some areas of France levy the 'professional' tax, which is similar to English business rates, on landlords of furnished premises, using Land Registry property values
· CGT 16% on net gain. Discounts of 10% a year allowed after 5yrs of ownership (ie CGT zero after 15years)
· Principal residences also exempt
· Two property taxes: tax d'habitation and taxe fonciere. Occupiers pay the former and the latter, a combination of building and land tax, is often in tenancy agreements

Germany
Key facts
· Rental income taxed
· CGT zero if property held for >10yrs
· Annual property tax on land imposed by municipalities. Basic federal rate of 0.35% on assessed value. Amount is further multiplied by municipal coefficients.
Average rate is 1.9%
· Inheritance tax ranges from 7%-30%

· Transfer tax is fixed at 3.5%, plus VAT on broker fees

Switzerland

Key facts

· There are 26 cantons and 2,600 communes
· Majority of taxes set locally by cantons and communes
· Cantons have own constitutions, own laws and own courts. They raise ~40% of tax take
· Communes raise another 30%
· Federal Government only does things that require coordination eg. currency, defence and foreign policy
· Cantons compete on taxes to induce businesses to locate