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Local property tax under scrutiny in expert review

A site value tax is a charge on the value of land rather than property

The local property tax may soon be a thing of the past as the government considers replacing it with a site value tax.

A group of experts have been asked to examine how the tax works and whether change is necessary.

The LPT is a self-assessment tax so it is calculated based on an individual's own declaration of the market value of the property. Revenue does not value properties for LPT purposes.

A site value tax is a charge on the value of land, not taking into account any property.

The property tax has proved contentious since its introduction in 2013 and groups such as Social Justice Ireland have said that a site value tax is fairer. The tax paid is still based on 2013 valuations. As house prices have risen significantly since then, the government fears that updating the valuations would result in much larger bills.

Paschal Donohoe, the finance minister, yesterday launched the commission on taxation and welfare, which will look at a broad range of issues. The terms of reference state it will “consider the appropriate role for the taxation and welfare system, to include an examination of the merits of a site value tax, in achieving housing policy objectives”.

Ronan Lyons, an economist at Trinity College Dublin and for Daft.ie, a property website, said the site value tax should replace a series of other taxes on properties.

He said: “The biggest bang for your buck, would be replacing not just the local property tax, it should replace commercial rates and development levies as well. It would definitely help if it were levied instead of the LPT. It is more equitable, it's basically a wealth tax on social wealth.

“If it applies to all land, not just land under private homes, then you have a strong incentive for land to be used well, in particular publicly owned land.”

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He added: “It should be an easy win for this to be levied on commercial and development land, but I can imagine the politicians baulking at replacing the local property tax with it. Changing a tax like that is like attacking a wasps’ nest.”

The commission was a commitment from the programme for government between Fianna Fáil, Fine Gael and the Green Party. It will take account of the impact of the Covid-19 emergency, ageing demographics, digital disruption and automation as well as the long-term strategic commitments of government regarding health, housing, and climate.

Niamh Moloney, professor of financial markets law at the London School of Economics and Political Science, will chair the commission. Members will be appointed in the coming weeks.

Colm O’Reardon, assistant secretary-general in the Department of Finance, will lead the secretariat to the commission. He was previously special adviser to Eamon Gilmore when the Labour Party was last in government.

The commission will also look at what changes, if any, should be made to the social insurance system. In addition, it will be tasked with examining how the taxation system can be used to help Ireland move to a low carbon economy.

Donohoe said: “I am delighted today to announce the important work of the commission on taxation and welfare will begin in the coming weeks. This independent work will ensure the sustainability of the public finances into the medium to longer term, and identify potential reforms to the tax and social welfare system so that the evolving needs of our society can continue to be met.”

The commission will report back to the minister by July next year, in time for the budgetary process.

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