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The problem with a wealth tax? There are not enough rich people

IMF report urges Government to raise more tax for public investment, but who will pay?

It's edifying to think that a wealth tax or a solidarity tax on the super-rich could raise revenue for investment in public services. But it won't. A study by the Economic and Social Research Institute (ESRI) back in 2016 estimated that imposing a French-style wealth tax – applied to assets exceeding €1.45 million – on Ireland's financial elite would net the exchequer here a paltry €22 million per annum. Adopting a Swiss-style wealth tax, however, could generate €1.3 billion in additional revenue, the ESRI found. But there's a sting in the tail. The burden of Swiss wealth taxes, which differ depending on the canton, fall on low and middle-income earners as well as the very wealthy. In the Swiss region of Schywz, for example, a wealth tax is applied to all individuals with assets, including income and property, exceeding €49,824.

Maybe there's a better way to extract more tax from the rich but the Swiss example bears out an essential truth about taxes – they have to be broad-based to generate significant revenue. Unfortunately that means hitting a wide pool of people. That's why tax is so politically divisive: everyone thinks everyone else should pay.

Politicians might play something of a slippery game in this department – promising one thing, doing another – former US president George Bush snr famously stated "read my lips, no new taxes" when running for election before presiding over a spate of them. But the electorate is equally guilty of berating government for the poor state of public services while punishing the politicians that seek to raise taxes to improve them.

Within hours of the International Monetary Fund (IMF) releasing its latest assessment on the Irish economy last week, which said Ireland needed to raise more taxes to fund public investment once the pandemic has abated, Tánaiste Leo Varadkar was reported to be telling Fine Gael colleagues there would be no income tax hikes. He was merely repeating what's laid down in the Programme for Government, namely a pledge not to touch income tax or USC rates.

Capacity constraints

Fine Gael has, for five years, promised to alleviate the so-called squeezed middle – those creeping into the higher 40 per cent rate on relatively low incomes – but surely the window for that came and went when the exchequer was awash with bumper corporation tax receipts a few years ago.

The IMF was merely highlighting a self-evident truth about the Irish economy, namely that – after 10 years of solid growth – it has begun to hit capacity constraints in several areas – education, transport, housing, water – and that future growth, combined with the shift to a carbon neutral society, requires Biden-esque public investment.

Between 2014 and 2020, the economy here grew by more than 50 per cent, largely as a result of a spike in investment and employment almost exclusively in the private sector. The surge created more than 400,000 jobs – 25 in the private sector for everyone in the public sector.

The additional demand on public services has, however, resulted in bottlenecks across the economy. Everywhere you look there are waiting lists, supply shortfalls, congestion. If we don't act we'll have what US economist JK Galbraith referred to as "private affluence and public squalor".

Borrowing to pay for additional investment is no longer an option in the wake of the high level of debt built up in recent months while the dividend from the economic growth is needed just to stand still, in other words to pay for age-related and demographic changes.

Tax options

Hence the renewed focus on tax. While there is a consensus that the tax base needs to be broadened, there is little agreement on how this should be done.

The recently established Commission on Taxation and Welfare, which will publish its findings next year, may shed light on the matter. In the interim, the conversation has centred on water charges, carbon taxes, the scaling back of certain tax reliefs relating to pensions and inheritance, and property tax.

Water charges, if we reverse back into them, would merely pay for the water utility and the upgrade of its creaking infrastructure while higher carbon taxes can't be relied on if the economy is shifting against carbon usage. Environmental taxes are deployed to alter consumer behaviour so when they work the revenue falls.

A more extensive property tax regime is another route. A recent Central Bank study shows 90 per cent of household wealth here is held in the form of property, and that's true even for the wealthiest 20 per cent. By postponing the revaluation of the current local property tax (LPT) – repeatedly since 2016 – the Government has backed itself into a corner on the issue and seems loathe to push deeper into this potential source of revenue. Properties built after 2013 are still outside the loop.

The unfortunate truth for Government is that income tax – the area it has promised not to touch – is far and away the easiest place to garner more revenue.

That could involve bringing more low-paid workers into the net – we're out of kilter internationally on having so many outside it – and/or changing the rates. According to Revenue, raising both income rates by one percentage point would generate an additional €1 billion for the public purse. This would require a major political backtrack and a public outcry but unless we broaden the base another way, this is what looms on the horizon.

Vacant property tax targeted at institutional landlords who leave apartments lying empty under 'serious consideration'

Hundreds of top-end apartments in Dublin are lying empty despite a chronic shortage of rental stock.

A VACANT PROPERTY tax for investment fund landlords who own a large number of apartments that are lying empty is under "serious" consideration, it is understood.

Finance Minister Paschal Donohoe has been asked to consider whether a multiple of the Local Property Tax for apartments that are left vacant could be used to deter institutional landlords from leaving properties lying idle, senior sources confirmed.

Tánaiste Leo Varadkar confirmed that the Government may re-examine a vacant home tax and may increase the new stamp duty on bulk purchases if it does not prove effective.

In a letter to members of the Fine Gael parliamentary party, Varadkar said the government could "look again a vacant home tax and examine long-term lease arrangements where the asset does not revert to state or occupant at the end of the lease".

The Business Post recently reported that hundreds of top-end apartments in Dublin are lying empty despite a chronic shortage of rental stock.

It found that a detailed analysis of the Residential Tenancies Board's register shows that a number of recently developed apartment schemes – charging between €2,000 and €10,000 a month – have a large number of vacancies.

The newspaper also revealed that 100 of the 190 apartments in the 22-storey Capital Dock near Grand Canal are vacant.

It is understood that government is assessing if triple or quadruple levels of the Local Property Tax should kick in for apartments that have been vacant for more than six months.

Landlords would have to self declare their vacancies, it is believed. The aim is to bring the properties back into use, while possibly encouraging landlords to lower the rent asked for the apartments if they cannot get tenants for the price asked.

However, there are concerns from some that the system might be difficult to administer, with questions being asked about how properties that are left empty could be identified.

There would also be a number of exceptions, as some within government are wary of such a tax hitting property owners who might have their home vacant if they are abroad, or own holiday homes or other examples whereby the measure could hit non-investment fund property owners.

Concerns were also cited that funds could get around the measure through short-term let rules; however, the housing minister has recently stated that he plans to move on the regulation of short-term letting platforms.

Under plans announced yesterday, the purchase of more than ten residential houses by a buyer will see them face an increased stamp duty of 10%.

This higher charge, as well as applying to bulk purchases, will also apply to a situation where a person acquires 10 or more units on a cumulative basis over a 12-month period

Once triggered, the 10% rate will apply to all houses acquired in that 12 month period, including the first nine purchases.

However, the government has been criticised in many quarters for not applying the new measures to apartments.

An investment fund will be allowed to buy up to nine houses over a 12-month period without being hit with the higher rate.

While there are concerns being voiced about the ability for people to get the opportunity to buy an apartment to live in, there are also concerns that the new measures give the green light to investors to plough on and buy up apartment blocks.

Senior government sources state that it is understandable the concern being conveyed that apartments in cities shouldn't only be for funds and renters that can afford the high rents.

They said that it is the only way apartments will get built, in their view, adding that there could be another solution in requiring some percentage of apartment blocks being set aside for owner-occupiers also.

While they said Tuesday's announcement will not be the last policy intervention by the government on housing, a vacancy tax is definitely "in the mix".

Indecon consultants – the same group that found that there was no need for a community banking system in Ireland given the variety in the Irish banking market – was also tasked by the Department of Finance in 2018 to conduct an examination of introducing a vacancy tax and the impact it might have in increasing the available housing stock on the market.

The report found that a vacant property tax would not be recommended at the time, however, it said a major programme of compulsory purchase orders of vacant properties should be urgently activated.

It found that if the government decide to introduce the vacancy tax, it should be levied on properties in rent pressure zones which have been vacant for a period of 12 months or more and it should be imposed in the form of a surcharge on the existing Local Property Tax.

In theory, the report states that a vacant property tax "could re-activate significant segments of the existing housing stock" but it found that the reasons for vacancy are wide-ranging.

"In practice the validity of such a tax will depend on the prevailing levels of vacancy and the reasons for vacancy," stated the report.

While those in government circles cited the report, stating that the findings were negative against such a tax, they added that "maybe it was wrong".

While there are some concerns that such a move could be ineffective, it is believed it might do "some good, and little harm".

Paschal Donohoe said he maintains the view that there is a role for investment funds when it comes to apartment blocks, stating that as see more supply become available it will lead to changes in rent and the cost of homes.

The Rent Pressure Zone legislation, which is due to be revised, will be replaced in the autumn, the housing minister has also confirmed.

When asked for comment on the assessment, a spokesperson for the Department of Finance said the 2018 independent Indecon report suggests that the vacancy rate in areas where housing supply is most acute is significantly lower than the national average and has fallen in recent years.

“The report suggested that the vacancy rate within rent pressure zones, excluding holiday homes, was approximately 6% but that most of these vacancies were short and medium, with a low level of long term vacancies – the rate lying between 0 and 3% for Dublin for example.

“In addition many of these properties are vacant long term for reason of dilapidation or because the owner is in a nursing home. The report estimated the rate of properties which are vacant long term and habitable to be only 0.8% of properties in rent pressure zones. The report also suggests that the vacancy rate is likely to continue to fall due to market developments,” said he spokesperson.

The statement went on to say that the report found that there was very low vacancy rates in the areas of greatest demand for housing, particularly in terms of medium-term vacancy, which indicates “that the potential for a vacant property tax to increase housing supply is very limited and could represent a distraction from the need to significantly accelerate the building of new social housing, affordable housing and the facilitation of other housing supply”.

“It is of course necessary to monitor the position and in that regard we understand that the CSO plans to deploy an enhanced approach during the next Census to the collection of information in relation to residential properties that appear to be vacant,” said the spokesperson.

Labour housing spokesperson Rebecca Moynihan has said the failure to implement a vacant homes tax is “a wasted opportunity”.

“We know from analysis from the Business Post that large build to rent complexes such as Clancey Quay and Capital Dock are not fully occupied. This is a scandal and could be stopped if there was political will to change things,” she said.

“It is an absolute scandal that while thousands of people have no proper home, many properties continue to lie vacant. Home ownership should be a legitimate aspiration for people. It should not be seen as an investment opportunity for huge funds that only care about their bottom line. Government has wasted yet another opportunity to change people’s lives for the better,” she added.

O’Brien is understood to have given a commitment that he would continue to work with his Green Party colleagues in government, who voiced concerns about apartments being exempt from yesterday’s measures, on further measures to help those buyers wishing to purchase an apartment to do so.