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Analysis: If it rules out a vacant property tax the government risks looking idle

A report delivered this week advised against the idea.

THE HOUSING CRISIS has so many different strands that it often takes something exceptional to put the focus on a particular issue.

During the summer, the case of Margaret Cash made everyone sit up and acknowledge the reality of families having nowhere to live.

Come autumn, the Take Back the City protests and the State’s reaction to them has placed the glare on the issue of vacant housing.

It was timely therefore that a government-commissioned report on this very issue was delivered during the week by economic consultancy firm Indecon.

The Indecon report was looking specifically at whether a vacant property tax could and should be used as method of dislodging some of underused housing out there.

Its conclusion was that it should not be.

It argued that the rate of vacant property is already declining and that such a tax “could represent a distraction” from a number of more effective interventions.

Among them, the need for more social housing and the accelerated construction of affordable housing.

“While such a tax would be likely to generate significant media and public attention... Indecon does not believe that this would be supported by the evidence,” the report stated.

In short, Indecon was not a fan of the idea.

Finance Minister Paschal Donohoe has said that he will consider the report before making his views known but, given the firm view of the report, it’s unlikely he’ll come to a different conclusion.

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If the idea is indeed dead in the water it brings to an end one of the proposals that has been floating around for some time and from a variety of corners.

When running for the leadership of Fine Gael, Leo Varadkar said that he was in favour of such a tax and as Taoiseach he repeated the view that it was being considered.

Varadkar acknowledged that it would not be a “game changer” in making housing available but did say it could be used as part of a package of measures to stimulate the market.

Regardless of Indecon opinion, if the proposal is indeed dropped it is likely to be used by the opposition as evidence of a government that is not doing all it can to fight the housing crisis.

Sinn Féin has previously criticised the government for not introducing a vacant property tax and again this week restated its position that it is in favour of such a measure.

“Properties stuck in probate or related to the Fair Deal scheme should obviously not be taxed,” Eoin Ó Broin said in response to a query.

However, where properties are left vacant for lengthy periods of time, particularly by banks, funds and professional landlords they should be subject to a tax based on a portion of their market value and increasing incrementally on an annual basis.

Fianna Fáil is said to be more unsure over the potential benefit of a vacant property tax.

A report in the Irish Examiner on Wednesday said that a number of party members at this week’s parliamentary voiced their support for such a measure – but that no decision had been taken on a stance ahead of the budget.

The party’s official line is that it has no plans to support a vacant property tax but it will be “keeping it under review”, as is recommended by the report.

It is believed that Fianna Fáil on the whole is more in favour of tax breaks to encourage the disposal of vacant property than additional taxes.

This measure was one of the alternative recommendations in the Indecon report and it is also the one that Donohoe has spoken favourably about.

The report suggests reducing the capital gains tax on the sale of vacant housing units from 33% to 15% but for “a restricted period”, thus prodding the property owner into action.

Just over two weeks out from the budget, it would not be a surprise to see this measure included in Donohoe’s speech but it is questionable if it would placate the detractors.

While Indecon may warn about measures that grab publicity, this alternative in essentially rewarding those who have been hoarding property surely won’t go down well with housing activists and their supporters.

The government may be at pains to point out that “there is no single solution” to the housing crisis, but discounting even a part-measure is unlikely to solve things either

Taxation and vacant properties

Within the Indecon report commissioned by the Government on the examination of approaches to tackle vacant properties (News, September 19th), in relation to international responses to the implementation of vacant property tax measures, the report indicates that “a number of countries have recently introduced such a tax but it is not feasible as yet to derive any overall conclusions on their effectiveness.”

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While in the case of Vancouver it is true that the effectiveness of its “Empty Homes Tax” measures could only be assessed towards the end of this year, the report could have mentioned the precedent of France where a similar measure has been in effect since 1999.

An analysis undertaken entitled “Taxing Vacant Dwellings: Can Fiscal Policy Reduce Vacancy?” authored by Marion Segu (Université Paris-Sud) and Benjamin Vignolles (Paris School of Economics) in relation to the French vacant property tax implementation outlined that “results suggest that the tax was responsible of a 13 per cent decrease in vacancy rates between 1997 and 2001. This impact is twice as high for municipalities with an initially high level of vacancy.”

The Indecon report indicates in the main that a very high vacant property tax rate would be required for effectiveness in terms of increasing supply but the above assessment has been made even before the latest decision taken last year by the relevant local authorities in Paris to triple the vacant property tax which would be expected to add to the potency of the measure further.

While the Indecon report may be correct to indicate that enhanced compulsory purchase order measures for established vacant properties due not to illness or long-term care may be more direct, the proven effectiveness of a vacant homes tax in increasing supply remains an ordinance that remains worthy of consideration by the Minister for Finance on its own merits, notwithstanding the report’s conclusion.

Government plans overhaul of property tax to avoid ‘timebomb’

The Government plans to overhaul property tax to avoid a “timebomb” ahead of a general election, the Sunday Business Post reported.

The paper said that Revenue documents showed that the Government intended scrapping the single property tax rate – tied to a home’s value – in favour of a new system based on where people live.

The move is designed to avoid a timebomb when homes are revalued in 2019 for the first time in six years.

“It will mean that most householders pay broadly the same property tax bill as before, even though house prices have soared since they last valued their homes in 2013,” the newspaper said.

Home-owners will have to submit the estimated market value of their home in November next year to the Revenue, but the tax will no longer be based on the rate of 0.18 per cent of this figure.

Instead each of the Republic’s 31 local councils will be given a different property tax rate, with the aim of collecting broadly the same amount of tax as before, The Sunday Business post explained.

Land value tax could solve the housing crisis

All the major parties are throwing out policies at their think-ins, but none addresses supply or discourages speculation

There are so many silver bullets flying around it’s a wonder someone hasn’t been killed in the crossfire. We’re in the middle of “think-in” season for the political parties, and because housing is the issue of the day ideas about how the budget should be used to solve the crisis are being banged out.

Just because they are meant to be thinking doesn’t mean politicians aren’t playing their usual schoolyard games. Much of what has happened so far has involved targeting opponents. Sinn Féin, rather lacking self-awareness, attacked Fine Gael “posh boys”, misunderstanding that in Ireland today age is as important a division on housing as class. Ask a 25-year-old what they want house prices to do, and you’ll get a very different response from that of a 45-year-old homeowner. Fine Gael shot back the chant “no-confidence motions don’t build homes”.

The bullets bear a special ideological coating. Sinn Féin is right to hold that the rental crisis is more crucial than the issue of rising house prices. The speed with which someone can go from being in private rental accommodation to sleeping in a car shows that there really is a problem. Rather than encouraging supply as a way to restrain rent increases, though, Sinn Féin’s

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“bold idea” is to have a three-year rent freeze. This may suit people in rental properties, but it will hurt those who want to start renting. The party hasn’t learnt that proposals for rent freezes usually lead to increases in the short term. And in the long term they reduce the supply of rental units, adding to the problem.

Fianna Fáil’s big idea of the week is to give state land as a subsidy to develop affordable housing for first-time buyers. The party was short on detail but Darragh O’Brien wrote in The Times yesterday that it reckons it can build 4,000 affordable homes, at an average sale price of €160,000, costing €200 million in 2019. These would involve a €50,000 subsidy on homes built on state land.

The plan may have been rushed out because the government announced its own plan, a Land Development Agency, yesterday to speed up the building of housing on state land and build 150,000 homes over 20 years.

The history of subsidies to certain groups isn’t good. They usually drive up prices and so don’t help even those who received them, but if this one can free up state land for construction it can at least address the supply issue. The problem is that if the subsidy is given only to one group it will be a loss for the state in the long term. Unless Sinn Féin’s idea of ensuring that capital gains on the price of a subsidised property are returned to the state is applied, the subsidy will become little more than a gift.

At least all the parties agree that supply is important. One particularly misguided idea, lauded by the left-wing think-tank Tasc, argued that there is no problem with the number of homes, they are just misallocated. This argument is based on a crude analysis of the number of housing units: census data shows that housing stock has grown much more rapidly than the population, so we shouldn’t need to build more homes. The estimated 30,000 vacant homes in Dublin is also cited by some who hold this view.

The anti-supply analysis correctly concludes that property has become a way for people to store wealth and make big returns, encouraging speculation. It has a point about the financialisation of property. When we expand the amount of credit available to buyers, prices tend to go up, but the Central Bank has its eye on this even if it does occasionally come under political pressure to loosen the lenders’ purse strings.

Those arguing against supply seize on the fact that house prices rise in line with housing supply. The problem with that argument is that it implies causation where there is none. Supply goes up because house prices are rising, but supply doesn’t cause rising prices. A crash in prices leads to a crash in supply, as happened in 2008.

The anti-supply brigade takes account of the fact that households are much smaller now, so we need more homes per 1,000 people, but they don’t consider where the vacant homes they put so much stock in are. The vacancy rate for Dublin is low. About one in twenty Dublin homes is empty, often because they’re for sale or rent, or being renovated, or the owner is in care. This is below the international norm of 6 per cent. Leitrim and Longford have far higher rates of vacancy because few people want to live there, not because foreign investors are speculating on property price rises.

The rental market is impervious to these issues, and the huge rises in rents show that there is a supply issue. But still we see politicians, who agree that supply is key, supporting residents’ objections to developments in their areas.

The mistake many people make is to assume that there are several housing markets that are in no way connected. Some think that building fancy apartments in the Docklands has no impact on house prices in Drimnagh. Of course it does. Extra homes in the Docklands free up homes in Rathmines, and so on. Rather than subsidise buyers, we need a way to encourage supply.

All the parties seem scared senseless by the Local Property Tax. Sinn Féin wants to abolish what is the closest thing to a wealth tax we’re likely to have — go figure. Fine Gael and Fianna Fáil worry that rises in the tax, which should go up in line with house price rises, will be the next Irish Water.

The property tax is a crude revenue-raising instrument. It is also unfair because it does not cover land hoarders and owners of abandoned properties, but it has the potential to be reformed into a land value tax, which could really affect housing supply. This is a tax based not on the value of the property that is built, but on what could be there.

It is effective because it does more than raise revenue. It encourages all the right sorts of behaviour. Unlike the property tax, it doesn’t discourage people from improving their home, but punishes speculation. Those sitting on idle properties are brought into the net. The state recoups its investment in infrastructure, such as Luas lines, that increase prices and development potential. Land cannot be moved offshore or hidden. And it encourages higher density, which helps cities to become more liveable.

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A land value tax is the closest thing to a silver bullet Paschal Donohoe has in his armoury.

More than 90% of homes valued under €300,000 by owners for property tax

Local authorities will decide next month on how much tax to charge in their area
LPT property valuations have been frozen at 2013 levels until October of next year

More than 90 per cent of homeowners are paying local property tax (LPT) based on property values of less than €300,000, according to figures from the Revenue Commissioners.

Local authorities will next month decide how much property tax to charge householders in their area next year. Councillors have the power to increase or decrease the rate charged in their area by up to 15 per cent each year. Their decision holds for one year only and if no notice of change is given to Revenue by September 30th, the charge reverts to the standard rate.

However, at the end of next year the tax will be recalculated to reflect the upturn in property prices, with tax bills expected to increase from 2020.

Last year, the four Dublin local authorities voted to cut the rate, with Dublin City, Dún Laoghaire and South Dublin applying the full 15 per cent discount, while Fingal applied a 10 per cent cut.

Most other local authorities made no change to the standard rate, but seven voted to increase the charge. Laois, Tipperary and Wexford county councils increased the charge by 10 per cent, Limerick by 7.5 per cent, Longford and Kerry by 5 per cent, and Waterford by 2.5 per cent.

Currently the amount of tax paid is based on the value of the property on May 1st, 2013, With 90.6 per cent of properties valued at under €300,000, almost all households pay less than €495 in property tax.

While Dublin homeowners with properties at €300,000 pay less, Dubliners are also far more likely to pay higher property tax. In the Dublin city and South Dublin areas, almost 20 per cent of homes had valuations above €300,000, in Fingal the figure was 21.5 per cent while in Dún Laoghaire, almost 60 per cent of homes were valued above €300,000.

This figure fell dramatically outside Dublin with Wicklow County Council the only other local authority with more than 10 per cent of properties valued above €300,000. In almost all rural local authorities the majority of homes had valuations of under €150,000 and in five, the majority of properties were valued under €100,000.

Self-assessment

More than 40 per cent of households, about 688,800 homeowners, self-assessed their property under the Revenue's valuation, with Dublin households most likely to protest the Revenue's assessment. However, more than 12,500 "self-corrected" their valuation upwards, the Revenue said, either following its challenge, or when the property came up for sale.

Fine Gael Dublin city councillor Paddy McCartan said the council should again apply the maximum discount next year, because of the "equalisation" process, where 20 per cent of Dublin money is shared out among rural local authorities.

"I don't see why 20 per cent of Dubliners' money should be going to other counties, and the amount that's taken from Dublin is only going to increase unless the whole system is reassessed."

LPT property valuations have been frozen at 2013 levels until October of next year, when a re-evaluation, which will effect charges from 2020, is due to be implemented. This June the average cost of a house across the State was €237,000 and €359,852 in Dublin.

"I think it's unlikely that the rate of the tax will stay the same after the re-evaluation, but it is likely that people will be paying more and I think Dubliners have the right to expect that they will get bang for their buck and the money raised in Dublin will be spent in Dublin."

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