IPTI Xtracts

Property Tax and Assessment News from Around the World

IRELAND – July 2018

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PAC to criticise slow progress on commercial rates revaluation

The Dáil Public Accounts Committee (PAC) will be highly critical of the revaluation of commercial rates businesses have to pay to local authorities in a report issued on Wednesday.

It is understood the powerful cross-party Dáil committee will take issue with the length of time it has taken for many local authorities to engage in a revaluation programme, with some not revaluing for more than a decade.

At a meeting of the committee in January the Comptroller and Auditor General said progress on a national review of rates was "slow". The Valuation Office was tasked with conducting a national revaluation of commercial properties in 2001. But since then only 16 of the 31 councils have undergone reviews, the committee heard.

The national revaluation of rates is separate from local councillors' power to increase or reduce commercial rates by a given percentage each year.

In its third periodic report which focuses on meetings held between January and May 2018, the PAC is also expected to be critical of the Chief State Solicitor's office for its role in a deal that cost €3.89 million. The deal relates to a building in Wolfe Tone Street, Dublin, that was never occupied.

When asked for its role in the building the Chief State Solicitor cited legal professional privilege to the committee which prevented PAC from scrutinising the matter.

The State incurred costs of just over €1 million in the rental of the premises and other related costs and paid out €1.8 million in the settlement of legal proceedings that arose on the building. A further €1 million spent fitting out the leased building was written off.

PAC's report, published quarterly and highlighting its work, will also flag its disappointment at the poor treatment of the Dormant Accounts Fund, which was established to enable unclaimed funds from accounts in credit institutions to be used for economically or socially disadvantaged persons.

In particular, it will take issue with the fact that of the €143 million allocated to the fund, only €29 million has been dispersed. Additionally, it is expected to criticise the manner in which the fund has been moved around a variety of government departments.

Aside from commercial rates revaluation, local authorities will also come under scrutiny in the report for breaches of statutory duties in regard to the housing assistance payment (HAP). The Irish Times understands the PAC will say local authorities are in breach of a requirement to inspect accommodation within eight months of the first payment to a landlord.

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In addition the PAC will also comment on the Taoiseach's botched strategic communications unit.

The committee, chaired by Fianna Fáil TD Seán Fleming, will also report on its meetings with RTÉ and a swathe of government departments.

Finance Minister should hike taxes on property and savings, Irish Central Bank boss warns

FINANCE Minister Paschal Donohoe should hike taxes to help prepare Ireland for the next economic downturn, the Central Bank has warned.

Governor Philip Lane said that failing to balance the books during economic recovery has left Ireland less able to manage during hard times, risking fresh austerity.

Mr Lane specifically identified taxes on spending and investment – such as property taxes and taxes on savings – as a way to cool the economy

While he backed plans for greater public investment, Mr Lane said tax increases should be used to fund them, and to prevent the economy overheating.

He said financial "buffers" were needed to better cope with recessions and other countries were already building them.

In a speech that will be seen as a shot across the bows of Mr Donohoe ahead of Budget 2019, the Central Bank Governor told the MacGill Summer School: "The Government really should be running a surplus at this point."

Despite a stronger recovery than most of our European peers, Ireland has done less to future-proof the State finances, he starkly warned.

Higher taxes in some areas would also prevent the economy overheating as investment by the public sector ramps up, added Mr Lane. "Through taxation, if you cool down the level of spending in the economy, you make room in an orderly way."

Policymakers need to plan now to be better placed to manage a downturn when it comes. "The history of Ireland is, in a crisis we come together, debate and find solutions," he said.

But he warned that during the good years there's a lack of risk management – "a lack of preparation for the next downturn".

He questioned the prudence of Mr Donohoe's fiscal policies – which have delayed balancing the budget in recent years, as public spending has increased faster than tax income.

"Right now the fiscal plan is essentially of still having a deficit in 2019, admittedly a relatively small one," said Mr Lane.

"But to be running a deficit under these conditions is probably not in line with best principles of risk management.

"Others (countries) are already running significant fiscal surpluses. We appear to be not making the same fiscal preparations as those others."

This directly contradicts the message from Taoiseach Leo Varadkar in particular, who earlier this month promised tax cuts for middle income households in the October Budget, as well as a greater programme of public investment.

"It's not a choice between public spending and fiscal prudence because there are other levers such as the overall amount of taxes that are raised that can reconcile that balance," Philip Lane said.

However, while more public spending can be appropriate, "you also need to build up some surpluses".

That includes not spending all of the taxes collected in a given year.

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"The reason for that is not to suppress any social goals, but to recognise that the only way to avoid having the austerity in the next downturn that we had in the last downturn is to build up the fiscal buffers in the good years."

Around the world it is often those governments with high ambitions for their public sector that typically run surpluses in good years, because they really don't want to impose austerity in downturns, he told the audience. "That's really important to know," he said.

"If the political decision is 'let's have people work on public investment projects', it does mean something else in the economy has to slow down."

He warned that Ireland has benefited from a number of factors in recent years, including low interest rates and recoveries in the global economies.

In terms of long term planning, Dr Lane said that not all booms were followed by a bust, or vice versa.

A number of potential factors – including a hard Brexit, a possible shift towards protectionism in the global economy, or a shift in market sentiment – could all tip the current recovery off course.

European Commission warns of major risks to Irish economy

Latest health report highlights housing crisis and advises against spending increases and tax cuts

The shortage of housing supply and the significant increases in property prices are posing a major risk to the Irish economy, the European Commission has warned.

In its latest post-programme surveillance report, seen by The Irish Times, the Commission says the introduction of rent pressure zones has been ineffective and contributed "little to containing price rises".

It says rental inflation is "well above" the 4 per cent prescribed by the rent pressure zones, despite them being introduced more than a year ago and across the major population zones.

Increases in property prices and rents are continuing and the supply response has been insufficient and below the level needed to address long-term housing demand, the commission says.

Recent Government measures are going in the right direction, it says, but it advises there is a need for "timely and efficient implementation".

Elsewhere the commission warns against reducing taxes and increasing expenditure in the upcoming budget as it may lead to a repeat of the "pro-cyclical stance of the past".

It accepts a failure to reduce some income taxes could "face political hurdles" but stresses the economy is already operating close to its capacity. It again points to the reliance on corporation tax among a small number of large multinationals.

"In view of the heightened external risks, reducing tax expenditures and broadening the tax base would be prudent ... It is less painful to revamp the tax system when the economy is experiencing an upswing."

Property tax

The commission points to the current review of the local property tax and says it should examine "more regular re-evaluation of the tax base while addressing the horizontal inequality issues embedded in the current system".

Consideration should also be given to the introduction of a vacant property tax to increase the supply of homes for rent or purchase to meet demand.

Other risks include the uncertainty surrounding the ongoing negotiations on the terms of the United Kingdom's withdrawal from the European Union and changes to international taxation.

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In relation to the banking sector, it says important challenges remain despite the improvement in their capital position. Lenders' exposure to the property market remains high and the growing uncertainty elsewhere represents an additional challenge, the commission adds.

Arrears problem

Long-term mortgage arrears continue to pose difficulties and are still the most critical part of the nonperforming loans.

"This is partly due to the heavy use of loan-restructuring solutions, which has left behind a substantial number of borrowers with long-term arrears who are unwilling – or unable – to engage with their banks.

"At the same time, repossession activity remains relatively limited, as banks face reputational concerns for exercising collateral enforcement options, especially on vulnerable borrowers, while the length of proceedings continues to be protracted."

Staff from the European Commission and the European Central Bank conducted a visit to Dublin in May as part of its post-bailout surveillance. This is the ninth such visit, and the commission prepares a staff report for the Department of Finance.

The report, which will not be published until mid-February, was sent to the Oireachtas committee on finance.

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