IPTI Xtracts

Property Tax and Assessment News from Around the World

IRELAND - September 2022

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NEW TAX ON VACANT HOMES

Budget 2023: Tax is aimed at increasing the number of residential properties in the housing crisis

Preliminary figures from the 2022 Census show there are 166,752 vacant dwellings and 66,135 unoccupied holiday homes in the State. Photograph: Brenda Fitzsimons

The Government has introduced a new vacant homes tax in the budget that is aimed at increasing the supply of residential properties as another response to the housing crisis.

How will the new tax work?

The tax will apply to any residential properties which are occupied for less than 30 days in a 12-month period. The tax will be introduced from next year.

Why is the tax being introduced?

This is definitely not a revenue-raising measure. Budget documents published by the Department of Finance estimate that the tax will raise just €3 million to €4 million a year. It is intended to create more housing stock by encouraging people to put properties sitting

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vacant for most of the year into use. The aim is to encourage these property owners either to rent or sell these homes.

Introducing the tax, Minister for Finance Paschal Donohoe said in his budget speech that "maximising the use of existing housing stock" was a key objective of the Government.

How will the tax be levied?

The tax will be self-assessed and administered by the Revenue Commissioners.

[Vacant homes tax will raise as little as €3 million a year]

How much will people have to pay if they are eligible?

It will be charged at a rate that is three times the local property tax applying to the home. So, for example, let's say you own a second home valued at €300,000 that is occupied for less than 30 days a year, you pay the annual €315 local property tax plus an additional tax of €945 a year, or three times the annual tax due on this property, because it is deemed eligible for the tax under the new rules. In total, as owner you would have to pay €1,260 a year under these two property taxes.

What properties will be eligible?

The department said the tax was aimed at long-term vacant properties that are unoccupied for 12 months or more. There are a number of exemptions. The tax will not apply to derelict homes or properties unsuitable for use as a dwelling not already covered by the local property tax system.

Mr Donohoe said exemptions will apply to ensure owners "are not unfairly charged where the property may be vacant for a genuine reason". Tax will not be applied to properties that are recently sold or listed for sale or rent, properties that are vacant due to occupier's illness or long-term care or to properties that are vacant due to significant refurbishment work.

So this tax is a stick to encourage a change in behaviour?

Yes. The department said the measure seeks to strike "an appropriate balance between incentivising owners of vacant homes to bring their properties back into use and not penalising homeowners for normal, temporary vacancy".

Will holiday homes be affected?

It depends on how often they are used. If you only use your holiday home for a fortnight every summer and it is vacant for the rest of the year then you will have to pay vacant

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homes tax. It is likely that the vast majority of holiday homes are occupied for longer periods than this, particularly if your holiday home is in use at other times of the year.

How many vacant homes are there in the State?

On the night of Census 2022 in April of this year, there were 166,752 vacant dwellings and 66,135 unoccupied holiday homes. The department said that Revenue and preliminary Census data show that vacancy “lies within a range that is considered to be in line with a functioning housing market” but the Government felt that the new tax was still important to ensure all viable housing stock is made available for use.

How has the tax been received?

The reaction has been mixed. Pat Doyle, chief executive of the Peter McVerry Trust, a charity specialising in reusing vacant and derelict properties for social housing, said it has the “potential to increase the availability of all forms of housing.” Social Democrats housing spokesman Cian O’Callaghan TD said the tax was “too weak to work”, and that it was “typical of this Government’s approach to tackling the housing crisis – it is lacking in both ambition and urgency”.

COUNCIL VOTES TO RETAIN LOCAL PROPERTY TAX INCREASE OF 15%

Donegal County Councillors have voted to retain the Local Property Tax at a 15% increase in 2023.

The household tax will remain at 15% above baseline for 2023.

Each local authority in Ireland has the power to increase or reduce the rate charged in their area by up to 15 per cent each year.

Donegal’s county councillors today voted by 20 votes in favour and 12 against retaining the varied increase in the local authority for the year ahead.

Retaining the increase would generate up to €1,259,996 in income for council services and development projects in 2023, councillors were told at today’s plenary meeting.

The motion to retain the increased rate was opposed by Independent Cllrs Michael McBride, Cllr Michael Cholm Mac Giolla Easbuig, Cllr Ian McGarvey, Cllr Kevin Bradley, and all Sinn Féin Councillors. Cllr Gary Doherty (SF) said that his party’s stance is that Local Property Tax is a failed policy and regressive.

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Cllr Michael Cholm Mac Giolla Easbuig proposed a motion to lower the Local Property Tax to 15% below baseline. However, there was no seconder. Cllr Michael McBride also proposed a counter motion to return the tax rate to the baseline.

Chief Executive of Donegal County Council John McLaughlin reported that there was a need to retain the LPT at +15% to allow the council to draft a balanced revenue budget and to support its strategic objectives.

The rate will support the co-funding of capital projects in all five Municipal Districts such as the Greencastle Pier Extension, Letterkenny Leck Road & Swilly Relief Road, Aghilly Road in Buncrana, the one-way system in Donegal Town and the backlane project in Ballybofey, among many others.

Approximately 78% of properties paid a property tax of €103.50 in Donegal this year, with a further 13% attracting a charge of €258.75.

COMMISSION ON TAXATION AND WELFARE DID THE JOB ASKED OF US – TOUGH TAX CHOICES HAVE TO BE FACED

For any country, the taxation and welfare systems are among the most potent instruments that a government has at its disposal. They influence how the economy grows, who benefits from that growth, and its environmental impact.

But they are also a central part of the social contract – what we owe each other. What we pay into the common pool and how we provide for our collective and individual needs.

It is important and appropriate, therefore, that from time to time we take a step back, to look at how well our taxation and welfare systems are working for us now, and how well they will meet our future needs. This was the task given to the Commission on Taxation and Welfare last year.

Our mandate was explicitly strategic in nature. We were asked to consider how the taxation and welfare systems could best support and promote economic activity, employment and prosperity, while also ensuring public services and supports were adequately resourced in the medium to longer term.

Our broad terms of reference also called for us to review how the taxation system could support key elements of public policy, including as regards housing, public health and decarbonisation, and in light of experience with the Covid-19 pandemic.

While the public finances are currently in a reasonably healthy position, there are major challenges coming down the road

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This was a demanding task, but necessarily so. While the public finances are currently in a reasonably healthy position, there are major challenges coming down the road. Irish society is ageing, and quickly. In the not-so-distant future, we will have to pay a lot more to provide pensions, health services and long-term care for greater numbers of our older people.

We are currently over-reliant on receipts from corporation tax, which may not be enduring. We face the defining challenge of climate change: the taxation system has a key role to play in reducing carbon emissions, but the consequent loss of excise tax receipts will have to be replaced.

We need to continue to develop our social welfare system to reduce poverty, particularly among children. And we need to ensure that prosperity is secured and social progress protected.

These are just some of the concerns that confronted the Commission. Drawn from a wide range of fields and with diverse and deep experience, the members of the Commission worked intensively to produce the report, Foundations for the Future, that has been published this week.

Our report sets out a series of recommendations designed to secure the sustainability of our taxation and welfare systems and their capacity to meet our needs into the medium and longer term.

It is not the Commission's job to draw up budgets – that falls to others

It is not the Commission's job to draw up budgets – that falls to others. As we have made clear in our report, our recommendations cannot and should not be implemented all at once. Some of the recommendations would take several years to implement properly and require careful preparation and management. We are acutely conscious of the cost-of-living crisis that emerged since the Commission was established.

Given our mandate, however, it was our task and responsibility to look through this immediate crisis to consider what will need to be done over the decades to come to meet our needs and support our prosperity. The Commission hopes that this report will prove to be an enduring document which will help inform this and future governments.

Our report – which you can find at www.gov.ie/cotw – sets out a strategic and principles-based approach to tackling existing and growing challenges. We make 116 recommendations. Framing these recommendations is our conviction that the level of taxation as a share of national income will need to increase in the years ahead. Significant reforms are required to achieve this at the lowest possible economic and social cost.

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Rather than simply increasing rates of tax, the tax base should be expanded. Crucially, a greater share of revenue needs to come from taxes on capital and wealth.

We do not propose a wealth tax as such, but changes are needed to existing taxes on property, land, inheritance and other forms of wealth. To fund the social protection system, a series of reforms are required to PRSI. To replace income from fossil fuel duties, we need to plan systems to collect road usage charges, and congestion charges should also be introduced.

Progressive reforms are needed in social welfare, including a second tier of child benefit for people on low incomes, and changes to the way social welfare rates are set. There is scope to improve support for SMEs, targeted at early stage, high-risk and R&D intensive businesses, and the system of commercial rates should be replaced.

A key proposal in the report is the development of a Site Value Tax for land not covered by the local property tax

A key proposal in the report is the development of a Site Value Tax for land not covered by the local property tax. At the heart of our report is a concern to maintain high levels of employment through careful planning of how the taxation and welfare systems interact.

These and our other recommendations constitute an informed, strategic and balanced approach to address long-term concerns. We recognize that individual recommendations may generate resistance from individuals and interest groups: no one likes paying taxes.

The public interest, however, demands a reflective and responsible debate on the challenges we face as a society and the role of the taxation and welfare systems in addressing them in a fair, equitable and sustainable manner.

I am profoundly grateful to the members of the Commission for their contribution to this vital national conversation.

Professor Niamh Moloney is chair of the Commission on Taxation and Welfare

COMMERCIAL RATES IN KERRY SET TO BE REVALUED

This follows the deferral of the National Revaluation Programme due to Covid-19.

Residential property and agricultural lands aren’t rateable so won’t be affected by the revaluation.

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Commercial rates are imposed by local authorities by reference to the rateable value of each property, as determined by the Valuation Office.

The National Revaluation Programme provides for the ongoing revaluation of all rateable property, but due to COVID-19, it had been deferred.

The Commissioner of Valuation has now revoked the Valuation Orders made for Kerry and six other councils, and made new orders which allow for revaluations.

All occupiers of rateable property in Kerry should shortly receive a Proposed Valuation Certificate, stating the proposed valuation in relation to their property.

A Valuation Manager has been appointed to assess the value of each rateable property as of February 1st 2022.

It's envisaged new valuations will be published on September 22nd 2023, and will become effective for rating purposes from January 1st 2024.

These revaluations will take account of contemporary rental levels.

While an individual occupier's rates liability may increase or decrease, the revaluation will not increase the overall commercial rates income of Kerry County Council.

€138,814 PER MONTH AND RISING: THE COST OF DOING BUSINESS IN IRELAND

Small Firms Association warns that viable businesses will be lost due to rising costs

Companies with less than 50 employees have seen prices rise for transport, energy, labour costs, insurance, technology, banking and telecoms.

Viable businesses in Ireland may close due to their inability to absorb rapidly rising business costs the Small Firms Association (SFA) has warned.

As businesses and households struggle with rising inflation, particularly for energy, the trade body said small businesses are now caught between rising inputs and customers who are demanding value.

According to the SFA's 'Cost of Doing Business Report' published today, the average small business faces costs of €138,814 per month. The monthly cost for micro-businesses with less than 10 employees is €66,426 and for companies with less than 50 workers, it's €193,535.

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The report found that wages and labour costs make up 82% of monthly business costs. Banking, at 5.6% is second highest, followed by transport and insurance at 5.1%.

According to the survey, a majority of businesses have seen prices rise for transport, energy, labour costs, insurance, technology, banking and telecoms. Energy costs, up 33% and transport costs, up 34% have seen the biggest increases in the last two years.

“Ireland’s micro and small enterprises are facing cost challenges in every area of business be it labour, transport, insurance, banking, and utility costs,” SFA Director Sven Spollen-Behrens said.

“Many operate in low-margin environments, making it difficult for them to absorb cost increases and demand for value makes it impossible for many to pass the increase onto customers.

“At a time of high inflation and no end in rising input prices, notably energy prices, the SFA is concerned that this may lead to viable enterprises closing due to their inability to absorb rising business costs. To avoid this and safeguard our domestically owned businesses, Budget 2023 must provide certainty on costs and maintaining competitiveness.”

The survey also found that half of all businesses with fewer than 50 employees are currently managing debt. Bank loans (63%), other financing loans (28%), and tax debt (22%) are the three biggest forms of debt for businesses.

The average debt for micro and small businesses is €80,903, lowest for micro firms at €56,774 and highest for small businesses at €107,149.

For small firms with rental or lease costs, more than half (55%) have had a rent increase or have been approached by their landlord about a need to increase rent. Small enterprises are under pressure to increase employee wages (56%), provide additional employee benefits (26%), and more remote working supports (18%).

In their pre-budget submission, the SFA wants the minimum wage to be maintained to prevent wage inflation and the postponement of the phased introduction of the living wage.

The SFA said recent Government policies have caused some concern to businesses, such as pension auto-enrolment, the living wage, the right to request remote working policy and statutory sick pay.

“Whilst many of these additions to the so-called Social Wage have merit on their own terms, these policies will make the business landscape more difficult in the coming months,” the SFA said in its submission.

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"With indicators suggesting a difficult winter ahead, the SFA will remain committed to helping small business, as they attempt to manage the current challenges the economy is facing, with the Russian invasion of Ukraine and inflation," Spollen-Behrens concluded.

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