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Ireland Urged To Rethink Property Tax Changes

Think tank Public Policy has called on the Government to use up-to-date valuations for the Local Property Tax when revaluations take effect in 2020.

The Government postponed the first LPT revaluation date from November 2016 to November 2019, to ensure that homeowners would not face significant increases in their LPT as a result of rising property values. The current valuations therefore cover the period May 1, 2013, to October 31, 2019.

Public Policy said that the general revaluation should be carried out as planned in 2019. It cautioned that the longer the revaluation is postponed, the more politically difficult it will become.

According to Public Policy, using up-to-date valuations would not necessarily result in a general increase in liabilities. It said that when commercial properties were revalued in Dublin City in 2014, the rate per euro of value fell from EUR60.88 (USD73.43) to EUR0.257, and income from commercial rates only rose by 4.7 percent that year.

The think tank also warned that freezing the valuations could potentially result in a constitutional challenge. It explained that, in 1982, the High Court found that local authority rates on agricultural land were unconstitutional. Public Policy said that when the Supreme Court upheld the decision in 1984 it cited the failure of the state to address anomalies arising from the use of historic values for the determination of rates.

The think tank added that if the Government wants to avoid a substantial increase in liabilities, the national rate of LPT could be reduced and varied in each local authority.

The LPT is charged at 0.18 percent of the market value of properties worth up to EUR1m, and at 0.25 percent on any excess value over EUR1m. Property values are organized into a number of bands, and the tax liability is calculated by applying the LPT rate to the midpoint of the relevant band.

Property tax must be based on new valuations, think tank says

Freezing current valuations could prompt constitutional challenge, Public Policy says

It is “critical” that local property tax be based on up-to-date valuations from 2019, a think tank has said – even if it is to lead to increases of as much as 125 per cent for some homeowners.

Public Policy, an independent think tank chaired by Prof Frank Convery and funded by Atlantic Philanthropies, says in a new paper that using up-to-date valuations is “important in sustaining public support for the property tax”, noting that the anomalies which arose from the failure to use up-to-date valuations for houses for purposes of rates was a significant contributory factor to the abolition of rates on houses in 1978.

Moreover, freezing current valuations, which are based on 2013 prices, could potentially expose the tax to constitutional challenge, as occurred in 1982 with local authority rates on agricultural land.

‘Politically difficult’

“Implementing a revaluation is politically difficult. The longer it is postponed the more difficult it becomes ,” Public Policy said.

In 2015, the then minister for finance, Michael Noonan, decided to delay the revaluation date from November 1st, 2016, until November 2019, with the new valuations taking effect from 2020.

However, given the sharp rise in house prices since, the fear is that opting for another valuation could lead to some homeowners in areas where property prices have rocketed paying significantly higher increases than others. A report in this newspaper, for example, found that if the Government sought to impose new valuations based on market prices, some homeowners could see increases of as much as 125 per cent in their annual bill – while others would see only marginal increases.

To address this, Public Policy said that one approach could be to reduce and vary the national rate of tax in each local authority if necessary if it is desired to avoid a substantial increase in liabilities. The tax is currently levied at a rate of 0.18 per cent, but local authorities have the discretion of increasing or decreasing this by 15 per cent.

Homeowners face up to 125% increase in property taxes

As a new valuation date looms, property prices are on the rise

Given the furore that greeted the introduction of water charges, the Government timed the introduction of property tax that bit better. With the State almost on its knees, the opprobrium that greeted the move was far less vocal; the fact that property values had also tanked, meaning lower bills, was possibly another major factor behind the move.

Now, however, property prices in some parts of the State have as much as doubled and a new valuation date is looming. So can the Government realistically expect to apply such an increase to your tax bill when the next revaluation is due in 2019?

If it does so, based on a nationwide property price increase of 60 per cent, it could stand to boost the amount it generates from property tax from €463 million a year (2016) to €740 million (2019).

Whether such a move would be politically palatable – or whether it might raise the ire of voters à la the water charges – remains to be seen.

The Government has already put the issue of property tax on the long finger. Back in 2015, then minister for finance Michael Noonan took the decision to postpone a revaluation of the local property tax (LPT) from 2016 until 2019. This followed a recommendation in a report from former public servant Dr Don Thornhill that a revised system of assessing liabilities be introduced, and it meant that homeowners have continued to pay tax based on a 2012 valuation of their properties.

Now however, his successor Paschal Donohoe must come up with a solution. But the clock is ticking. And fast.

Local authorities have called on Government to provide clarity on the issue by next year so that local authorities can fix budgets. Households also need to know where they stand on the issue.

If the Government goes ahead with the revaluation however, it's clear that homeowners in certain parts of the State will get a shock when their bill arrives while those in others, such as Limerick, where values haven't risen at the same pace, may have less to fear.

What a revaluation might mean

If the Government was to simply allow a revaluation of the tax, based on the current regime, it could face sizeable resistance. After all, it is something that affects most of the population, given that the tax is based on returns for some 1.68 million properties.

Back when the tax was first introduced, the property price register was still in its infancy and property sales were thin on the ground. This meant homeowners had a little bit more flexibility when it came to erring on the side of undervaluing their property. Fast forward five years however and there is now a wealth of history of property prices. Moreover, these prices have increased significantly, meaning that homeowners could be facing hefty property tax increases.

Why it might be deemed to be unfair

If the property tax was based on national price growth, there could be an argument for another revaluation in 2019. However, the tax is based on the value of your individual property, and as prices have not risen at the same rate across the country, it means that some homeowners may be burdened with a far greater rise in the tax than others.

Consider the table above. It shows that homeowners in Limerick city, where prices have risen only by about 9 per cent since 2013, according to CSO figures, may actually see a small increase or none at all in their local property tax bills from 2019.

While the local council has applied an increase of 9 per cent to the standard rate of tax, homeowners may face no increase arising from a revaluation. As our example shows, someone with a property worth €50,000 in 2013 will still be in the €0-€100,000 band in 2019.

Property tax to go through the roof?

Out-of-date home values could mean householders facing huge hikes when the next revaluation takes place in 2019

Paul Murphy ripped up his local property tax bill in the European parliament in May 2013. Then an MEP, Murphy said he wouldn't register for the charge, just like "hundreds of thousands of other people". But the large-scale boycott he envisaged never materialised.

When Murphy declared that the property tax boycott was finished in November 2015, he blamed the Revenue Commissioners. The government's decision to give the Revenue power to collect local property tax (LPT) had indeed turned out to be an inspired one, as it initiated the largest extension of self-assessment in the history of the state. The compliance rate now stands at about 96%.

Ireland's LPT is charged at a basic rate of 0.18% on property market values up to €1m. Charges are placed within €50,000 bands, ranging from €90 up to €1,755 for values under €1m. A higher rate of 0.25% is applied on any portion above €1m. The valuations declared in 2013 have determined the LPT liabilities since.

The next valuation date is due in November 2019. House prices have risen rapidly in the past few years so many householders could face large hikes in property tax charges.

Frank Murray, tax director at Deloitte, said: "There is a bombshell coming down the road for people because property prices have increased hugely since 2013 . . . unless [the government] extends the deadline again."

Josepha Madigan, a Fine Gael TD for Dublin Rathdown, is among those who wants the government to start making arrangements now to offset the increases.

Three out of four property valuations for LPT are set at below the €200,000 band. Yet, the average national price for a house now stands at €249,358.

The average property tax paid in the Dublin city council region is €296. If prices were recalculated to 2017 property values, the bill would jump to €675. In Dun Laoghaire-Rathdown, the tax would increase from an average of €519 to €1,035, based on up-to-date house price figures from the Central Statistics Office (CSO). If house prices continue to rise in line with current inflation between now and 2019, homeowners could see their LPT charges jump still further.

Murray points out that house inflation is not in line with wage inflation, which affects ability to pay. One option to avoid a penal tax increase is to reduce the rate of 0.18%, he argues.

However, Ireland has one of the lowest property tax rates in Europe. In France, homeowners pay two local property taxes, to central government and local councils, both related to rental value. The average is about €2,000.

Denmark's residential property tax structure is two-tier. Properties valued up to 3.04m Danish krone (€408,000) are taxed at 1%, while anything above that is taxed at 3%. For a home worth €225,000, annual property tax is €2,250.

Barry Saul, a Fine Gael councillor in Dun Laoghaire-Rathdown, said some of his constituents are older retirees whose incomes from bank investments and shares were devastated in the recession. Their large homes may not reflect their incomes, and with a housing shortage many are finding it difficult to downsize.

However, John Moran, the secretary-general of the Department of Finance when the local property tax was introduced, said policies should not be dictated by a few individual stories.

"[LPT] was introduced to diversify our tax revenues away from income tax, which can be volatile and . . . may disappear in a downturn. It means that local services can continue to be supplied by local authorities," he said.

Moran describes LPT as, in effect, a tax on an increase in wealth. "It would not be unreasonable to assume that opposition parties who have been calling for greater taxation on those with wealth would be supportive of the idea of continuing to index property tax to property values."

Since the start of 2015, local authorities have been able to vary the LPT rates by up to 15%. Eight local authorities decided to vary it this year. Many councils have started their review for 2018, and have called for submissions from the public.

In 2015, the government enlisted Don Thornhill, a former civil servant, to conduct a review of LPT. In his report, Thornhill recommended transferring the power to set the rate to local authorities, once the government set a minimum target yield. In his Fine Gael leadership campaign earlier this year, Leo Varadkar said he would give local authorities "greater autonomy" over LPT. Thornhill said there were "serious shortcomings" in the current system of applying a central rate of LPT because the Irish property market varies so widely. Many European countries allow their local councils to set property tax rates.

Ciarán Cuffe, a Green Party councillor with Dublin city council who has called for an increase in property tax, said giving local authorities autonomy would be a positive move. "The government controls almost every initiative we try in the city, and I think micromanagement is the wrong idea. The city is suffering from a lack of investment in housing, waste management, parks and other areas," he said.

Madigan's other issue is that all local authorities must put 20% of the money they collect into an equalisation fund, which is then distributed to more impoverished councils around the country.

Together, the four Dublin local authorities collect 40% of all of the LPT. Dun Laoghaire-Rathdown collected €43.1m in 2016, the highest amount per capita in the country.

Another of Thornhill's concerns was that property values could get stuck at 2013 levels, as successive governments postpone a revaluation in order to placate voters. In England, council tax is based on property values that were determined in 1991. This means billionaires living in Knightsbridge in London could be paying less council tax than middle-classes households in other areas of the city. The average council tax paid in England is about £1,500 (€1,660) a year.

Thornhill warned that if the Irish government deferred revaluation of properties, it would become more difficult to legislate for future changes. This could result in a "gradual accumulation of distortions and growing unfairness".

Madigan would like the government to look at other ways of calculating the property tax, such as site taxes, and to consider more concessions.

However, Norah Collender, tax technical manager with Chartered Accountants Ireland, said basing the tax on market value is the fairest approach to taxing an asset. “It’s a progressive tax, which applies more tax on houses with higher values,” she said.

While Collender accepted that a valuation freeze is a simple solution to collecting property tax, she said no tax system should attempt to collect monies based on out-of-date information.

“In one of the few court cases where a taxpayer was successful in challenging a tax on constitutional grounds, a factor was whether it was fair to levy rates based on out-of-date property valuations,” she said. “Ireland’s tax system will lose credibility if we continue basing LPT on valuations which are completely out of date.

“We are only kicking the can down the road and this issue must be addressed sooner rather than later.”

Dublin City Council goes populist with internet poll on property tax

Survey makes no mention of what services might be cut to accommodate the move

It’s hardly what the Government would have sought. Just as preparations are ramping up on the shape of the first budget of Leo Varadkar’s government in October, along comes another local authority playing the populist card.

Dublin City Council has taken to the internet to ask people if they want to see a reduction in their local property tax this year.

The tax is levied at a rate of 0.18 per cent on the value of a property across the country. However, local authorities have discretion to vary this by the order of plus or minus 15 per cent.

Cutting the tax for the coming year could save a homeowner more than €100 based on a property in the €400,000-€450,000 price band.

Dublin is far from the first local authority to consider cutting charges. Last year, for example, residents of Limerick city and county paid 10 per cent above the basic rate, while residents of four Dublin councils (Fingal, South Dublin, Dún Laoghaire-Rathdown and Dublin City) had a 15 per cent drop in their property tax bills.

The decision meant that a Dublin resident paid tax at a rate of 0.153 per cent, or just €650 on a property in the €400,000-€450,000 band, instead of €765. It also meant, however, funding forgone for Dublin City Council of €11.9 million for the year.

Now it is raising the prospect of cutting the figure again. Interestingly, the online survey that Dubliners are being invited to take makes no mention of what services might be cut to accommodate lower local property tax revenue. A more honest survey might ask residents, once they have selected the scale of any cut to the tax, to choose which services they would rather go without. Now that would be interesting.