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Property Tax and Assessment News from Around the World

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Ireland's equestrian heritage at risk from huge rating rise

Irish equestrian and racing establishments have reported huge rating increases this year, with some facing downsizing or closure unless urgent action is taken.

Some equestrian businesses had received notification of their fees being doubled and trebled from previous years, said Association of Irish Riding Establishments (AIRE) vice-chairman Rita Dunne, who met with representatives from Horse Sport Ireland and the Irish Racehorse Trainers Association in Kildare this week.

"High rate charges have already led to the closure of many equestrian businesses and if something is not done urgently many more centres will close," Dunne said.

"Agricultural buildings should not be rated the same as commercial buildings. Many indoor arenas are only used two or three hours on a daily basis."

Horse Sport Ireland interim CEO James Kennedy said the current inconsistent system is "simply unworkable", as there were different fees being applied in different counties.

"Rates should be applied on an income less expenses basis thus providing a fairer system all round," Kennedy said.

"The riding school is a major force in the rural community, offering children sporting facilities. This needs to be recognized by the Valuation Office and County Councils responsible for imposing a punitive and inconsistent rating system on an agricultural based enterprise. We need to put forward a united front and look for a fairer system for all involved."

Kennedy said it was unrealistic to expect a riding school to have their arenas, stables, and concrete parking areas rated in the same way as an office space which could have a massive turnover in comparison.

"Riding centres are for many children their first introduction to equestrianism and is the seeding ground for potential international riders, Olympians, jockeys, grooms and thousands of riders connected with pony clubs across Ireland. Riding centres are involved in therapeutic riding and offer great assistance to special needs children and adults on a weekly basis. To lose a centre providing this opportunity is a terrible shame for any community."

One possible solution discussed at the meeting was that riding centres, livery and training yards should be considered as agricultural rather than leisure for rating purposes.

Why higher property tax is a good thing

Here's a heresy for you: taxes in Ireland are too low. My guess is that most readers didn't agree with that sentence. But, while it may jar with our sense of reality, it is undeniably true. Take income tax. The 2017 "Taxing Wages" report by the OECD compares the average tax paid by the same kinds of households in different countries.

Take a family, with one earner on the average wage and two children. In Ireland, once tax credits and cash benefits are accounted for, such a family pays just 8.3pc of its income in tax (and USC). In the boom times, we actually had the crazy situation where such a family was a net recipient from the tax system. Things have improved since then, although only a bit.

As you can imagine, this is not how other countries operate. Across the OECD group of high-income countries, 27pc of income is paid in tax by the average-earning family. Ireland's low figure is nothing to do with a Boston v Berlin view of the world. There is a gap between these models, but it is at a much higher level. In the US, the average-earning family pays 21pc of its income in tax, while in the UK it pays 26pc. In Germany, it's 34pc and in France it's 40pc.

How can that be, you might ask - particularly if you regularly read that Ireland has some of the highest marginal rates of taxation in the EU. Well, the key is the difference between average and marginal. Ireland's very high marginal rates of taxation - you pay roughly half of your last euro over in tax if you earn €35,000 or more a year - are needed to compensate for very generous tax credits.

What's this got to do with property? There are three types of tax: income tax, consumption tax (like VAT) and wealth tax. Income tax, when done well, is very progressive - everyone pays something but richer households pay a bigger fraction.

Consumption taxes such as VAT are extremely regressive: they hit poorer households hardest. And Ireland's VAT rate is one of the highest in the world.

When it comes to the last category - wealth tax - Ireland once again sticks out. By far the single biggest chunk of wealth in the economy, at least €400bn and probably closer to €500bn, is residential property. And, until recently, Ireland didn't tax this at all!

Since 2013, though, Ireland has had an annual Local Property Tax (LPT). This is set at a rate of 0.18pc of the value of the property, although local authorities have some discretion and can vary it from 0.15pc to 0.21pc. Many authorities have already taken the chance to lower the rate as much as possible.

Last week, Fine Gael leadership winner - and thus, very likely Ireland's next Taoiseach - Leo Varadkar proposed allowing local authorities to cut property tax further. To be fair, he couched it in terms of giving them greater freedom to set the rate.

However, the implication was clear: greater freedom for local authorities means greater freedom to lower property taxes. Unfortunately, this is precisely the wrong thing to do, if we want "strong and stable" local authorities, to borrow a phrase from across the water.

Compared to pretty much every other high-income country - including far smaller ones, like Cyprus and Malta - Ireland has the weakest local authorities. They lack financial autonomy and are thus hugely dependent on handouts from central government, who then dictate the terms.

In order to enable them to stand on their own two feet financially, Irish local authorities need to build up a far longer track record of a number of revenue sources, with property tax chief among them. As it stands, the temptation will be far too great for local authorities to cut and wait for national government to fund a service instead.

In most other countries, property tax is at least four or five times the rate it is in Ireland. Having a property tax of 1pc of the value of a home not only provides funds for local authorities, it also places a cap on property values - an in-built stabiliser on house prices.

It is obvious that Leo has one eye on 2019, when property tax bills are set to change as properties are revalued. They are currently frozen at 2013 values, almost exactly the bottom of the market, and market values have risen by 50pc or more in and near Dublin, Cork and Galway cities.

This shows the obvious drawback to freezing tax bills - it creates an incentive to keep them frozen. The other drawback is that property tax can't act as the brake on prices as it does in other countries. Dangling the carrot of lowering property tax runs the risk of 1970s auction politics, where various bits of government revenues are sold off.

We need to broaden and deepen the tax base, in particular when it comes to residential property, which makes up so much of all private wealth.

I am under no illusions that a "Tax Is Too Damn Low" Party will take off any time soon. But we as a country need to understand where our tax system is deficient and, as a result, both why our local authorities don't have the funds they need and why our housing market will continue to swing more than most.

Ronan Lyons is assistant professor of economics at Trinity College and author of the Daft.ie Reports

'Aggressive' site tax needed to force speculators to build

"Use-it or lose-it" taxes to force land hoarders to release sites needed for housing must be pitched "aggressively" to be effective, an expert has warned.

The head of Nama dramatically accused funds, which his agency sold billions of euro worth of property assets to, of now hoarding the lands to beef up their profits.

Just 6pc of land bought from Nama has been built on, according to CEO Brendan McDonagh, who was speaking at the launch of Nama's annual report yesterday.

He said the agency had sold enough land to build 50,000 homes but so far only 3,000 had been delivered.

Property owners who sit on land as house prices go up will pocket fat profits, he said, because their other costs are not rising.

There may be other reasons housing construction is so slow, he said. But he said hoarding by landowners was a significant factor.

"That is a huge issue in my view," he said.

The bulk of assets sold by Nama were bought by US investment funds, including so-called vulture funds, in huge tranches.

Finance Minister Michael Noonan, who also spoke at the Nama event, said the attorney general had raised constitutional concerns about previous attempts to tax development land into use, but said the way was now clear for action.

A vacant site levy was the best approach to punish land hoarding, he said.

"It can be brought in now," he added.

He indicated that his successor would bring in a new levy in the Budget for next year.

Mr Noonan is due to stand down later this month, but he said he expected the Government would bring in the tax on empty development sites.

"People who are sitting on land as an asset will find themselves sitting on a tax liability," he said.

He posed an annual charge of 1pc, 2pc or 3pc a year to incentivise land hoarders to sell.

Legally, any levy would have to be "proportionate", including to social needs, he said.

Economist Kieran McQuinn of the ESRI said a more punishing levy was needed to force speculators to use zoned land for housing.

Landowners currently can hoard undeveloped land at little cost other than keeping planning permits up to date, and are rewarded as prices rise, Prof McQuinn said.

"I'd look to be more aggressive," he said.

In Denmark, where a successful scheme is in place, the rate of the levy increases as property prices rise, Mr McQuinn said.

It means the levy varies from place to place and time to time, and is most penal for landowners where housing is most in demand.

Landowners who cannot afford to develop their sites are effectively forced to sell on the property to builders who can.

A vacant site levy is already due to come into force next year, but it's targeted at derelict sites, rather than zoned land and sites with planning permission.

Meanwhile, Nama itself said it expected to make a surplus of €3bn once its last assets had been sold off. That is €700m more than previously expected.

The bulk of cash raised by Nama to date has gone to the banks - the final balance will be paid back to the Exchequer.

Nama reported a profit for 2016 of €1.5bn yesterday. It repaid €5.5bn of debt the last year.

Mr McDonagh dismissed speculation that the agency could be wound-up early. "Nama isn't done, we still have three years of hard grind," he said.

'Grossly unfair': Farmers should have to pay more property tax says former minister

McDowell said the current system is 'grossly unfair' and described it at as a 'ticking time bomb'

People with very large farms should have to pay more in their property taxes former Justice Minster and leader of the Progressive Democrats Michael McDowell has said.

Speaking in the Seanad, he said gave the example of two families, one of whom lives in a small red-brick terraced house Dublin, and who could have a 90% mortgage on a house which cost them between €450,000 and €500,000.

The other family, he said could live in a 6,000 sq. ft. restored Georgian or Victorian villa in the midlands and they would be liable for the same amount.

“The family in Dublin, might have a mortgage of 80pc or 90pc on their house whereas the family in the midlands might have none and might also have a farm of 300 acres but would contribute the same amount as the family in Dublin to their local authority.

“The unfairness of all of this is that the tax does not in any sense reflect the actual wealth of the owners, in particular if there is a 90pc mortgage,” he said.

McDowell said that there is a way to deal with this, that is, to provide for a different system of valuation and banding of houses in local authority areas so that, if one does live in a very substantial house outside Dublin, one should pay more to the local authority, and if one has a very large farm, one should pay more to the local authority than a family in Dublin in those circumstances.

McDowell said the current system is “grossly unfair” and described it at as a “ticking time bomb”.

“The time has come for us to address this unfairness. People in different parts of the country are being treated unequally and people who are of modest means and who struggle to make a living in this city are being treated unfairly compared with people elsewhere,” he said