IPTI Xtracts

Property Tax and Assessment News from Around the World

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' Why the left - including Sinn Féin - should support property taxes

WHAT'S THE BEST way for the government to spend half a billion euro? If you asked a hundred people, you'd likely get a hundred different answers.

But it's doubtful that many of them would propose using it to fund a tax cut which benefits the owners of the most expensive houses most. Yet this is what some politicians are proposing.

Local property tax (LPT) is back in the headlines as the rates are being adjusted.

When LPT was first brought in, the plan was to revalue every property in Ireland regularly, to determine how much tax would be paid. This is to ensure that those with the priciest houses pay more than others.

Because these revaluations were politically difficult, successive governments dodged the process each year since 2013, meaning that houses never did get revalued.

This created a loophole, where houses built since 2013 weren't valued at all – and thus didn't have to pay any local property tax.

The government's failure to revalue created near-random tax inequalities based on the meaningless measure of when a house was built. This week, they announced a plan to finally revalue properties and restore some fairness back into the system.

About two-thirds of households will see their tax bill either fall or stay the same.

Why scrap the LPT?

But anytime local property tax comes up, some will call for it to be abolished. Sinn Féin's Mary Lou McDonald and Eoin Ó Broin did just that on Tuesday, calling for the local property tax to be dropped in its entirety.

This would be a bad idea.

The local property tax is far from perfect. There are viable alternatives or reforms that the government should look at – another kind of property tax called a "site value tax" might well work better, for example.

But as it stands, the tax will bring in over half a billion euro each year – funds that are used to pay for public services across the country. In Dublin City Council, the funds support housing, the fire brigade, ambulances, parks and much more.

Ditching the tax would leave a big hole in public spending – roughly the entire cost of the courts and prison services combined.

Even setting aside what you can spend the tax on, there are two key questions that need to be asked before we propose ditching the LPT.

The first question is simple – who benefits? If we're giving a tax cut worth hundreds of millions – are we giving it to the right target group?

The clear main winners would be those who already own their homes. As in every group, there will be people who face difficulties in paying the bills, but in the main, that's a group that is better off than those who are renting.

I know this from personal experience. Up until late last year, I was renting a room in a shared, two-bed apartment. The monthly rent for the flat was about €1,500 between the two of us. I was eventually able to buy a house in the same area. The house is bigger, yet the mortgage repayments are around €1,000 a month.

These numbers are different for every household, but it's clear that homeowners are in main getting a better deal than renters. It would be a strange choice to prioritise us for a tax cut.

Reform, don't scrap

That doesn't describe everyone, of course. There are those who own their own homes but don't have much income. Opponents of the local property tax often rightly point to this group as needing special attention.

If your income falls below a certain threshold, you can indefinitely defer paying the tax. In the case of the low-income elderly, this often means that they don't have to pay the tax, and simply have the deferred tax taken from their estate down the line.

There's a good argument to be made that these thresholds should be higher, but that's an argument for reforming a tax, not scrapping it.

The other key question we need to ask is whether we should tax property like this at all? To me, the answer is absolutely, yes. Nearly every country in Europe taxes land or property, as does the US – typically at far higher rates.
Part of the reason we tax property is that it is the greatest single store of wealth. An estimated 90% of all household wealth in Ireland is tied up in land and property. It's near-impossible to move a house or land across borders, so the super-rich don't have much chance of evading it either.

Municipal projects – ranging from new roads to parks – all increase property values, which benefits landowners. It is only fair that some tax is paid to recognise that.

And land taxation means that we're not just betting our whole tax system on one horse. Nearly half of all taxes are labour or income-related – it's important that we have a diverse range of taxes for any difficult times ahead.

We also need to recognise that tax has different impacts on different generations. Younger workers, in the main, have faced insecure work, high housing costs, and flatlining opportunities. Older people, who make up the bulk of homeowners, have had to struggle, but are comparatively better off.

Refusing to tax their assets and loading all tax onto income essentially shifts the tax burden from older people and onto younger generations. We need more of a mix of taxes – on income, consumption, and wealth – to ensure that no one group is paying for the lot.

Nobody likes paying tax. Nobody is running enthusiastically running down to the Revenue, cash in hand. But people are not stupid: they understand that public services cost money to run.

For those of us on the left, who want to see more state spending and reduced inequality, we simply need more tax positivity. We need to be honest with people that decent services require proper, fair, and diverse taxation. There's a good chance that Sinn Féin will be in the next government. I hope they embrace taxation – including property tax – as a big part of bringing about a more equal Ireland.

Property tax reform - who will be the winners and losers? Owners of newer and most valuable homes to be hardest hit

Why is the local property tax being reformed?

The tax was introduced in 2013 after the financial crash. It was intended that the valuations on which the tax would be based would be updated every few years, but this has been put off by successive governments. Until now. As the tax is based on 2013 valuations and excludes all properties bought by first-time buyers in 2013 along with all new homes bought since then, it is hopelessly outdated and could even have been open to legal challenge.

So what will happen now?

Houses will be revalued in November in line with the increase in property prices since 2013. This averages 80 per cent plus although it varies from region to region. To ensure that most homeowners do not face higher bills, the bands used to calculate what homeowners pay are being adjusted and the rate at which the tax is charged is being cut . If this had not happened, the revaluation would have meant payments would have soared. As it is , most current bills – around 53 per cent– will remain as they are. Around 11 per cent will actually fall but 33 per cent will rise by around €90 and three per cent will rise by more. This variation is due to different trends in house prices across the country. Houses will be revalued later this year on a self-assessed basis and payment amounts will change next year.

What about people who don't currently pay?

The two main time-based exemptions will end. So the tax will apply to houses bought by first-time buyers in 2013 and all new homes bought in the meantime. So, for example, people who fall into one of these categories with homes valued now at €350,000 to €500,000 might pay roughly €400 to €500 a year from next year on. This is a significant extra amount for this group, though there has been a clear unfairness that they were exempt up to now. There are believed to be more than 80,000 homes in this category.

Who else is likely to pay more ?

We will have to wait for the full detail to be announced on Wednesday for precise details. One issue highlighted by a 2019 Department of Finance study was that reform could disproportionately hit the lowest value households, those currently valued at less than €100,000 and almost all in rural areas.

It is believed that a restructuring of the tax bands related to lower cost properties will be introduced to avoid this. For most houses valued up to €1 million, the rate is likely to be applied at just over 0.1 per cent – this is below the current rate of 0.18 per cent.

A widening of the bands will ensure that the cost remains the same for the majority. Currently houses are charged within €50,000 bands – for example home valued at between €200,000 to €250,000 are charged the same rate - but the bands are likely to be widened to €75,000 or €80,000. A higher rate will continue to apply for houses over €1 million.

Looking at the Department of Finance 2019 report and what we know so far, the higher rate of house price increase in Dublin and the commuter counties – as well as in Cork – are likely to mean somewhat more houses in these areas face tax increases, which are likely to be around €90 in most cases.

Higher increases in cash terms will apply to some €1 million plus houses – typically in Dublin – because of the higher tax rate which applies to these homes combined with their rise in value. Houses whose price has risen sharply and are now valued at €1.5 million or more could see €400 to €500 increases in some cases.

In general, however, the impact will vary because it will depend on whether the old house value was close to the top of its band and how the restructuring of the band impacts. A lot of ordinary houses whose value has increased by 70 - 80 per cent since 2013 will see no increase and a small number of probably modestly priced properties in areas where prices have not increased sharply will actually see a €90 a year fall.

What will this raise for the exchequer?

The main increase in revenue will come from the inclusion of homes currently excluded. This will increase the annual yield from €480 million now to around €560 million. The tax is a minor one in overall terms, but significant for local authorities. A move to allow each authority to keep all the LPT collected in its own area may be signalled. Previously a portion was paid by higher yielding authorities into a pool which was then redistributed. The central exchequer would have to make up any shortfall to less well-off authorities if this happens.