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Property Tax and Assessment News from Around the World

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Charity shops in main urban centres now liable for rates

There is concern about the number of charity-centred premises in competition with other rate-paying businesses

Charity shops in the main urban centres of County Wexford will have to pay full commercial rates following a decision by the County Council to end a practice of striking off rates on properties occupied by registered charities.

Head of Finance, Annette O'Neill told last week's Wexford County Council meeting that the local authority operated a 100% rates exemption for charities and certain community groups for many years.

But in recent years, there has been concern about the increasing number of charity-centred premises being established, particularly in main retail centres and specifically those operating activities in direct competition with other rate-paying businesses.

Ms. O'Neill said council members requested a review in order to implement a fair and reasonable scheme and to strike a balance between addressing the concerns of other rate payers while recognising the value of the work being delivered by charitable organisations.

'The development of these guidelines will hopefully bring the balance required and will also provide certainty in terms of rating liability for such organisations considering occupation of a premises', she told councillors.

The process started in 2017 when charities occupying rateable properties were requested to apply to the Valuation Office for a revision of the valuation on their premises, to determine if the activity qualified for a Rates exemption under Schedule 4 of the Valuation Acts.

Some organisations engaged with this process but others resisted, stating that they found the application fee of €250 prohibitive.

In response, the County Council agreed to make the application and fund the fee on behalf of organisations which could prove that funding was a barrier. The local authority provided a total of €12,500 in support of 50 of these applications.

The Valuation Office recently completed their review of each application, applying exemptions only where they determined that there is no commercial enterprise taking place on the premises.

The result is that the majority of premises occupied by charities in County Wexford did not secure an exemption. A total of 16 premises, mostly where non-profit services are being carried out, obtained an exemption.

Following this, the Council has developed a Grant Relief scheme to address the concerns of councillors about organisations they feel are worthy of support with rates exemptions.

The Rates Relief Grant for Community Based Facilities Scheme will apply to training facilities for sporting groups but not bars or shops; community groups such as Men's Sheds; community facilities such as swimming pools; religious groups; chamber of commerce offices; non-charging counselling services and tourist sites without cafés or shops.

It will not apply to charities or community organisations running commercial enterprises such as charity shops in retail premises in town centres.

The level of grant available will be 100% of the annual rates bill but this is dependant on the type of enterprise and the trading location.

Following a VO evaluation, each organisation seeking rates relief will have to make an annual application, providing relevant information.

In relation to premises where a commercial enterprise is being carried out and the charity has not secured an exemption from the Valuation Office, a number of factors will be taken into account.

Charities and community-based facilities in rural locations will receive a 100% grant - this means any premises outside the town boundaries of Wexford, Enniscorthy, Gorey, Bunclody and New Ross will get full rates relief.

A business will be considered commercial if goods or services are sold or traded from the premises, including clothes shops, book shops, cafés, counselling services that charge a fee.

But any organisation occupying a premises in any of the main urban centres will be regarded as commercial regardless of the status of the facility and will have to pay rates.

Any new charity business choosing to locate in a town centre will have to pay full rates but existing charity shops affected by the changes, will be given time to secure an alternative premises away from the urban centre.

'We will work with them over the next year or so, to encourage them to move their premises to where the grants are. If they choose to remain in the urban centre, they will have to pay rates. It's not about the money, it's about being fair to other businesses and businesses competing against each other', said Ms. O'Neill.

Under the old system, the Council wrote off an estimated €313,208 per year in rates for charities and community organisations in the county and it is reckoned that under the new guidelines, about €209,394 will be granted in rates relief, leaving approximately €103,814 to be paid.

Based on the list of organisations that applied for VO assessment, there are 100 rates accounts, with 16 granted exemption and three eligible for 100% relief due to being in rural areas.

About 50 of the premises should expect to get 100% relief under the grant scheme, leaving about 30 commercial premises that will be required to pay 100% rates, although there may have been an increase in this figure during the two-year assessment process.

According to Ms. O'Neill, not all charity shops have received rates strike offs in the past as some organisations which own their premises are already choosing to pay commercial rates.

'We have a lot of rate paying charity organisations', she said.

The designated retail areas are, Wexford: the Main Street to Redmond Square with some of the side roads towards the North end also included; Gorey: Main Street, the Avenue and Esmonde Street; Enniscorthy, Market Square, Main Street, Cathedral

Street, lower end of Weafer Street, Slaney Street, Rafter Street and the top of Castle Street; New Ross, Lower Mary Street, North Street, South Street, Charles Street and the R700 to John Street junction.

Independent councillor David Hynes said he welcomed the clarity provided by Ms. O'Neill's report but pointed out that one of the main Wexford charity shops, run by the WSPCA, had received a very large rates bill which is threatening to shut them down.

'Whether we like it or not, these charities would not be able to operate without the support of shops like these. There are people dependant on these charities'.

Ms. O'Neill said if charity shops are sited in a main retail area, they are occupying one of the larger rateable valuation properties and that is also where the rents are highest.

Fianna Fail councillor Malcolm Byrne said he hoped the document would achieve what it set out to do. 'That is not to undermine charitable organisations but if a charity decides to trade commercially against another business, it must pay rates'.

Gorey's Cllr. Diarmuid Devereux said the new system is 'fair and balanced' and strikes 'a balance between collecting rates for the county and allowing genuine charities to trade'.

Think-tank urges radical shake-up of property tax to address wealth inequality

Property taxes should be raised sharply to diversify tax revenue sources and to address rising wealth inequality, the Nevin Economic Research Institute (NERI) has said as the Government prepares its 2020 Budget.

The proposals from the trade union-affiliated think-tank would represent a major shift in the tax system and the Government has repeatedly shied away from changes to property taxes due to their political unpopularity.

At present, the State collects far less in tax revenue than other European Union countries at just 23.3pc of gross domestic product, versus 38.9pc in the EU. Of the taxes collected, Ireland is far more dependent on VAT and excise taxes that hit the less well off harder than the wealthy.

"These taxes are also the most difficult for the super wealthy to avoid because the underlying asset lacks mobility and is impossible to hide," NERI senior economist Tom McDonnell said as the institute unveiled its tax proposals and economic forecasts.

The Institute's proposals call for a steady increase in property tax rate over 10 years by 0.01pc or 0.02pc, from the existing 0.18pc, and for property valuations to be rebased at current levels and re-evaluated every three or four years.

One major objection to hiking property taxes has been older people on low incomes who live in more valuable houses would be hit hard, something the NERI said could be dealt with by deferrals until the house was sold.

Apart from that, exemptions should be kept to a minimum, Dr McDonnell said, to reduce distortions and loopholes in the tax system.

The NERI estimates that Ireland collected €1.6bn less than its EU peers from residential property taxes in 2016.

Although a rise in property taxes would be politically unpopular, studies by the Organisation for Economic Co-operation and Development have shown they are more "growth friendly" than other taxes such as stamp duty, which can reduce social mobility and prevent people moving location to new jobs.

Rising revenues from property taxes could be used to replace stamp duty which is very volatile, as shown in the crash when receipts evaporated, punching a huge hole in government finances.

Claiming an exemption from property tax? Now you must prove it

Penalties up to €3,000 for those incorrectly claiming exemption for buying home in 2013

When the local property tax was first introduced back in 2013, an exemption was offered for first time buyers

The Revenue has written to homeowners who purchased a property in 2013 asking them to verify that they should be entitled to an exemption from local property tax on the basis that they purchased the property that year.

Some 11,500 homeowners in this cohort have been enjoying an exemption, known as section 8, from the tax since this date – thus saving themselves thousands of euro. The exemption was introduced in 2013 to stimulate demand among first-time buyers, but was subsequently extended to all buyers in that year.

The exemption is due to end this year, which means that such buyers will find themselves subject to the tax for the first time from 2020, when a new valuation date is due to be introduced.

However, ahead of this, the Revenue is seeking to verify that exemptions have been claimed appropriately, and is asking homeowners to verify both the date of purchase of the property, and that it is being used as their sole or main residence since this date. Homeowners have been given 28 days to respond to Revenue with the required documentation.

According to a spokeswoman for Revenue, while there is "no specific compliance programme" under way to test eligibility for the exemption, confirming compliance is normal Revenue practice .

Those who are found to be incorrectly claiming the exemption could face a maximum penalty of €3,000, although the spokeswoman noted that this may be mitigated to an amount equal to the actual local property tax liability. This would depend on the property owners "quickly getting their LPT affairs in order". Interest at a rate of 8 per cent also applies in respect of unpaid liabilities.

The exemption

When the LPT was first introduced back in 2013, an exemption was offered for first time buyers (exemption B). This was subsequently extended, on the back of a claim, to all those who bought a home between January 1st 2013 and December 31st, 2013. Those who bought a property between May 2nd and November 1st of that year were not required to pay LPT on the property for 2013 – rather it was the obligation of the vendor, and were exempt from the charge for the years 2014 to 2019. Those who bought in that year, but not between those dates, were obliged to pay the tax for 2013 but are exempt up until 2019.

Purchasers of new homes since then have also benefited from the exemption.

It is understood that some 12,000 homeowners have been claiming that exemption, thus saving potentially thousands of euro over the period. For example, someone living in a €500,000 house in Dún Laoghaire Rathdown would ordinarily have an annual bill of about €803; but if claiming the exemption, they would have saved about €5,621 over the period. Similarly, a homeowner in Waterford with a home worth about €180,000 would have saved themselves about €2,254.

However, there are some caveats; the exemption does not apply to investment properties, while if an eligible property was sold between 2013 and 2019, the exemption would no longer apply to the new owner of the property.

Ibec issues call for the reform of commercial rates

Ibec, the group that represents Irish business, have called for reform of the collection of commercial rates through the introduction of a new centralised or shared service collection model similar to the Local Property Tax system.

This proposal follows the movement of the Local Government (Rates) Bill 2018 through Dáil Eireann.

Commenting on the report, Ibec Senior Public Sector and Regulatory Executive Aidan Sweeney, said, “Local authorities have a significant impact on business conditions and cost competitiveness. Approximately €1 out of every €3 spent by a local authority comes directly from local businesses.

“Local authorities are relying on business to balance their books. In 2019, the Midlands business community will contribute €55 million to the combined income of Laois, Offaly, Longford and Westmeath County Councils.”

Mr Sweeney said the collection of commercial rates must be improved and said a centralised model like the Local Property tax system should be considered.

He said, “New commercial rates incentive schemes are needed to encourage regeneration, entrepreneurship and productive investment. They must be properly budgeted for and not crudely fall on remaining rate payers in the locality.

“Local businesses should be consulted over the development of new incentive schemes. After all, local authorities are responsible for local economic development.

“The new legislation as it stands does not go far enough. The revaluation process must be scrutinised including costs and timelines which are far too slow. Finally, we are calling for a full review of local government finance, including examination of replacing commercial and domestic property taxes with a site or land value tax.” he continued.

Concluding Mr Sweeney said reductions in central government contributions have led to local authorities becoming reliant on businesses for their revenue.

“This is not sustainable. It is time for a comprehensive discussion on local government funding,” he stated.

The stark problem for Irish towns is simple: they need people

Our population grew by 31 per cent over two decades, but the growth was far from even

In a series of articles, The Irish Times explores five challenges facing rural Ireland – diversity and migration; poverty; rapid growth; post-recession recovery; and depopulation – and ways to overcome them.

In late 2018, Future Analytics co-ordinated a research project on behalf of the Society of Chartered Surveyors Ireland. Its brief was to explore Ireland’s regional town centres, focusing on the 200 or so settlements with a population of 1,500-10,000. These account for 13 per cent of the population, or 600,000 people.

Trends influencing the high street were identified, as were barriers to vibrant regional centres and the factors animating these centres. Practical recommendations and policy suggestions for revitalising these towns were included in the final report.

Population

The stark problem for our towns and villages is really quite simple – they need people, a resident, working and visiting population. For any such community to survive and thrive, it needs local services and facilities, the basic social infrastructure for a sustainable settlement, proportional to the population.

Footfall equals custom, and can make or break the viability of a local business such as a butcher or independent retailer.

There is a global trend towards more people choosing to live in larger urban settlements. In Ireland, almost two thirds of us now live in urban areas, according to the 2016 census.

Ireland’s population grew by 31 per cent between 1996 and 2016, but the growth was far from even. The population of Meath grew by 78 per cent, Kildare by 65 per cent and Laois by 60 per cent. However, in Sligo, Mayo and Kerry the growth was about 17 per cent.

Irish planning policy includes a focus on "compact urban growth" in our larger towns and city regions, but we have also witnessed a proliferation of one-off housing in the countryside, culminating in the "doughnut effect" or hollowing out of our town and village centres.

John O'Connor, chief executive of the State's Housing Agency, recently called for stronger planning controls on single dwellings in the countryside, and concerted action to encourage the use of vacant buildings and undeveloped plots in town and village centres.

How do we retain the educated talent of young people from a town or village, who typically go off to third level but do not return to settle locally? If we can stem the dispersed pattern of rural living, we can renew a population base that makes our towns attractive places that can sustain businesses. If our towns and villages can be repopulated, it greatly enhances the prospects of delivering on a core facet of the 2017 Rural Potential Action Plan.

Commercial viability

The traditional model of the functioning rural town or village saw a locally-owned department store draw the community to visit the town centre. This gave smaller businesses a viable customer base through passing footfall. Social infrastructure – banks, post offices, medical care, community facilities – were actively used and accessible to all.

However, we now have well over 200 shopping centres throughout the country.

In many instances, these have been located on the edge of towns or in out-of-town locations. Typically, these are professionally managed and modern buildings, benefiting from co-ordinated marketing budgets and expansive surface car parking – often free. Meanwhile, in the town or village centre, independent retailers struggle to survive on narrow streets with limited car parking – often with charges.

Many of the shops and businesses that have managed to survive in town and village centres remain at the pin of their collar owing to excessive and inflexible local authority rates valuations, increasing insurance costs, and landlords unwilling to negotiate realistic rents.

It is time for a serious conversation about the merits of a land value tax to replace the contentious property tax. Widely seen as a more equitable means of reducing land hoarding, a land value tax would apply to all land, but would be based on a proportion of the current rental value, so that more rural locations would not suffer from excessive costs.

Investing in infrastructure

Despite the Government's recent announcement of its ambitions for national broadband coverage, it is embarrassing that businesses in small towns do not have broadband and so are unable to compete online with bigger companies and international brands. The absence of quality broadband greatly disadvantages our towns and villages in attracting businesses.

The delivery of high-quality broadband connections is fundamental for high streets and the roll-out of the National Broadband Plan must be prioritised by Government.

Governance

The importance of strong and visionary local authorities cannot be underestimated. As the guardians for the proper planning and sustainable development of our settlements, the dissolution of the town councils through local government reforms removed truly local decision-making from individual towns.

There is no sense of local government abdicating on their responsibilities, but there is a limit to the resources and finances available to the local authority.

Communities must show leadership, and community champions must be supported, such as through the Town Teams model, to have a credible influence on the future of their town or village.

Ministers decide against major changes in property tax

Ministers' meeting discussed the importance of keeping the local property tax stable

Ministers decided against major changes in the local property tax regime because of an "uneven pace of increase" in home values, documents show.

A note sent in March to Minister for Finance Paschal Donohoe detailed a conversation he had with Taoiseach Leo Varadkar and Minister for Housing, Planning and Local Government Eoghan Murphy about the tax.

It states that during the discussion, Ministers discussed how it was "imperative" to keep the tax stable and also noted the complexity of ensuring "moderate" increases across the country.

"A discussion you had on 20 February with the Taoiseach, the Minister for HPLG, the attorney general, was informed by estimates of the impacts of local property tax liabilities of liable persons under a number of scenarios that have been discussed over the last number of weeks...

"The discussion noted the imperative of achieving relative stability in local property tax liabilities and inter alia the significant challenges arising in that regard from the uneven pace and rate of increase in residential property values throughout the country since the first valuation date of 1 May 2013."

Freedom of Information

The note, released under Freedom of Information laws, adds that "these factors add complexity to the task of attaining moderate and affordable adjustments to the tax in an even manner across the country within the local property tax design parameters.

"It was noted that simplicity was a key factor in the successful implementation of the local property tax and that it was important to try to maintain this feature for taxpayers."

A freeze on re-evaluations until November 2020 was announced in April.

Mr Donohoe said last month that he was planning for "modest" increases in property tax when the deadline for re-evaluating how much householders pay comes around next year.

Mr Donohoe said any changes would be "affordable" but the "progressivity" of the tax would be upheld.

It comes after an ESRI report warned that the Government ought to take some heat out of the economy by raising taxes, particularly carbon tax and property tax.

"Given the expected increase in capital expenditure over the short to medium term, it may be advisable to run an explicitly counter-cyclical fiscal policy and instigate a mildly contractionary budget.

"Taxation increases in the area of carbon taxes or residential property taxes could be used to reduce some of the demand-side pressures which are now evident in the domestic economy."