Design of a local property tax

Report of the Inter-Departmental Group

CONTENTS

Foreword....6

Summary of key recommendations 9

Chapter 1: Introduction and terms of reference....12

1.1 Terms of reference 12

1.2 Guiding principles and criteria.... 13

Simplicity and transparency....13

Equity 14

Efficiency 16

Cost efficient assessment, collection and facilitation of compliance by taxpayers 16

1.3 Provision of a stable funding base for local government in the medium and longer terms 17

1.4 Challenges.... 21

The fiscal context 21

Falls in incomes and asset values....22

Data management....23

Chapter 2: Who would pay? Accountable persons and exemptions 26

2.1 Owner or occupier? 26

2.2 Long leases and life interests.... 28

2.3 Joint owners and other circumstances.... 28

2.4 Social housing 29

2.5 Exempt Residential Properties 30

Chapter 3: How should the tax be charged? Basis of assessment 35

3.1 Introduction 35
3.2 Nature of the tax 35
3.3 Site value versus market value 36
Simplicity and transparency 38
Equity 40
Efficiency 41
Conclusions 42
3.4 Market value of residential properties as a basis of assessment 44
3.5 Direct assessment or self assessment? 49
3.6 Banding of market values 51
Price data 53
3.7 Tax rates 54
3.8 Local government responsibility 56

Chapter 4: Special circumstances, reliefs and deferrals 60

4.1 Issues for reliefs 60
4.2 Deferrals 61
4.3 Waivers 62
4.4 Eligibility for deferrals 65

Chapter 5: Other issues 71

5.1 Multiple properties 71
5.2 Deductibility of LPT for tax purposes 72

Chapter 6: Yield estimations 76

6.1 Determinants of Yield 76

6.2 Impact of local decision factors on yield 78

6.3 Impact of Deferrals on Yield 80

Chapter 7: Payment and collection 82

7.1 The role of the Revenue Commissioners 82

7.2 Payment of the tax 86

Chapter 8: Enforcement 92

8.1 Compliance and intervention 92

8.2 Interest on unpaid LPT 95

8.3 Surcharge for late submission of LPT returns 96

8.4 Publication of names of tax defaulters 98

8.5 Tax clearance 99

8.6 Civil penalties 100

8.7 Criminal prosecution 104

8.8 LPT as a charge or lien on property 104

8.9 Estates and inheritances 107

8.10 Suggested overall LPT compliance framework 109

Chapter 9: Implementation 112

9.1 System requirements 112

9.2 Recommendations 114

Appendix 1: Terms of reference 116

Appendix 2: List of written submissions received by the Group 118

Appendix 3: Options considered by the Group but not recommended 120

1. Floor area – unadjusted 120

2. Adjusted floor areas as a proxy for market values 122

3. Floor areas adjusted using rebuilding costs 124

4. Hybrid basis of assessment 125

Appendix 4: Income exemption limits for deferrals . 129

Appendix 5: The financing of local authorities 131

Appendix 6: Table of selected international property tax systems.. 139

Foreword

This report, which the Group has submitted to the Minister for the Environment, Community and Local Government, outlines our recommendations for the design of a local property tax (LPT).

Our proposals will meet the immediate financial requirements of the EU/IMF Programme of financial support for Ireland, but their importance transcends this requirement. Establishing a local property tax addresses three long standing and important challenges in Irish public policy - the broadening of the tax base to include residential properties, the provision of a stable funding base for local government and the strengthening of democracy at local level.

These are important in addressing our current economic and social challenges.

In our current economic circumstances there is a compelling need to stimulate economic growth and improve employment prospects while restoring balance to the public finances. This will require reductions in public expenditure and increases in the overall tax yield. An annual property tax is much more compatible with

promoting economic growth and employment than the alternatives of increases in taxes on income.

Our proposals are underpinned by the principle that the revenues arising from the property tax accrue to the local authorities. We believe this to be a centrally important element in our proposals, particularly in the medium and longer terms. It has the potential to encourage interest and engagement on the part of voters in the efficiency of the local authorities in the areas in which they reside and thereby enhance the accountability of elected local authority members and officials.

We propose that the Office of the Revenue Commissioners should be entrusted with the collection and administration of the tax. We also underline in our report that the successful implementation of the property tax will require substantial investment by the Government in administrative and computer systems particularly in the Office of the Revenue Commissioners.

We are grateful for the constructive proposals and submissions which we received from many organisations and individuals.

We were provided with essential assistance and support by Colm Lavery, Ciaran Conroy, Alan Ryan and Peter Sheehan of the Department of Environment, Community and Local Government, Jean Carberry of the

Department of Public Expenditure and Reform and Brendan O' Connor of the Department of Finance. We are grateful to these colleagues as well as to other officials from these and other Departments and Agencies who gave us valuable advice and information. We also gratefully acknowledge the substantial analytical and technical advice and support we received from the Economic and Social Research Institute (ESRI).

The Inter-Departmental Group on Property Tax:

Don Thornhill	Chairman
Eugene Creighton	Office of the Revenue Commissioners
Des Dowling	Department of the Environment, Community and Local Government
Marie McLaughlin	Department of Public Expenditure and Reform
Eamonn Molloy	Department of Communications, Energy and Natural Resources
Derek Moran	Department of Finance
Brian O'Raghallaigh	Department of Social Protection

Summary of key recommendations

The key recommendations of this report are as follows:

1. The tax should be described and legislated for as the Local Property Tax (LPT).
2. Owners of residential properties, including rental properties, should be legally responsible for payment of the tax. Co-owners should be jointly and severally liable for the tax.
3. Certain properties should be exempt from assessment for the LPT.
4. Market value of residential properties should be the basis of assessment for the tax.
5. The LPT should operate through a system of self-assessment and self-declaration by liable taxpayers.
6. There should be a system of market value taxable bands of €50,000 width with the tax liability calculated by applying the tax rate to the mid-point of the band.
7. All revenue from the LPT should accrue to local authorities with consequent offsetting reductions in financial support from the Exchequer.
8. A substantially greater part (of the order of 65%) of the revenues arising from the taxation of

properties should be assigned to the local authorities in which the taxable properties are situated. The balance of the revenues should be distributed by the Minister for the Environment, Community and Local Government in favour of local authorities with weaker funding bases.

9. The tax should incorporate a locally determined element based as a percentage of the market value, with yield assigned directly to the authorities concerned.
10. The development of a comprehensive database of residential properties in the State should be undertaken as a priority project.
11. A system of voluntary deferral arrangements focused on particular categories of householders should be implemented to address cases where there is an inability to pay the LPT.
12. The NPPR should be absorbed into the LPT as a separate supplemental tax in addition to the LPT at the existing level applying to non-principal private residences.
13. The Revenue Commissioners should be given responsibility for all aspects of LPT including administration, collection, enforcement, and audit.

14. LPT should be collected at source from payroll and from recurring and lump sum payments made by Government Departments.
15. The rate of interest that should apply to late payments of LPT is the rate that applies to unpaid tax generally.
16. Interest and penalties in respect of the evasion of LPT should count for consideration for publication in the same way as any other tax or duty evaded.
17. The Revenue Commissioners should develop a secure website that would show the LPT status of each registered property in the State.
18. The Office of the Revenue Commissioners, with the Department of Finance and the Department of the Environment, Community and Local Government should develop a comprehensive implementation plan to include the development work necessary to identify liable properties.

Chapter 1: Introduction and terms of reference

1.1 Terms of reference

1.1.1 The Group was required by its terms of reference (Appendix 1) to *"consider the design of a property tax to replace the household charge and that is equitable and is informed by previous work and international experience."*

1.1.2 In addressing the terms of reference, the Group had regard to a number of guiding principles and criteria (see section 1.2 below), some of which are in the terms of reference and others which arise from established principles of taxation. The Group also had regard to a number of challenges which arise from current economic, fiscal and social circumstances.

1.1.3 Given its design remit, the Group did not deal comprehensively with the fiscal and macroeconomic policy considerations relating to the inclusion of an annual tax on residential properties as part of the

overall system of taxation[1]. However, where policy considerations arose as part of the work they were addressed specifically in the text.

1.1.4 The Group's mandate was to design a property tax and the Group recommends that it be described and legislated for as the Local Property Tax (LPT).

Recommendation

- The tax should be described and legislated for as the Local Property Tax (LPT).

1.2 Guiding principles and criteria

Simplicity and transparency

1.2.1 The easy determination by taxpayers of their liabilities (i.e. that the rules are known and that liability is clear[2]) is an important criterion which influenced the Group's work.

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[1] Policy advisory bodies to Government such as the National Competitiveness Council and the National Economic and Social Council have argued for the introduction of a tax on residential properties. The two Commissions on Taxation, one chaired by Dr Miriam Hederman O'Brien which published five reports between 1982 and 1985, and the other chaired by Mr Frank Daly, published in 2009, also recommended the taxation of residential properties.

[2] Commission on Taxation, 2009, p. 40. Government Publications Sales Office. www.commissionontaxation.ie

Equity

1.2.2 This is an important principle. It is also complex. In its simplest interpretation, as applied to taxation, equity means fairness. This is generally understood as taxing people on their ability to pay. But it also includes consideration of horizontal equity i.e. that taxpayers in comparable situations or circumstances should pay similar amounts of tax. Vertical equity generally means that people with a greater ability to pay taxes should pay more. It is often associated with the concept of progressivity in income taxation, meaning that people with higher incomes pay an increasing proportion of income in tax. Vertical equity is also associated with using taxation as a policy instrument to effect wealth distribution (as, for example, is a policy intention underlying taxes on inheritances and gifts).

1.2.3 The terms of reference also require the Group, in considering the design of a property tax to *"ensure the maximum degree of fairness between and across both urban and rural areas".*

1.2.4 The Group was very much aware in preparing its report that views and positions on vertical equity and *"fairness between and across both urban and rural areas"* can depend on personal (and perhaps political) perspectives and that it would not be possible or appropriate to take

positions around these. In these instances, the Group has tried to draw attention to where such issues might arise and has described the considerations underlying certain recommendations.

1.2.5 Attempting to "equity proof" every individual taxation and public expenditure measure (in this instance the property tax) may run counter to the criteria of simplicity, easy and low cost compliance, and cost effective administration. In that regard, it is important to note that the overall distributional effects for the total system of taxes and benefits can be regarded as the ultimate test of equity. As the Commission on Taxation (2009) stated *"Equity must be considered in the context of the overall tax system. A lack of progressivity in one area of the system may be compensated for by having a high degree of progressivity in other areas, or by focused direct expenditure – which, of course, is financed from tax revenue."* [3]

1.2.6 The Mirrlees Review published in the UK took a similar view: *"It is the overall distributional and incentive effects*

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[3] Commission on Taxation, 2009, p. 39, Government Publications Sales Office. www.commissionontaxation.ie

created by all different taxes and benefits together that matter”.[4]

Efficiency

1.2.7 An efficient tax system encourages the allocation of resources so that optimal economic output is achieved[5]. This is a hugely important consideration in the current circumstances of the Irish economy. Restoration of competitiveness and economic growth is essential if we are to reduce unemployment and the proportionate burdens of public and private indebtedness and restore fiscal sovereignty.

Cost efficient assessment, collection and facilitation of compliance by taxpayers

1.2.8 The terms of reference included central collection and the facilitation of easy and/or phased payments by households. These accord with a well established guideline for efficient tax systems that the costs of compliance for taxpayers and the costs of administration and collection should be as low as possible and should encourage voluntary compliance.

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[4] “Dimensions of Tax Design”, p. 33, The Mirrlees Review, Institute of Fiscal Studies, London, 2010. www.ifs.org.uk/mirrleesReview

[5] Commission on Taxation (1982), p. 31, First Report, Government Publications Sales Office. www.fiscal.ie/publications.php

1.2.9 Taxes which taxpayers find disproportionately difficult (and perhaps expensive) to comply with, and which are costly to manage and to assess, impose an inefficiency burden on the economy. They deflect the energy, attention and resources of both taxpayers and administrations from more productive activities and create higher administrative costs which need to be funded by additional taxation. They also discourage voluntary compliance.

1.3 Provision of a stable funding base for local government in the medium and longer terms

1.3.1 This was an important part of the Group's terms of reference. Local authorities in this country are more dependent on central government funding than is generally the case internationally with over 40% of the local government sector's funding coming from State sources in 2011. In the late 1970s, the responsibility of home owners to pay rates to local authorities was removed and the funding requirement was transferred to the Exchequer[6,7].

[6] This was followed in the 1980s by the loss of income to local authorities from rates on agricultural land following a decision by the High Court, confirmed by the Supreme Court, that the basis for agricultural rates was unconstitutional.

[7] A summary of the receipts and expenditures of local authorities is provided in Appendix 5

1.3.2 It is common practice internationally for local property taxes to be one of the principal sources of the financing of local government[8]. Practice varies from essentially single national systems with parameters applied locally, to local systems constrained by national parameters. In some cases, national parameters may be applied to limit the extent of tax increases imposed by local authorities.

1.3.3 Several of the submissions made to the Group stressed the benefits of a stronger funding base for local authorities. These benefits include a strengthening of local responsibility and greater identification by residents with local authority activities.

1.3.4 There is a persuasive rationale for an explicit linkage between local government and the proposed LPT. Public scrutiny of local government financing in this country tends to focus on the funding provided for local authority programmes. While this is important it is not sufficient to ensure effective and efficient governance.

[8] The importance of adequate local discretion in relation to revenue-raising is reflected in the local government arrangements of most European States and the principle is enshrined specifically in relevant provisions of the Council of Europe's European Charter of Local Self-Government, to which Ireland is a party. For example, Article 9 states that "Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers" and goes on to state that "Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate."

The quality of local government would be enhanced if the current focus on expenditure were balanced by an appropriate level of responsibility at local authority level for revenue raising. Providing local authorities with significant responsibility and accountability for raising local revenues has the potential to increase the level of oversight of local authority operations by their electors. This would serve to enhance the accountability of elected local authority members and officials and thereby strengthen democracy at local level.

1.3.5 This would counter the incentives under the current financial arrangements where dependency and lobbying tend to characterise the relationships between local and central government. The dependence of local authorities on Exchequer support may also have created a reluctance to enhance the role of local government and to strengthen the powers of its elected members.

1.3.6 In the light of these important considerations the LPT should be, and should be seen to be, a major source of revenue for funding the services and activities of local authorities. Accordingly, the Group recommends that the revenue from the new LPT should be assigned to the funding of local authorities. There should be provision for some revenue sharing, managed by the Department of the Environment, Community and Local Government,

in favour of local authorities with weaker funding bases. The extent of revenue sharing should not be such as to significantly dilute the link between the LPT revenues raised locally and the expenditures of each local authority. Accordingly, the Group recommends that, allowing for transitional arrangements and the local government reform programme, a substantially greater part (of the order of 65%) of the revenues arising from the taxation of properties should be assigned to the local authorities in which the taxable properties are situated.

Recommendation:

- All the revenue from the LPT should accrue to local authorities with consequent offsetting reductions in final support from the Exchequer.
- There should be provision for some revenue sharing, managed by the Department of the Environment, Community and Local Government, in favour of local authorities with weaker funding bases.
- A substantially greater part (of the order of 65%) of the revenues arising from the taxation of properties should be assigned to the local authorities in which the taxable properties are situated.

1.3.7 The proposed charging and assessment structure outlined in Chapter 3 is consistent with this recommendation.

1.3.8 The LPT will provide a stable source of funding for local government in the medium to longer term. Within the context of the requirements to restore financial stability and balance to the public finances, the revenue from the LPT that will be assigned to local authorities will have to be determined by Government as part of the Estimates process, taking account of other funding sources to the sector and the need to fund the provision of necessary local services. Local authorities should be encouraged to provide taxpayers with information on how LPT revenues have been spent.

1.4 Challenges

1.4.1 In designing the LPT, the Group identified a number of challenges which arise from current and recent Irish developments and circumstances.

The fiscal context

1.4.2 Irish public finances require profound restructuring. There is an unsustainable gap between public expenditure and revenue. Measures are required both

to reduce expenditure and to increase revenues. The Group was required in its terms of reference to design a model which would provide a stable funding base for local government in the medium and longer terms.

Falls in incomes and asset values

1.4.3 Since the onset of the recession in 2008, household incomes have fallen on average by 9%[9]. There have also been substantial reductions in net household assets[10]. The impacts of the recession have not been evenly distributed across individuals and households[11].

1.4.4 These have been felt particularly acutely by those experiencing unemployment, mortgage distress and compelling requirements to deleverage debt.

1.4.5 A particular category is those individuals and households who during the so-called "property bubble" period paid substantial amounts in stamp duties at the then prevailing high rates in order to purchase their principal residences[12]. Some may have taken on substantial

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[9] CSO Survey on Income and Living Conditions (SILC) preliminary report 2010.

[10] "The Impact of the Financial Turmoil on Households" Central Bank Quarterly Bulletin Q2 2012, p. 80.

[11] CSO Survey on Income and Living Conditions (SILC) 2010, http://www.cso.ie, March 2012, p. 10.

[12] For example, the open market purchaser of a house costing €300,000 would have paid €15,000 in stamp duties.

borrowings in order to fund the total cost of their purchase including the payment of the stamp duties.

Data management

1.4.6 Based on Census 2011, the number of liable properties is estimated at 1.6 million. The absence at the time of completion of this report of a single, complete database matching owners (and occupiers) to a property address is a challenge to putting in place a tax on residential property.

1.4.7 However, as at 8 June 2012, some 950,000 properties are registered with the Local Government Management Agency (LGMA) in respect of the Household Charge following its introduction earlier in 2012. This provides a major element of the necessary database to apply a property tax. A programme of work is underway, principally through a process of data-sharing by relevant State authorities and agencies, to identify owners of residential properties that have not registered for the household charge. A data-sharing protocol, approved by the Office of the Data Protection Commissioner, is in place.

1.4.8 The exercise to complete the database of liable properties is underway and a very substantial amount of work on this database will be completed by mid-July for follow-up by local authorities in respect of properties in

their own areas. This verification process will seek to ensure maximum registration of outstanding properties, and ultimately, provide the basis for measures to be taken including litigation in the case of liable properties which are not registered and in respect of which a household charge is outstanding or for which a waiver has not been claimed.

1.4.9 As finalisation of the database is a critical element of implementation of the new LPT, the Group considers that work on completion of the database should be advanced as rapidly as possible. Accordingly, the Group considers that a new inter-agency implementation group be put in place, under the leadership of the Office of the Revenue Commissioners to complete this work. Arrangements need to be made to include data from all relevant agencies, including the LGMA, individual local authorities, utility companies, An Post, the Property Registration Authority of Ireland and Ordnance Survey Ireland.

Recommendation:

- The development of a comprehensive data base of residential properties in the State should be undertaken as a priority project. The Group recommends the immediate establishment of an

implementation group, under the leadership of the Office of the Revenue Commissioners to address this challenge.

Chapter 2: Who would pay? Accountable persons and exemptions

2.1 Owner or occupier?

2.1.1 In designing the property tax, the Group considered who should be the chargeable person for the tax – the owner or the occupier. International practice varies[13].

2.1.2 An occupier-focused system may arguably be more consistent with the objective of broadening the tax base in that every household in the country (rather than every property owner) would contribute. This could also enhance horizontal equity concerns between households in comparable circumstances.

2.1.3 Occupier liability would incentivise efficient use of vacant property in that property owners, on whom liability for the tax in respect of any vacant property

[13] In Great Britain, Northern Ireland and France occupiers are liable for local property based taxes. Owners are liable in Spain and generally so in the US.

would otherwise fall, would have a greater incentive to let the property.

2.1.4 However, some rental properties have high tenant turnover. This would present significant difficulties in determining liability and collecting taxes. Occupier liability may also give rise to perceptions of unfairness if the occupier on the valuation date (i.e. the date at which occupation of the property is deemed by law to create the tax liability) is no longer the occupier on the date at which payment of the tax becomes due.

2.1.5 Occupier liability as an option for the LPT would complicate compliance and administration. Furthermore, the rental value of a property to the owner will be related to its taxable value and, depending on market conditions, tenants will bear some of the incidence (i.e. the cost) of the tax.

2.1.6 The Group recommends that owners of residential properties, including rental properties, be legally responsible for the registration with the tax authorities of their residential properties and for the payment of

the tax as was recommended by the 2009 Commission on Taxation[14].

2.1.7 Companies and other corporate and legal entities owning residential properties would be liable to the tax subject to the exemptions provided in law.

2.2 Long leases and life interests

2.2.1 Long term tenancies and life interests create substantial rights in the properties for the tenants and life interest holders. Though ultimate liability for the property tax would rest with the owner, the Group recommends that liability should be transferred to the occupier in circumstances where the property is rented under a long lease for a period exceeding 20 years or where the occupant has a life interest in the property.

2.3 Joint owners and other circumstances

2.3.1 In situations where a property has joint owners, the Group recommends that all co-owners should be jointly and severally liable for the tax but payment by any one co-owner should discharge the liability of all co-owners.

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[14] Commission on Taxation, 2009, p. 165, Government Publications Sales Office. www.commissionontaxation.ie

Recommendations:

- Owners of residential properties, including rental properties, should be legally responsible for the registration with the tax authorities of their residential properties and for payment of the tax.
- Liability should be transferred to the occupier in circumstances where the property is rented under a long lease for a period exceeding 20 years or where the occupant has a life interest in the property.
- Co-owners should be jointly and severally liable for the tax.
- Companies and other corporate and legal entities owning residential properties would be liable to the tax subject to the exemptions provided in law.

2.4 Social housing

2.4.1 The recommendation of the Group is that owners of properties are the liable persons for the LPT. Consequently, tenants in social housing would not have a liability. The Group considered the situation of

property owner/occupiers in difficult economic circumstances as compared with some social housing tenants with comparable or higher incomes. The planned reforms of the differential rents system provide, in the Group's view, a more appropriate strategy for ensuring horizontal equity[15].

2.5 Exempt Residential Properties

2.5.1 In its approach to the matter of exemptions, the Group considered that as a tax, the local property tax should be centred on the principles of equity, transparency and simplicity. In terms of these principles, it was also considered that a universal liability should apply to all owners of residential property with a limited number of exemptions. The Group considered the exemptions provided for in the context of the household charge and the charge on non-principal private residences (NPPR), and having regard to the Nursing Homes Support Scheme, makes the following recommendations:

[15] The Group also considered whether local authorities and other providers of social housing, including voluntary and cooperative bodies, should, as owners, incur liability for the LPT. Notwithstanding the economic arguments in its favour, the Group does not recommend this course because it would create a circular flow of payments and additional administration costs.

Residential properties exempted from the local property tax:

- Newly constructed but unsold residential properties that have been unused as dwellings and from which no income has been derived since their construction.
- Where the owner is a local authority or other social housing provider, including voluntary and co-operative housing bodies.
- Where the ownership is vested in a Government Department, a public authority or agency and the property is primarily used for public policy purposes. This exemption would not apply where a public body makes available a residential property to its employees or associates for use as a private residence. In such circumstances the public body would be liable for the payment of the tax.
- Where the owner is an approved charitable body[16] (including an educational provider) and

[16] Charitable purposes include the relief of poverty, the provision of education, the advancement of religion and other not for profit activities beneficial to the community.

the property is being used primarily for charitable purposes. This exemption would not apply where an approved charitable body makes available a residential property to its employees or associates for use as a private residence. In such circumstances the charitable body would be liable for the payment of the tax.

- Where the property is being used exclusively for the purposes of caring for the elderly and for disabled persons – such as care facilities and nursing homes.
- Where the property is unoccupied due to its being vacated by the owner by reason of long term mental or physical infirmity, certified by a registered medical practitioner, of longer duration than 12 months or where the property is unoccupied due to its being vacated by the owner and the Health Service Executive is satisfied that the owner, who is or is to be provided with care services, is unlikely to ever cease to require care services during the person's lifetime.
- Where the property is a mobile home, a

vehicle or a vessel.

- Residential properties that are fully used as dwellings (other than mixed use properties) and which are subject to commercial rates e.g. Guesthouse accommodation.
- Houses in certain unfinished housing developments as prescribed in law. These developments include those that are incomplete to a substantial extent, where all necessary services are not provided and where there may be public safety, public health or serious defects which have not been remedied.
- Certain properties enjoying analogous exemptions or protections in other legislation, for example, those relating to diplomatic or similarly protected properties of international State bodies.

2.5.2 The recommendations above broadly follow those made by the 2009 Commission on Taxation[17] and the exemptions provided for in the Local Government

[17] Commission on Taxation, 2009, p. 164, Government Publications Sales Office. www.commissionontaxation.ie

(Household Charge) Act 2011 and other relevant legislation. The Group regarded these exemptions as relevant to the local property tax. The Group is, however, concerned that the exemption provided for in the Household Charge legislation for discretionary trusts is a potential vehicle for tax avoidance. It would be relatively easy for a property owner to place the ownership of properties into a discretionary trust and for the trustees to rent the house back to the person setting up the trust, or to a family member, for a nominal or no rent. It is recommended that this exemption not be provided for the local property tax, or at the minimum, that it be restricted to trusts where the beneficiary lives in the house or apartment and is incapacitated.

Chapter 3: How should the tax be charged? Basis of assessment

3.1 Introduction

3.1.1 The basis of assessment is central to the design of the LPT[18]. Consideration of the basis of assessment took account of the criteria which are outlined in Chapter 1.

3.2 Nature of the tax

3.2.1 The Group was charged with the design of an equitable property tax to replace the household charge that is informed by previous work and international experience. The Group's brief was to design a tax on residences. In effect, the basis of assessment for the property tax would be either the taxable value of the

[18] This issue is also discussed in a report of the Tax Strategy Group of 28 September 2010; http://taxpolicy.gov.ie/wp-content/uploads/2011/06/10.09-Property-Tax.pdf; The Tax Strategy Group is an interdepartmental committee chaired by the Department of Finance, with membership comprising senior officials and advisors from the Departments of Finance, Taoiseach, Jobs, Enterprise and Innovation, Social Protection and the Revenue Commissioners. Papers on various options for the Budget and for the medium and longer term are prepared for the Tax Strategy Group.

residential property or the taxable value of the land on which the buildings stand (site value).

3.2.2 International experience would come down heavily on using the taxable values of residential properties. Site Value Taxes (SVTs) are not used extensively internationally[19,20]. Both the 2009 and the 1982 - 1985 Commissions on Taxation recommended market value. The vast majority of the submissions made to the Group also favoured market value.

3.2.3 Notwithstanding that the market values of residential property is the recommended basis of assessment, the Group considered the site value tax option and benchmarked it against a default market value assumption.

3.3 Site value versus market value

3.3.1 Both residential market value and SVT meet a number of important policy criteria. The arguments for SVT are outweighed by the likely difficulties in ensuring acceptance by taxpayers, i.e., arriving at values that are

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[19] McCluskey, WJ., Davis, P and Lim LC. 2007, Land Value Taxation: An International Overview, School of the Built Environment, University of Ulster.

[20] Of the eight international examples shown in Appendix 6, six have systems based on market value, with the remainder using a State determined substitute for market-value.

evidence based, understandable and acceptable to the public in addition to complexities and uncertainties in the valuation effort necessary to put an SVT in place.

3.3.2 In contrast, under a market value approach applied to housing, the market value of a residential property is related to the characteristics of the building itself, the site on which it is located and the characteristics and amenities of the neighbourhood. There will be a relationship between the market value of a house and benefits to the owners in terms of enjoyment of the amenity value of the properties. The question – "*what is the value of my or our house or apartment?*" - is a relatively simple and well understood concept.

3.3.3 The 2009 Commission on Taxation considered both approaches. They concluded that *"while seeing the economic rationale for land value tax..."* that *"it may not be a pragmatic approach to the restructuring of our property tax system"*[21]. The Commission recommended in favour of market value of residential properties (housing unit and site) as the basis of assessment.

[21] Commission on Taxation, 2009, pp. 171- 173, Government Publications Sales Office. www.commissionontaxation.ie

Simplicity and transparency

3.3.4 Any tax needs to be kept as simple as possible for both the taxpayer and the tax administration. Full market value is a tried and tested basis of assessment that is internationally accepted, and by implication, readily understood by taxpayers all over the world. At any point in time, most home owners will have a reasonable sense of the market value of the home in which they live by reference to recent sales and to officially and privately published data on house price movements. Where there is doubt in individual cases, estimates can be obtained from professional auctioneers or valuers.

3.3.5 In the case of SVT, property owners would have great difficulty in dealing with a valuation exercise which conceptually separates the buildings on the site from the site (for tax purposes) in circumstances where their predominant understanding and interest lies in the market (or resale) value of their residence. Similar challenges would arise for auctioneers and valuers. The SVT system would not be as transparent or meaningful to taxpayers as market value.

3.3.6 It has been suggested to the Group that one approach to determining site value might be to use information on transactions in residential property (market value) and, by applying econometric techniques, identify the

implicit value of sites. This approach would fail the simplicity and transparency test. Site values would be opaque to taxpayers, leading to high volumes of contested valuations and appeals. This would undermine significantly the acceptability of the tax. It would also be somewhat paradoxical to use a basis of assessment (site value) that is mathematically derived from the alternative basis of assessment (residential property value).

3.3.7 In terms of administrative simplicity, both SVT and market value present similar challenges as well as requirements for comprehensive registers of market/site values. A comprehensive mapped register of all properties, including details of ownership, precise location, and value would be required for both. SVT would have the added mapping requirement of site size. The practical challenges in establishing and populating such a land register for either SVT or market value purposes would be substantial (see Chapter 1). However, it would be much easier and transparent to put in place and update a register of market values based on the ongoing flows of real time data derived from house (market value) sales.

Equity

3.3.8 As regards the equity challenges, it is very clear that the owners of more valuable properties would pay more under a market value based assessment scheme for either site values or residential properties. Taxable values based on market valuations based on either sites or residences would generally be higher in urban as compared to rural areas. This is equitable to the extent that market value provides a measure of the value of a residential property to the owner, particularly in terms of its proximity to places of work and local amenities and facilities.

3.3.9 SVT does not meet the equity challenge nearly as well. Taxpayers are likely to have profound difficulty accepting taxation outcomes where, in directly comparable and neighbouring site situations, tax liabilities would be identical even though one housing unit was larger and could have a higher market value than the other.

3.3.10 There would be considerable difficulties in communicating to home-owners and land-holders that such a situation was fair. It would undermine the standing of the tax.

Efficiency

3.3.11 An efficient tax system encourages the allocation of resources so that optimal economic output is achieved. Recurrent taxes on immovable property are the most "growth friendly" of taxes. As both bases of assessment deliver this outcome, they are both economically efficient.

3.3.12 According to its proponents, SVT offers many additional potential economic benefits over and above that of a traditional market value approach. These include:

- Encouraging the optimal productive use of land and preventing dereliction;
- Providing for a stable revenue base (housing prices are more volatile than land prices and land values tend to lag economic activity);
- Reducing the incentive for premature and excessive zoning of land, and would in effect be a tax on land hoarding and speculation, which it is argued by its proponents, would reduce the incentives for corruption;
- Encouraging the efficient use of existing properties, including imposing a tax penalty on vacant zoned sites or derelict properties; and
- Providing a means whereby communities, local authorities and government can tax the benefits received by private landowners as a result of local

or community investments which enhance the value of their lands.

3.3.13 While these additional benefits arguably shade the efficiency argument in favour of SVT as a resource tax, the 2009 Commission on Taxation recommended against it on the basis that in their view it would be very difficult to gain public acceptance[22]. Despite the economic arguments advanced by its proponents, SVT systems are not used extensively internationally[23].

Conclusions

3.3.14 The Group favours the use of market value of residential properties as the basis of assessment having regard to the considerations outlined below:

- *Previous work* Both Commissions on Taxation have recommended a system of assessment based on market value.
- *International experience* Market value is the predominant means of assessment where property taxes exist.

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[22] Commission on Taxation, 2009, p. 158, Government Publications Sales Office. www.commissionontaxation.ie

[23] McCluskey, WJ., Davis, P and Lim LC. 2007, Land Value Taxation: An International Overview, School of the Built Environment, University of Ulster.

- *Simplicity and transparency* - Market value is much better understood, transparent and has greater scope for public acceptance; this is underlined by the fact that it is so widely used internationally.
- *Equity* – Market value comes within the ordinary understanding of what is fair; there are significant problems in this regard with SVT.
- *Efficiency* – SVT arguably provides greater economic efficiency but at the cost of simplicity, transparency, equity, and ultimately, acceptance by the public.

3.3.15 Both residential market value and SVT meet a number of important policy criteria. The arguments for SVT are outweighed by the likely difficulties in ensuring acceptance by taxpayers i.e. arriving at values that were evidence based, understandable and acceptable to the general public, and the wider difficulty in achieving a step change in how property is assessed and taxed.

3.3.16 While not favouring site valuation and recommending in favour of a straight-forward application of market value across all residential properties, the Group recognises the positive objectives in terms of best planning made by the advocates of SVT. The Group concluded that market value of residential properties remains the

appropriate basis of assessment. The Group notes the recommendation of the 2009 Commission on Taxation for a recurrent tax on zoned development land[24] and suggests consideration be given to the proposal with a view to supporting proper long term planning and sustainable development.

3.4 Market value of residential properties as a basis of assessment

3.4.1 Market value was recommended as a basis of assessment by both Commissions on Taxation[25,26]. In general, the market value of a housing unit is related to the house or apartment itself and the site on which it is located. The amenities (including schools and transport access) of the neighbourhood in which the residential property is located and the community and environmental characteristics also have an important bearing on market value. Generally, there will be a relationship between the market value of housing units and the benefits to the owners in terms of enjoyment of

[24] Commission on Taxation, 2009, p. 158, Government Publications Sales Office. www.commissionontaxation.ie

[25] Commission on Taxation, 2009, p. 167, Government Publications Sales Office. www.commissionontaxation.ie

[26] Commission on Taxation (1982), p. 51, Fourth Report, 1985, Government Publications Sales Office. www.fiscal.ie/publications.php

the amenity value of the properties[27], or in the case of rental properties, the rental income[28].

3.4.2 Market values of otherwise broadly comparable residential properties (in terms of size and other features of the properties themselves) will usually be higher for urban than for rural properties. Having regard to its terms of reference to *"ensure the maximum degree of fairness between rural and urban areas"* the Group considered whether a tax assessed on market value would unfairly discriminate against urban dwellers.

3.4.3 Consideration was given to whether using an objectively measurable criterion such as floor area, perhaps with appropriate adjustments, would provide a satisfactory basis of assessment. The Group concluded, as summarised in Table 3.1 below and in Appendix 3 that these approaches had serious shortcomings particularly from an equity perspective.

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[27] Arising from the property itself but also from the ease, or otherwise, of access to external amenities and facilities, and to places of work.

[28] At a theoretical level market value can be related to the concept of "imputed rent" which is favoured by many analysts as an appropriate theoretical basis for the taxation of residential properties. The concept of "imputed rent" is described in the First Report of the Hederman O' Brien Commission on Taxation, paragraph 10.9, Government Publications Sales Office. www.fiscal.ie/publications.php

Table 3.1 – alternative bases of assessment – floor areas

Basis of assessment	Advantages	Shortcomings
1. Floor area	Objective and measurable. Could be easily determined by taxpayers. Banding would allow modest extensions to be disregarded by the tax payer and the authorities.	Equity issues would arise Fails to distinguish between the condition or state of repair of similarly sized properties Does not capture the characteristics of properties' locations.
2. Floor area adjusted by market value indicators	Similar advantages to unadjusted floor areas and potentially more equitable.	Equity and transparency issues would arise. Would require the preparation of a detailed price map of the State with enough detail to distinguish between different values in adjacent areas.
3. Floor area adjusted by building costs	Objective and measurable. Would facilitate compliance and reduce administration costs.	Equity issues would arise. Approach fails to distinguish between similar type properties in different locations.
4. Floor area adjusted by local service costs[29]	Relates local service costs to assessment of value. Provides a basis for distinguishing property value based on local authority area.	Equity and transparency issues arise. Fails to address relative value issues across the country and even within local authority areas. Arbitrariness can arise in adoption of the additional element or the weighting attached to it.

[29] Under this approach the total cost of local services provided by local authorities would be divided by the number of households in the authority area and this would be multiplied by the floor area to produce a taxable value.

3.4.4 Using house type (i.e., apartment, terraced, semi-detached and detached houses[30]), or a criterion such as numbers of bedrooms, as a basis for assessment was also explored. These criteria would give rise to very evident anomalies and inequities. For example, within urban areas, and if house type were used as a basis of assessment, large terraced houses in affluent areas would incur lower tax liabilities than smaller detached houses in less valuable areas. Similarly, a large and valuable apartment with excellent amenities in a high value urban area would be taxed more lightly than a modest rural detached house.

3.4.5 The Group also considered, but did not recommend, a number of hybrid approaches as outlined in Appendix 3. Using these approaches, market value would give rise to a portion of the tax liability with the balance being determined by house type (as described in paragraph 3.4.4) or floor area and possibly with a third factor determined by local service costs per household. These approaches reflect many of the shortcomings discussed in paragraphs 3.4.3 and 3.4.4 as well as raising two further problems. In addition to including market value, they would also involve factoring into the assessment

[30] With the lowest tax liabilities applying to apartments and with increasing liabilities for terraced, semi-detached and detached houses in that order.

elements which themselves would contribute to market value as well as the inherent necessity for arbitrary apportionments of the tax liability between the different criteria. Having considered these issues, the Group concluded that an objective measure such as market value is superior on grounds of equity and transparency.

3.4.6 The Group concluded that residential market value takes account, comprehensively and conclusively of the relevant attributes for taxation purposes of a property and recommends it as the basis of assessment. Owners of more valuable properties would pay more under a market value based assessment scheme. To the extent that there was a correspondence between market values and owners' incomes, a market value basis of assessment could also be progressive (i.e. higher income, better off people would pay more). There will, however, be cases where some owners will be unable to meet the tax liabilities on their properties. The Group's proposals for addressing these circumstances are outlined in Chapter 4.

Recommendation

The Group recommends market value of residential properties as the basis of assessment.

3.5 Direct assessment or self assessment?

3.5.1 The Group considered the appropriateness of an approach, similar to that used in Northern Ireland, by which the initial assessment of tax liabilities for residential properties would be determined by the tax administration and notified to taxpayers. This could ease compliance for taxpayers and, overtime, lead to the development of a cost effective tax system.

3.5.2 However, apart from the significant investment required to put a public sector system of assessment in place, the initial valuation assessments could take some time to be accepted. Regular revaluations would also be required to ensure equity between taxpayers. Moreover, the absence of a comprehensive data base of residential properties (which would include information on location, property size and values of recent transactions and rental incomes) precludes this option for the time being.

3.5.3 The number of stamp duty returns where a residential property was transacted in 2009 was 19,719. This compares with approximately 86,086 transactions in 2006 (based on CSO stamp duty data).[31]

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[31] Central Statistics Office. *Residential Property Price Index,* March 2012, p. 18. http://www.cso.ie.

3.5.4 Both Commissions on Taxation suggested that assessments based on self declaration of property values by taxpayers would ease compliance for taxpayers[32]. The establishment of a publicly accessible data base on residential property sales by the newly established Property Services Regulatory Authority (PSRA) will begin to address this deficiency, will improve information on the functioning of the property market and will be an important reference point for taxpayers particularly over time. However, it could be some time, given the current low numbers of sales, before a sufficiently populated data base on sale prices will be in place to determine values of individual properties with a high degree of precision and accuracy.

3.5.5 The Group recommends that priority be given to ensuring that a publicly available data base of residential property sales, which includes up to date price data, is established and operated by the PRSA with effect from September 2012.

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[32] Commission on Taxation (1982), p. 45, Fourth Report, 1985, Government Publications Sales Office. www.fiscal.ie/publications.php. Commission on Taxation, 2009, p. 165, Government Publications Sales Office. www.commissionontaxation.ie

3.5.6 The Group concluded that the most viable basis for assessment of tax liabilities for the new tax is through self-assessment and self-declaration by taxpayers[33].

Recommendations:

- The Group recommends that the LPT should operate through a system of self-assessment and self-declaration by liable taxpayers.
- The Group recommends that priority be given to ensuring that a publicly available database of residential property sales, which includes up to date price data, is established and operated by the PRSA with effect from September 2012.

3.6 Banding of market values

3.6.1 Both Commissions on Taxation[34,35] recommended the grouping of values into broad bands – with, in the case of the 2009 Commission, the taxable values related to mid-points of the bands.

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[33] Arrangements for doing this are outlined in Chapter 7: *Payment and Collection*.

[34] Commission on Taxation, 2009, p. 167, Government Publications Sales Office. www.commissionontaxation.ie

[35] Commission on Taxation (1982), p. 51, Fourth Report, 1985, Government Publications Sales Office. www.fiscal.ie/publications.php

3.6.2 The Group recommends the creation of a sufficient number of taxation bands to allow property owners to place their properties in an appropriate valuation band with reasonable confidence. They should be able to do so without potentially being exposed to disproportionate risks if they incorrectly position their properties by one or even two bands. It is likely that greater precision will be achieved by all over time and that the first objective is to put in place a workable system of assessment which is reasonably effective and as unproblematic as possible for owners.

3.6.3 Grouping all except the most expensive properties into valuation bands (with the rate applying at the mid-point of the bands - in effect, creating fixed sum and certain charges for each band), can ease the valuation challenges. In devising the bands, a balance should be struck between the width of the bands and avoiding substantial liability differences between adjacent bands. The wider the band, the easier it is to carry out a self-assessment but very wide bands run the risk of creating inequities between taxpayers as well as compliance challenges.

Price data

In assessing the appropriate market value bands, the Group drew on the work undertaken for it by the ESRI and that carried out in the Department of Finance. The ESRI's work suggests that some 90% of properties are currently valued at €300,000 or less. This is consistent with the work carried out by the Department of Finance, showing that the majority of properties (60%) fall within a valuation range of €100,000 to €200,000.

3.6.4 Taking account of all aspects, the Group recommends a market value based system of self-assessment involving bands of €50,000 in width, for properties valued between €100,001 and €1,000,000 as shown in Table 3.2. The tax liabilities on properties valued at less than €100,001 would be a basic charge determined by applying the tax rate to the midpoint value of €50,000. For properties valued at more than €1,000,000, the tax liabilities would be determined on the self-assessed value using the same percentage rate as applies to the properties situated in the valuation bands.

Recommendation:

The Group recommends a system of market value taxable bands of €50,000 width with the tax rate calculated on the mid-point of the band.

3.7 Tax rates

3.7.1 Decisions on tax rates are a matter for Government. Table 3.2 provides for illustrative purposes the annual tax liabilities at a rate of 0.1% (i.e. €1 per €1,000 of value) that could apply to properties in each of the proposed bands. Use of a percentage rate across the different bands allows for a progressive increase in the charge while avoiding undue increases in tax liabilities in progressing from one tax band to the next.

3.7.2 The framework illustrated is progressive – owners of more expensive properties would be liable for higher taxes. Greater progressivity could be achieved by applying higher rates to be charged on more valuable properties above stated thresholds using progressive or slab[36] approaches.

[36] A progressive charging structure would apply the “standard” rate on that portion of the value of more expensive properties below the threshold and a higher rate (or rates) to the remaining value. A “slab” structure would apply the higher rate (or rates) to the total value. While theoretically more productive in terms of tax yields, slab structures could create an incentive for evasion.

3.7.3 The extent of the progressivity sought is essentially a matter of political preference. Given the small number of properties involved at this end of the market, more steeply progressive charging structures are not likely to make very much difference to the yield.

3.7.4 Estimations of yield, under different scenarios are dealt with in Chapter 6.

Table 3.2: Banding structure using illustrative tax rates

Valuation Band	Designated midpoint	Per 0.1% charge
€	€	€
0 -100,000	50,000	50
100,001-150,000	125,000	125
150,001-200,000	175,000	175
200,001-250,000	225,000	225
250,001- 300,000*	275,000	275
300,001-350,000	325,000	325
350,001- 400,000	375,000	375
400,001- 450,000	425,000	425
450,001- 500,000	475,000	475
500,001- 550,000	525,000	525
550,001- 600,000	575,000	575
600,001-650,000	625,000	625
650,001-700,000	675,000	675
700,001-750,000	725,000	725
750,001-800,000	775,000	775
800,001-850,000	825,000	825
851,001-900,000	875,000	875
900,001-950,000	925,000	925
950,001-1,000,000	975,000	975

*An estimated 90% of properties will be valued at less than €300,000.

3.8 Local government responsibility

3.8.1 In Chapter 1, the importance of enhancing responsibility and accountability at local authority level was outlined. The charging structure outlined in Table 3.2 can be developed by adding an increment referred to as "a local decision factor" of between 5% and 15% to the local charge. This would mean that using a system of market value for a property (for which the liability under national parameters alone of 0.1%) calculated at €275, would in the final calculation work out at between €288 (5% increase) and €316 (15% increase). The final calculation would be determined by the decisions taken locally by each local authority (by the members as a reserved function of the local council concerned). Elected members would consider the contribution of the local property tax to the overall budget taking account of other revenue sources and the desired levels of service to be provided locally. This dimension to the property tax will provide strong reinforcement of local democratic decision-making and encourage greater efficiency by authorities on behalf of their local electorates.

3.8.2 Table 3.3 below shows a sample set of tax rates using a 10% rate for the local decision factor.

Table 3.3: Illustrative property tax charges incorporating a "local decision factor" using a sample rate of 10% of the basic tax

Illustrative Tax charges per 0.1% of charge increased by an illustrative additional 10% local factor

Valuation Band	Designated midpoint	Per 0.1% tax rate	Additional local decision factor – per illustrative additional increase of 10% on the tax	Total illustrative tax
€	€	€	€	€
0 -100,000	50,000	50	5	55
100,001-150,000	125,000	125	13	138
150,001-200,000	175,000	175	18	193
200,001-250,000	225,000	225	23	248
250,001- 300,000*	275,000	275	28	303
300,001-350,000	325,000	325	33	358
350,001- 400,000	375,000	375	38	413
400,001- 450,000	425,000	425	43	468
450,001- 500,000	475,000	475	48	523
500,001- 550,000	525,000	525	53	578
550,001- 600,000	575,000	575	58	633
600,001-650,000	625,000	625	63	688
650,001-700,000	675,000	675	68	743
700,001-750,000	725,000	725	73	798
750,001-800,000	775,000	775	78	853
800,001-850,000	825,000	825	83	908
851,001-900,000	875,000	875	88	963
900,001-950,000	925,000	925	93	1018
950,001-1,000,000	975,000	975	98	1073

*An estimated 90% of properties will be valued at less than €300,000.

3.8.3 Aside from the apportionment of the total revenue from properties in their own areas recommended in Chapter 1, the Group recommends also that the yield from the

proposed local decision factor should be assigned directly to the authorities concerned.

3.8.4 Implementation and harmonisation of budgetary processes will take a period within which to bed down. Implementing legislation will have to take account of any developments in budgetary time-lines applying at national or local government levels. Similarly, practical implementation in the design of the payment process (Chapter 7) will have to factor in budgetary cycles. The Group recommend that a standard local decision factor of 10% could apply in the first year of operation and that in subsequent years the factor should be decided by each local authority within the recommended range of 5% to 15%.

Recommendation:

- The Group recommends that the overall tax should incorporate a locally determined element based as a percentage of the market value, with yield assigned directly to the authorities concerned.
- A standard local decision factor of 10% could apply in the first year of operation and that in subsequent years the factor should be decided by each local authority within the recommended range of 5% to 15%.

3.8.5 The proposed local adjustment factor is capable of early implementation and would reinforce the essential feature of the LPT as a revenue source for local government. In the longer run, the Group expects that, with the advent of the LPT, financial processes will evolve in sophistication at local government level in respect of revenue estimations and expenditure planning and control and in terms of the interface with the public finances at national level. In these circumstances, and subject to detailed policy approval at central government level, the Group foresees a situation by which individual local authorities would also have discretion to vary the “central” rate within parameters agreed by the Minister for the Environment, Community and Local Government and the Minister for Finance.

Chapter 4: Special circumstances, reliefs and deferrals

4.1 Issues for reliefs

4.1.1 The Group had regard to the following:

- The arrangements for payment of tax due arising from the ownership of properties should have regard to the ability of the owners to pay.
- Reliefs create costs which have to be paid for – either by taxpayers not benefiting from them, or by reductions in public expenditure.
- Reliefs should be designed to address clear economic and social policy needs.
- Considerable care would need to be taken in designing reliefs to ensure that the gains from the reliefs are targeted based on need and that there are not unintended and inequitably distributed gains.
- The proposed LPT will be a tax on the benefits arising from ownership of residential property assets.
- Residential properties have inherent monetary and non monetary values to their owners which to a

considerable extent can be independent of their owner's current income positions.

- The LPT will not be assessed on incomes.

4.1.2 The Group considered the provision of waivers or deferrals for households unable to pay the tax or where a payment requirement would cause hardship.

4.2 Deferrals

4.2.1 Deferrals would allow tax not paid in any year to be rolled forward to be paid at a later date. Election for deferrals would be voluntary, at the choice of the taxpayer, subject to eligibility.

4.2.2 The tax due would be secured by a legally enforceable charge on the property to be recovered by the Revenue Commissioners when the property is subsequently transferred to another owner – which in most cases would be through sales or inheritances. Penalties would not be chargeable except in non compliant cases. Where properties change hands through gifts or inheritances, the charge need not be paid and the deferral option could continue to be in place and to accumulate, provided the new owners meet the eligibility requirements for deferrals provided for in the legislation. In all cases, the combined deferred tax

charge and interest should not exceed the market value of the property if it were sold or transferred.

4.2.3 It is recommended that deferral arrangements also allow taxpayers who had elected for deferrals to make partial payments during the year and to pay off (either in single payments or by instalments) accumulated liabilities if they so wished. Consideration should be given to requiring some portion of "windfall" gains (e.g. cash inheritances, proceeds from asset sales, etc.) to be set against deferred liabilities on a mandatory basis.

4.2.4 Deferral provisions could not be exercised in respect of properties other than principal private residences of owner occupiers i.e. the deferral option would not extend to the tax charges due on holiday homes or rental properties.

4.3 Waivers

4.3.1 Income related waivers are an inefficient and costly method of targeting reliefs. They run the risk of creating inequities between taxpayers in broadly comparable situations. Income related waivers also create poverty

traps[37] and employment traps[38] resulting in work disincentives.

4.3.2 Difficulties also arise in determining exactly which categories of property owners should qualify for a waiver.

4.3.3 Comprehensive means testing is not feasible in view of the cost and extensive administrative overhead involved.

4.3.4 Providing waivers to people in receipt of social welfare payments would also be inappropriate. Almost half of social welfare payments are not means tested. Being in receipt of a social welfare payment is not, in itself, an indicator of low income.

4.3.5 Even in the case of means tested payments, there are significant differences between the relevant means tests, due to the development of the social welfare system over the years in response to the particular needs of various groups. As a result, people with above average incomes can qualify for certain means tested

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[37] Poverty traps created by income related waivers would arise when an increase in income leads to the withdrawal of the waiver so that the recipient is no better off.

[38] An employment trap would arise where the benefits due to increases in income resulting from securing employment or a pay increase would be eroded by withdrawal of the waiver.

social welfare payments while people with lower incomes may not qualify for any social welfare payment. For example, in the case of a couple with no dependent children, if their income is up to €665 per week they would qualify for the maximum rate of Carer's Allowance but they would not qualify for Jobseeker's Allowance on means grounds.

4.3.6 Taking all these considerations into account, the Group recommends against the provision of waivers. On the other hand voluntary arrangements for deferrals focused on particular categories of householders (which are outlined below) can enable cases where there is an inability to pay the LPT to be addressed.

Recommendation:

- Voluntary arrangements for deferrals focused on particular categories of householders can enable cases where there is an inability to pay the LPT to be addressed.
- Deferrals would allow tax not paid in any year to be rolled forward to be paid at a later date.
- Deferral arrangements should also allow taxpayers who had elected for deferrals to make partial payments during the year and to pay off

(either in single payments or by instalments) accumulated liabilities if they so wish.

4.4 Eligibility for deferrals

4.4.1 As a general principle, eligibility for deferral should be based on gross income. The Group accepts, however, that in current circumstances, an additional case can be made to target assistance on owner occupiers suffering severe financial stress as a result of housing mortgage commitments undertaken during the housing boom period, aggravated in some cases by reductions in income.

4.4.2 The following categories of owner occupiers or residential properties are recommended for eligibility for voluntary deferrals in respect of their principal private residences:

- People with gross incomes below €15,000 per annum (single) and €25,000 (joint/co-owners, including those with for example a “life interest”) and couples (who are qualified cohabitants for the purposes of the redress scheme under the

Civil Partnership and Certain Rights and Obligations of Cohabitants Act 2010[39]). This would provide the option of deferral to as many people as possible in the bottom four income deciles of households (i.e. the 40% of households with the lowest incomes) – see also Appendix 4 for a short rationale for these limits. Any looser definition of cohabitation would be impossible to monitor; be difficult to administer; and provide opportunities for deferral where deferral was not justified; and would undermine the concept of cohabitation (as legislated for in the 2010 Act referred to above).

- Owner occupiers living in mortgaged properties where the gross income of the owner occupier less 80 percent of mortgage interest payments in respect of their principal private residence is below €15,000 per annum (single) and €25,000 (joint owners and couples). In order to ensure that this provision is targeted on financially

[39] Under this Act a qualified cohabitant is an adult who has been cohabiting for at least 5 years (or at least 2 years in the case where he/she and the other cohabitant are the parents of one or more dependent children). If a cohabitant is still married, or had been married at any time during the relationship concerned, he/she must have lived apart from his/her spouse for at least 4 of the previous 5 years at the time the relationship concerned ends, in order to be a qualified cohabitant.

stressed owner occupiers who purchased houses during the housing boom, the Group recommends that this relief would apply until end 2017 to cases where the mortgage was taken out between 1 January 2004 and end December 2008. This cohort is also eligible for enhanced mortgage interest relief under the income tax code.

- The payment of a large amount of stamp duty at the height of the property boom was not considered as a basis for relief as it does not have regard to ability to pay (see paragraph 4.4.7 below).

4.4.3 In the categories above, the reckonable incomes would be those of the owners, or where appropriate, the joint incomes of the spouses, civil partners and cohabitees as recognised by the 2010 Act. The incomes of other residents such as adult children should not be reckonable. Income from all sources should be taken into account – including income from social welfare, employment, self employment, company profits, farming incomes and profits, pensions and income derived from capital including bank deposits and share and bond dividends.

4.4.4 Election for deferral would in the first instance be made annually. Over time, and as experience of administering the LPT develops, election for deferral over longer periods for certain categories may be possible. The design of a deferral regime should also address the situations of households who previously were eligible and elected for deferrals but who are no longer entitled to make this election due to improvements in their financial circumstances. The Group recommends providing these taxpayers with the option of leaving the original deferrals in place in respect of previous tax liabilities or of paying them off either in single payments or gradually. These provisions would avoid the creation of employment and poverty traps. It is also recommended that tapering provisions, which would entail partial payment of tax due and partial deferral be provided for cases where the income of the taxpayer is slightly above the upper limit for deferral. For example, owner occupiers whose income is less than €5,000 above the relevant thresholds could have the option of deferring up to 50% of their LPT liability.

Recommendation:

- Taxpayers who had deferred payment, but who are no longer eligible for deferrals due to

improved financial circumstances should have the option of leaving the original deferrals in place in respect of previous tax liabilities, or of paying them off either in single payments or gradually.

- Tapering provisions, which would entail partial payment of tax due and partial deferral, should be allowed for cases where the income of the taxpayer is slightly above the upper limit for deferral.

4.4.5 The recommendations would allow eligible taxpayers to elect for full deferral in a given year. This could have implications for the tax yield and higher tax charges for other taxpayers in the initial years of operation of the LPT. A variant on the recommendations would be to require that in eligible deferral cases owner occupiers would be required to make a minimum payment (set as a percentage of the tax due) in all years.

4.4.6 These recommendations provide an appropriate balance between the circumstances of low income owner occupiers and the interests of the general body of taxpayers and beneficiaries of public expenditure.

4.4.7 In making its recommendation the Group was influenced by the following considerations in regard to those who paid large sums of stamp duty during the property boom:

- In contrast with deferrals, the impact of such a relief as between taxpayers would not be targeted on cases in need.
- The tax structure was known to house purchasers.
- The revenues have been spent on the provision of public services.
- In many cases, the selling price of the property will have been affected by the value of the stamp duty payable – thus transferring part of the cost of the duty to the vendor.

Chapter 5: Other issues

5.1 Multiple properties

5.1.1 At present, the Non-Principal Private Residence (NPPR) charge of €200 applies to all residential properties, subject to a limited number of exemptions, which are not principal private residences. The terms of reference given to the Group do not require it to consider the NPPR. However, a number of submissions made to the Group and wider public commentary link the operation of the NPPR with the Household Charge and the future property tax.

5.1.2 The NPPR charge is commonly seen as a second home tax but in reality applies to multiple residential property ownership. Receipts from the charge are assigned directly to the local authorities for the area in which each property is located.

5.1.3 Retention of the NPPR charge could be viewed as double taxation. The Group recognised the merit of the argument but concluded that the retention of this revenue source is required under current fiscal circumstances.

5.1.4 However, in developing the LPT it would be anomalous to retain the NPPR as a separate and unconnected tax on property. Accordingly, the Group recommends that the NPPR be absorbed into, and aligned with, the LPT as a separate supplemental tax in addition to the LPT at the existing level applying to non-principal private residences (€200). Receipts from the supplemental tax would continue to be assigned to the local authorities for the area in which the property is located. The Group considers it important that this revenue source be protected and that it be retained as a transitional measure in respect of multiple property ownership in addition to the basic local property tax being recommended by the Group.

Recommendation:

- The NPPR should be absorbed into the LPT as a separate supplemental tax in addition to the LPT at the existing level applying to non-principal private residences.

5.2 Deductibility of LPT for tax purposes

5.2.1 The terms of reference of the Group do not require it to consider whether the LPT (including the add-on of €200 in respect of NPPR properties) should be deductible for

income tax and corporation tax purposes where the property is a rental property. However, the issue was raised in a number of submissions made to the Group.

5.2.2 Income tax and corporation tax are charged on the income from the letting of a property (both residential and commercial) on the net rents receivable from the property after deducting certain items of expenditure. The deductions allowed in computing the net rent receivable in respect of a property are set out in tax law[40] and must be incurred by the person liable to income tax or corporation tax on the rents from the property. The allowable deductions are:

- any rent payable on the property
- any local authority rates payable on the property
- the cost of any goods or services required to be provided under the lease
- the cost of maintenance, repairs, insurance and management of the premises (excluding capital expenditure)
- interest on monies borrowed to purchase, improve or repair the premises (in the case of residential properties the deduction is limited to 75% of the interest)

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[40] Section 97, Taxes Consolidation Act 1997.

5.2.3 In addition, capital allowances are given for the cost of furnishing residential rented properties[41].

5.2.4 The restriction on the amount of interest that is deductible was introduced in 2009 as a revenue raising measure.

5.2.5 For tax purposes, landlords are currently required to compute the net rents received without being allowed a deduction for either the household charge or the NPPR charge.

5.2.6 Commercial rates paid to local authorities are treated as a legitimate expense in calculating rental income from commercial property for tax purposes.

5.2.7 LPT will be a recurring annual tax to be paid by owners of properties, including the owners of rental properties. LPT will also be a genuine expense of the transaction under which the taxable rents are received. Landlords may, to some extent, be able to pass on the incidence, or part of the incidence, of LPT to tenants. However, it is unlikely that they will, particularly in the short term, if ever, be able to pass on the full amount of LPT they will

[41] Section 284 (6) and (7), Taxes Consolidation Act 1997.

be obliged to pay in respect of a rental property. For this reason, there would appear to be an equity argument for allowing, at least a portion of, LPT (including the NPPR addition) paid in respect of a rented property to be deductible for tax purposes in the same way as commercial rates are deductible for tax purposes.

5.2.8 The Group recognises the considerable pressures on the public finances and the need to bridge the gap between expenditure and revenue. For this reason, the Group suggests that consideration be given to phasing in deductibility over a period of years.

5.2.9 The Group considers that it is for Government, having regard to the prevailing budgetary situation, to decide on the time span for phasing-in deductibility and on what percentage of LPT to allow as a deduction from gross rents for tax purposes.

Chapter 6: Yield estimations

6.1 Determinants of Yield

6.1.1 The key determinants of total annual yield will be the total number of taxable properties, the number of those properties which fall within each valuation band, the taxation rate which will apply to each band and the number of property owners who are likely to opt for a deferral.

6.1.2 At the time of writing this report, the best estimate of the number of taxable properties is 1.6 million. This estimate is derived from the 2011 census, adjusted to take into account the estimated number of properties which would not be liable to the property tax. The Group has assumed that these properties fall within the ranges set out in table 6.1 below. This is based on the study of property prices done by the Department of Finance, as set out in Chapter 3. Table 6.1 demonstrates what the total yield would be if there were no deferrals for a selection of tax rates:

Table 6.1: Simple Yield Estimate with no Deferrals

		€1 per thousand		€2 per thousand		€2.50 per thousand	
Value Band €	% of total properties in band	charge per property	Total yield €m	charge per property	Total yield €m	charge per property	Total yield €m
0-100,000	7.26%	50	5.8	100	11.6	125	14.5
100,001-150,000	33.65%	125	67.3	250	134.6	313	168.3
150,001-200,000	32.05%	175	89.7	350	179.5	438	224.3
200,001-250,000	14.91%	225	53.7	450	107.4	563	134.2
250,001-300,000	6.21%	275	27.3	550	54.6	688	68.3
300,001-350,000	2.72%	325	14.1	650	28.3	813	35.4
350,001-400,000	1.37%	375	8.2	750	16.4	938	20.5
400,001-450,000	0.72%	425	4.9	850	9.9	1,063	12.3
450,001-500,000	0.39%	475	3.0	950	6.0	1,188	7.5
500,001-550,000	0.23%	525	1.9	1,050	3.8	1,313	4.7
550,001-600,000	0.12%	575	1.1	1,150	2.3	1,438	2.9
600,001-650,000	0.10%	625	1.0	1,250	2.0	1,563	2.5
650,001-700,000	0.07%	675	0.7	1,350	1.4	1,688	1.8
700,001-750,000	0.03%	725	0.4	1,450	0.8	1,813	1.0
750,001-800,000	0.03%	775	0.4	1,550	0.8	1,938	1.0
800,001-850,000	0.03%	825	0.4	1,650	0.9	2,063	1.1
850,001-900,000	0.02%	875	0.3	1,750	0.7	2,188	0.9
900,001-950,000	0.03%	925	0.4	1,850	0.7	2,313	0.9
950,001-1m	0.01%	975	0.2	1,950	0.4	2,437	0.6
>1.m	0.04%	no banding – apply rate to self-assessed values	0.7	no banding – apply rate to self-assessed values	1.4	no banding – apply rate to self-assessed values	1.8
Total	**100.0%**		**281.5**		**563.5**		**704.5**

6.1.3 Table 6.1 assumes that all properties are taxed at the same rate, regardless of their values. As noted in Chapter 3, greater progressivity could be achieved by applying higher rates to more valuable properties. However, given the small proportion of properties in the higher value ranges, the effect on total yield would be negligible. For example, if the rate applicable to houses valued at €1 million or higher were increased to €3 per thousand[42] (where all other properties were charged €1 per thousand), this would increase the total yield by €1.4 million (0.4%).

6.2 Impact of local decision factors on yield

6.2.1 In Chapter 3 (Section 3.8) it was recommended that a local decision factor of between 5% and 15% be applied by local authorities to the property tax rate, in order to reinforce local democratic decision making. The yield from this local decision factor would be assigned directly to the local authorities for the areas in which the properties were located. A standard decision factor of 10% would apply in the first year of operation, and this could then be varied by each authority within the given

[42] Calculated on a slab basis – i.e. the rate of €3 per thousand is applied to the entire amount and not just the increment over €1 million.

range in future years. Table 6.2 illustrates the effect this factor would have on the yield.

Table 6.2 – Effect of local decision factor.

		Charge including local decision factor		
Value Band €		**€1 per thousand**	**€2 per thousand**	**€2.50 per thousand**
0-100,000		55	110	138
100,001-150,000		138	275	344
150,001-200,000		193	385	481
200,001-250,000		248	495	619
250,001-300,000		303	605	756
300,001-350,000		358	715	894
350,001-400,000		413	825	1,031
400,001-450,000		468	935	1,169
450,001-500,000		523	1,045	1,306
500,001-550,000		578	1,155	1,444
550,001-600,000		633	1,265	1,581
600,001-650,000		688	1,375	1,719
650,001-700,000		743	1,485	1,856
700,001-750,000		798	1,595	1,994
750,001-800,000		853	1,705	2,131
800,001-850,000		908	1,815	2,269
850,001-900,000		963	1,925	2,406
900,001-950,000		1,018	2,035	2,544
950,001-1m		1,072	2,144	2,681
>1.m		No banding	No banding	No banding
Basic Yield (€m)		281.5	563.5	704.5

		Charge including local decision factor		
(from table 6.1)				
Yield from local decision factor charge (€m)		28.2	56.4	70.4
Total Yield (€m)		**309.7**	**619.9**	**774.9**

6.3 Impact of Deferrals on Yield

6.3.1 As set out in Chapter 4, it is appropriate to take into account people's ability to pay, on the grounds of equity and practicality. On this basis the Group has recommended that, in certain circumstances, which are set out in detail in Chapter 4, people should be allowed to defer the payment of their property tax. The impact of this on the yield will depend both on the number of people who would qualify for a deferral, and the proportion of that cohort that would choose to opt for deferral.

6.3.2 A key cohort who the Group recommends should be eligible for deferral would be people with income below €15,000 per annum (single) or €25,000 (couple). The ESRI has estimated that approximately 21% of households (336,000) would be eligible for deferral on this basis, and that the maximum potential effect on yield would be 16%.

6.3.3 The Group also recommends that certain financially stressed property owners, as set out in Chapter 4

(paragraph 4.4.2), would also be eligible for deferrals, with the relief applying until end 2017. The Group's best estimate is that approximately 40,000 householders would be eligible for this deferral, with a maximum potential effect on yield of 2.5%. However, it is important to note that this yield effect is time limited and will end after 2017.

Table 6.3 – Potential effect of deferrals on yield.

Basis for deferral		**Maximum potential effect on yield**		
		€1 per thousand	**€2 per thousand**	**€2.50 per thousand**
Low income (€m)		45.1	90.2	112.7
Overindebtedness (€m)		7.0	14.1	17.6
Yield if all those eligible for deferral exercise the right to defer (€m)		229.4	459.2	574.2
Grossed up to account for local yield factor (€m)		252.4	505.2	631.6

Chapter 7: Payment and collection

7.1 The role of the Revenue Commissioners

7.1.1 The terms of reference for the new property tax include a requirement that it be:

"Collected centrally by the most cost efficient and effective means."

7.1.2 The Office of the Revenue Commissioners is the Irish national tax administration. The Commissioners have long experience of, and expertise in, administering and collecting a wide range and variety of taxes, including taxes that bear to a large degree on residential property such as capital acquisitions tax, capital gains tax and stamp duties.

7.1.3 In addition, and, perhaps more, importantly, Revenue has vast experience and expertise in organising the

effective collection of taxes and duties in a cost efficient way[43].

7.1.4 The Office of the Collector-General is the arm of the Revenue Commissioners specifically charged with the task of collecting the vast bulk of the taxes and duties collected in Ireland[44]. That Office and, indeed, Revenue generally, has shown that it is organised in such a way that it can adapt very quickly to the administrative challenges posed by the introduction of new taxes and with major changes to existing taxes[45].

7.1.5 The Revenue Commissioners also collect hypothecated[46] levies and charges for various Government Departments[47] in efficient ways. The Revenue Commissioners have the required experience and ability necessary to manage relationships effectively with relevant stakeholders if a hypothecated tax is to be collected in an efficient manner.

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[43] The Cost of Administration for Revenue as a percentage of Gross Collection was 0.92% in 2011. This was a reduction from 0.98% in 2010.The cost of administration for the Commissioners in 2011 was €391.8m.

[44] Gross receipts were **€**48.4 billion in 2011.

[45] For example, the IT, legislative, administrative, change management and taxpayer education elements of the new electronic Relevant Contracts Tax system were completed in about 18 months.

[46] A hypothecated levy or tax is one collected for a specific expenditure or allocation purpose

[47] Including PSRI for the Department of Social Protection, tobacco levies and the old health levy for the Department of Health and the environment levy for the Department of the Environment, Community and Local Government.

7.1.6 The legal framework governing the collection of taxes and duties by the Revenue Commissioners is set up, to treat all taxes and duties due and all interest, surcharges and penalties in respect of these taxes and duties simply as an amount of tax due to the Exchequer. As such, the whole range of collection and enforcement options available to Revenue[48] can be quickly and effectively deployed for the collection of LPT by the simple device of adding LPT to the list of taxes to which these mechanisms may be applied[49].

7.1.7 It should also be noted that the 2009 Commission on Taxation[50] considered that any new property tax should be administered by the Revenue Commissioners on the basis that Revenue has the expertise to administer taxes generally. For the reasons set out above, the Group agrees with the conclusion of the Commission.

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[48] Such as offset against refunds of other taxes; sheriff enforcement; attachment of debts, bank accounts, payments by Governmental bodies and payment of wages and salaries by employers; civil legal proceedings; and bankruptcy.

[49] Section 960A, Taxes Consolidation Act 1997 defines "tax" as meaning any income tax, corporation tax, capital gains tax, value-added tax, excise duty, stamp duty, gift tax, inheritance tax or any other levy or charge which is placed under the care and management of the Revenue Commissioners and includes any interest, surcharge or penalty relating to any such tax, duty, levy, or charge.

[50] Commission on Taxation, 2009, p. 168, Government Publication Sales Office. www.commissionontaxation.ie

7.1.8 The Group sees no difficulty with the central or national collection of LPT by the Revenue Commissioners coexisting with local authorities ultimately having the discretion to vary the rate of LPT applicable in its particular functional area.

7.1.9 Accordingly, the Group recommends that:

- The Revenue Commissioners are given responsibility for all aspects of LPT (including administration, collection, enforcement, and audit) and that LPT be placed by legislation under the care and management of the Commissioners.
- It is made clear in the legislation introducing the LPT that the Revenue Commissioners, in accordance with the recommendations of the Moriarty Report, should be independent in this role in the same way as they are independent in their role of administering the other taxes and duties under their care and management[51].
- The legislation introducing the LPT provide for the establishment of a comprehensive property tax register providing the precise geographic location of each property and relevant details relating to the ownership of each property.

[51] Section 101, Ministers and Secretaries (Amendment) Act 2011 refers.

- The Revenue Commissioners develop a system that will keep track of deferred liability to LPT under the deferral system recommended in Chapter 4, together with the associated interest.
- If a taxpayer who is deferring payment of LPT comes into sufficient funds to pay all or part of his/her liability, a facility be made available to enable taxpayers to pay off all or part of the deferred liability at any time with consideration being given to requiring a mandatory payment of deferred LPT from some proportion of any windfall gains (e.g. from asset disposals or inheritances).

Recommendation:

- The Revenue Commissioners are given responsibility for all aspects of LPT including administration, collection, enforcement, and audit.

7.2 Payment of the tax

7.2.1 The Group's terms of reference include a requirement that the new property tax:

"Facilitate easy and/or phased payments by households".

7.2.2 It is generally agreed that a tax system should be coherent, simple and straightforward. Simplicity helps to keep the cost of collection down for the tax administration and the cost of compliance low for taxpayers. In general, the most cost efficient way of collecting any tax is to make as much use as possible of intermediaries as collection agents. In other words, maximise collection at source. The Group notes that the Revenue Commissioners already make extensive use of collection at source mechanisms in order to collect taxes[52].

7.2.3 Most wage and salary earners, pensioners, social welfare recipients and others on fixed incomes have no other income except their earnings, etc. and many pay out the greater part of those earnings almost as soon as they are received. Even if wage and salary earners, and others in a similar position, are given timely information regarding the due date for payment of LPT, many may not be in a position to make adequate provision for the payment of their liability on time. There will always be a number, who have sufficient means or are sufficiently well organised, to make timely payment of LPT in one or two lump sums without incurring some form of

[52] For example, PAYE/USC, DIRT, Relevant Contracts Tax, Professional Services Withholding Tax, Life Assurance Exit Tax and Investment Funds Exit Tax.

hardship, but these are probably in a minority. In any event, some unexpected expense could arise upsetting whatever provision has been made for the payment of LPT. It is important to bear in mind that there are many circumstances where earnings can fluctuate, including unemployment, change of employment, less overtime, short-time work, illness, withdrawal of bonus, or reductions in commissions, etc.

7.2.4 The Group considers that, in order to avoid the difficulties associated with lump sum payments, employers of wage and salary earners, pension providers, and others making regular income type payments should be required to deduct the amount of the LPT over the course of the year. The deduction should be made evenly over the course of the year at a time and frequency that corresponds with the payment of a person’s wage, salary, pension, or benefit.

7.2.5 LPT could also be deducted from other payments made by governmental bodies such as the single farm payment.

7.2.6 The Group believes that the default position for employees, pensioners, etc. should be deduction of LPT at source by employers supplemented by deduction at

source from payments made by Government Departments.

7.2.7 Of course, in the case of persons who refuse to engage with the system or to register to pay LPT, the full tax enforcement powers available to the Revenue Commissioners would be available to enforce payment in the same way as any other tax or duty.

7.2.8 Collection of LPT by way of payroll and other payment systems could have many advantages, including simplicity, reduced costs of administration and reduced evasion. Employers and others required to deduct LPT from payments are unlikely to incur significant additional expense as the software would be made available by Revenue. In order to spread payment evenly throughout the year, the LPT liability for the coming year would need to be determined in advance of the start of the tax year.

7.2.9 Deduction of LPT at source requires that complexity be kept to a minimum.

7.2.10 Overall, the Group considers that collection of LPT through deduction at source through payroll and other payment systems would be a very cost effective method

of collection and would not impose any significant additional burden on employers, etc.

7.2.11 Collection of LPT using deduction at source through payroll will require development by the Revenue Commissioners of a system to manage and account for LPT as a separate tax head and which can allocate LPT deducted from a person to a property or properties located in one or more local authority areas.

7.2.12 Collection of LPT using payroll systems would not of course apply where a taxpayer has insufficient employment income to meet his/her LPT liability. In such cases, while likely to be relatively few in number, other "collection at source" mechanisms will be needed to allow for the smooth collection of LPT over the course of a year.

7.2.13 Accordingly, the Group recommends that the legislation introducing the LPT include provision for the collection of LPT at source from payroll and from recurring and lump sum payments made by Government Departments. The necessary implementation processes would be the responsibility of the Revenue Commissioners. The Revenue would be responsible for developing the software "solutions" to allow for deduction at source and for supplying the software to

employers and to Government Departments. The Group recommends that an Inter-Departmental task force chaired by the Revenue Commissioners oversee this work.

7.2.14 The Group also recommends that those who are subject to the self-assessment rules and who do not have any employment income should be required to pay LPT by 31 October in the year following the determination of liability (that is, at the same time as self-employed individuals pay their income tax).

Recommendations:

- The legislation introducing the LPT should include provision for the collection of LPT at source from payroll and from recurring and lump sum payments made by Government Departments.
- Taxpayers who are subject to self-assessment rules and who do not have any employment income should be required to pay LPT by the 31 October in the year following the determination of liability.

Chapter 8: Enforcement

8.1 Compliance and intervention

8.1.1 The terms of reference for the new property tax require the Group to consider appropriate arrangements for:

- A robust audit function; and
- Strong enforcement and penalty provisions for non-compliance.

8.1.2 It is a fundamental principle of a self-assessment tax system that returns and payments filed by compliant taxpayers are accepted and processed on a non-judgemental basis. Compliance with the tax system is then promoted by vigorous pursuit of those who do not file returns, by auditing selected returns and by taking appropriate action against tax evaders.

8.1.3 The Group notes that the Revenue Commissioners already undertake a programme of compliance interventions that minimise the burden on the compliant taxpayer and tackle, in a thorough and effective way, the non-compliant taxpayer[53]. This

[53] Revenue Audit activity in 2011 yielded €440.5 million from 11,066 interventions.

approach involves taking account of all the risks that apply to a taxpayer across all taxes and duties. Revenue's priority is to recover any unpaid tax, along with interest and penalties as efficiently as possible.

8.1.4 Each Revenue intervention is intended to be in the form that is most efficient in terms of time and resources, and which imposes the least cost on the taxpayer, while addressing the perceived risk. Consequently not all Revenue interventions take the form of formal audits[54]. Many take the form of what are called 'assurance checks' that query aspects of a taxpayer's dealings with the tax system (e.g. eligibility for a tax relief).

8.1.5 It is the view of the Group that compliance with LPT can be best promoted through a similar mix of compliance interventions.

8.1.6 The Group also notes that the Revenue Commissioners encourage taxpayers to review their tax affairs on a regular basis. If irregularities are evident, taxpayers are encouraged to quantify and report them. This approach ultimately saves money in reaching a settlement with Revenue. The Group considers that a similar approach should apply in the case of LPT. Taxpayers in default

[54] €81.3 million was yielded in 2011 from 546,502 assurance checks.

should be encouraged to regularise their affairs in a number of ways, including self-correction, declaring an innocent error, and making a qualifying disclosure. Taxpayers using these mechanisms to regularise their affairs, while subject to an interest charge, should be able to avoid or minimise penalties. These concepts for the taxes and duties currently collected by Revenue are set out in the published Revenue "Code of Practice for Revenue Audit" and the Group recommends that similar concepts, suitably adapted, should be developed in the case of LPT.

8.1.7 The remainder of this Chapter examines and makes recommendations on various aspects of a compliance regime for LPT such as:

- Interest on unpaid LPT
- Surcharge for non-submission of LPT returns
- Publication of names of tax defaulters
- Tax clearance
- Civil penalties for non-compliance with the law
- Criminal offences for certain egregious behaviours
- LPT as a charge or lien on the property
- Estates and inheritances.

The Group also considered the principles it would expect to see in a future LPT compliance framework. This includes, for example, the circumstances in which civil penalties or publication should not apply. While making no firm recommendations in this area, on the basis that the Revenue Commissioners are best placed to make firm recommendations to Government in this regard, the Group would hope that any future compliance framework developed for LPT would have regard to these principles.

8.2 Interest on unpaid LPT

8.2.1 The Group considers that interest should be payable on unpaid LPT, that is overdue, in the same way that interest is payable in respect of any other unpaid tax or duty administered by the Revenue Commissioners – subject to particular distinction being made on interest due on deferred payments where the taxpayers are entitled to and have elected for deferrals where the interest charged would be at the rate of cost of funds to the Exchequer.

8.2.2 A survey undertaken by the Revenue Commissioners indicates that "*concern at having to pay interest for late*

payment" is one of the most influential factors in promoting tax compliance.[55]

8.2.3 The Group recommends that the rate of interest that should apply is the rate that applies to unpaid tax generally, namely, 0.0219% per day, or 7.9935% per annum.

> **Recommendation:**
>
> - The rate of interest that should apply to late payments of LPT is the rate that applies to unpaid tax generally, namely, 0.0219% per day, or 7.9935% per annum.

8.3 Surcharge for late submission of LPT returns

8.3.1 An important element of any self-assessment tax regime is an appropriate and immediate sanction for those who do not comply with the tax declaration deadline to file their tax return. In the context of Revenue administered

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[55] Taxpayers were asked "On a scale from 1 to 5 where 1 is low and 5 is high, how would you rate the influence of [a list of 10 factors] on whether you pay your correct taxes and duties honestly and on time?" The factors covered a mix of civic responsibility and Revenue sanctions. The survey report notes "The results indicate that concern at having to pay interest for late payment is the most influential factor within those related to concern of Revenue sanctions." 51% of cases ranked it as 5 on the scale, no other sanction had more than 27% of cases ranking it as 5 (other sanctions included audit, court judgement, defaulters list publication and Revenue sheriff). Taking 4 and 5 together, the score increases to 69%. Revenue Commissioner's survey at: http://stargate:8080/servlet/portal/serve/187604

taxes, this takes the form of a surcharge for the late filing of a tax return.

8.3.2 The Group believes that a specific sanction is required to ensure that the LPT return filing deadline is observed. A surcharge is one of the most effective methods of ensuring that taxpayers meet tax return filing deadlines.

8.3.3 The Group recommends that where a person is required to deliver a LPT return and fails to do so on or before the return filing date, the amount of LPT for that year should be increased by a surcharge amount equal to 5% of the tax due if the delay in filing is less than 2 months late and 10% of the tax due if the delay is more than 2 months. The Group is not recommending any limit or cap on the amount of the surcharge.

Recommendation:

- Where a liable person is required to deliver a LPT return and fails to do so on or before the return filing date, the amount of LPT for that year should be increased by a surcharge amount equal to 5% of the tax due if the delay in filing is less than 2 months late and 10% of the tax due if the delay is more than 2 months.

8.4 Publication of names of tax defaulters

8.4.1 According to the Report of the Revenue Powers Group[56], the power to publish the name of tax defaulters is a valuable enforcement mechanism[57]. The legislation[58] imposes an obligation on the Revenue Commissioners to publish a list, within 3 months of the end of each quarter of the name, address and occupation of tax defaulters. The obligation to publish the name of defaulters is, however, subject to certain exceptions which include:

- Where the total amount of the agreed liability of the taxpayer does not exceed €33,000 in tax, interest and penalties.
- Where the taxpayer has made a full voluntary disclosure.
- Where the amount of the penalty agreed with the taxpayer or determined by a court does not exceed 15% of the tax involved in the settlement.

8.4.2 The figures published include the tax, interest and penalties that make up the settlement. Publishable amounts are aggregated for all taxes and for all years covered by the settlement.

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[56] Chaired by former Supreme Court Justice Mr Justice Francis Murphy.

[57] At p. 53 of the Report of the Revenue Powers Group.

[58] Section 1086, Taxes Consolidation Act 1997 refers.

8.4.3 The Group recommends that where a person is the subject of a Revenue audit any tax, interest and penalties in respect of the evasion of LPT for the year under audit should count for consideration for publication in the same way as any other tax or duty evaded.

Recommendation:

- Interest and penalties in respect of the evasion of LPT should count for consideration for publication in the same way as any other tax or duty evaded.

8.5 Tax clearance

8.5.1 A tax clearance certificate is a written confirmation from Revenue that a person's tax affairs are in order. Broadly, tax clearance is required where a person is seeking a Government contract, a State grant or certain State licences and authorisations. Tax clearance applies to most of the taxes and duties administered by Revenue (except stamp duties and capital acquisitions tax). Tax clearance has proved to be an important tool in assisting Revenue's compliance programmes over the years.

8.5.2 The Group recommends that LPT be added to the list of taxes and duties that a person requires tax clearance for before tendering for a State contract; qualifying for a State grant or before a State licence/authorisation issues.

8.6 Civil penalties

8.6.1 Non-compliance with any law, but particularly tax law in light of the importance of tax revenues to the functioning of the State, requires a firm but proportionate response having regard to the degree of non-compliance involved (for example, in the case of tax, this can range from innocent error to out-and-out criminality, but also encompasses acts such as deliberate misbehaviour and carelessness, with or without significant consequences). This range of "misbehaviours" requires a sophisticated response on the part of the State in order to ensure that citizens are not oppressed, while at the same time, ensuring that tax is paid.

8.6.2 In response to these very complex issues, tax law, as developed over many years, has resulted in a legal framework that can provide for either a civil or a criminal sanction depending on the degree of criminality

involved and the proofs available. While theoretically possible to seek both a civil and criminal sanction for the same action, the Group notes the comment of the Revenue Powers Group[59] on the attitude adopted by the Courts when faced with the possibility of multiple penalties for the same action/non-action that "*this would suggest that where a taxpayer has paid very substantial civil penalties the prospect of securing any significant [criminal] penalty from the court is remote.*"

8.6.3 Having regard to the attitude of the Courts in providing protection against multiple penalties, the Group sees no reason why LPT should not have a similar civil/criminal regime as applies for all other taxes and duties.

8.6.4 Civil penalties are determined on the "balance of probabilities" whereas criminal conviction requires a much higher level of "proof beyond reasonable doubt". For this reason, civil penalties, which can be substantial, are often favoured by Revenue over criminal prosecutions, particularly where the evasion/criminality involved is not egregious.

8.6.5 Having regard to the nature of the LPT and the fact that egregious behaviour is likely to be limited, the Group

[59] Paragraph 5.12 at p. 28.

suggests, subject to some exceptions as outlined in paragraph 8.7.1 below, that civil penalties be preferred over criminal prosecutions.

8.6.6 The experience of the Revenue Commissioners is that the overall interest of the State is often best served if non-payment and evasion is dealt with on the basis of a settlement that covers the tax due, plus significant civil penalties plus interest without the need for a criminal trial. Moreover, the sophistication of the Revenue civil penalty regime is appropriate in that it distinguishes between different types of behaviour (e.g. carelessness without significant consequences, carelessness with significant consequences, deliberate fraudulent behaviour, co-operation and non-cooperation with the authorities, etc.) in determining the level of penalty that might apply.

8.6.7 The majority of Revenue settlements for tax, interest and civil penalties are usually resolved by agreement with the taxpayer, even where publication is involved. However, where there is no agreement on the liability to a penalty, tax law provides for the level of penalty to be determined by a court in accordance with a statutory scheme. This ensures that taxpayer's rights are protected where agreement on the appropriate penalty to apply cannot be reached.

8.6.8 The Revenue penalties are "tax geared". In other words, the amount of the penalty is related to the tax evaded. This is only fair to the vast majority of citizens who pay the correct amount of tax on time. In addition, certain fixed penalties of €3,000 can apply for failure to make a return, making a false return, etc.

8.6.9 The Group recommends that a civil penalty regime based on the current Revenue civil penalty regime as set out in the Code of Practice for Revenue Audit be applied for the purposes of LPT with any necessary adaptations.

Recommendation:

- A civil penalty regime based on the current Revenue civil penalty regime should be applied for the purposes of LPT.

8.6.10 The Group would, however, recommend one modification to the current regime by limiting the fixed penalty for failure to make a return to a penalty of the lesser of €3,000 and the tax that would have been payable if a return had been made.

8.6.11 The reason for this is that this penalty was designed for a person who failed to make an income tax or

corporation tax return and such taxes are nearly always likely to be significantly higher than any LPT that might be due on a return that has not been made.

8.7 Criminal prosecution

8.7.1 Conviction for a criminal offence carries with it a stigma and opprobrium that is of a significantly higher degree than the imposition of a civil penalty. The Group, therefore, considers that the imposition of a substantial criminal fine, including in the most serious cases the possibility of a custodial sentence, in relation to LPT may be an appropriate sanction in some limited circumstances (e.g. for obstruction/assault of a Revenue officer seeking to inspect a property or collect LPT; for wilful and systematic under declaration of market value or other elements needed to calculate liability; for use of forged or falsified documents; for the deliberate and consistent failure to submit a LPT return; for frauds in relation to valuation and certificates of discharge or exemption).

8.8 LPT as a charge or lien on property

8.8.1 The Group notes that unpaid NPPR charges and unpaid household charges are treated as a charge on the property in respect of which the tax remains unpaid together with any unpaid penalties and interest, if

applicable. The Group recommends that unpaid LPT, including LPT that has been deferred, should also be a charge on a property.

8.8.2 The legislation relating to both the NPPR charge and the household charge provides for an elaborate system of certificates of discharge, exemption and waiver to be given to property owners to prove to purchasers either that all outstanding charges have been paid or that no liability arose in the first place.

8.8.3 When properties are being sold, the solicitor acting for the purchaser will require an unconditional certificate of discharge from LPT from the vendor's solicitor. These certificates can only be supplied by Revenue. These certificates will become a standard part of the conveyancing practice in the case of the sale or disposal of all dwellings whether or not the dwelling has been subject to LPT.

8.8.4 The procedures involved are likely to be elaborate, time consuming, cumbersome, expensive, and resource intensive. Moreover as it will be necessary to give a certificate for all residential properties being sold or disposed of these procedures will bring in little or no extra Revenue.

8.8.5 The Group believes that the manual procedures currently operated for the NPPR and the household charge are inadequate in the context of a recurring annual property tax that will, over time, give rise to a significant number of property transfers that will require certificates of discharge or certificates of exemption[60].

8.8.6 The Group recommends that the Revenue Commissioners develop a secure website that would show the LPT status of each registered property in the State. This website should be directly accessible by solicitors for both vendors and purchasers. In addition, it should be available to executors or personal representatives following application to Revenue. The website should be such as would ensure that only the LPT history of the property that is being dealt with is accessible. Where the LPT has been discharged, or the property is exempt from LPT, a certificate of discharge or certificate of exemption should issue electronically in a similar fashion to the way an electronic stamp duty certificate issues. This certificate could then be printed off and retained along with the other conveyancing documents.

[60] Exemption is used here to refer to dwellings that are not subject to LPT.

Recommendation:

- The Revenue Commissioners should develop a secure website that would show the LPT status of each registered property in the State.

8.8.7 The Group also believes that a system should be developed between the Revenue Commissioners and the Property Registration Authority of Ireland (PRAI) to allow for the automatic transfer of data so that the LPT charge can be registered/deregistered with the PRAI on a property electronically on a systematic basis.

8.9 Estates and inheritances

8.9.1 Under tax law where an individual liable to income tax dies, his/her executor/administrator is liable for any unpaid tax, interest or penalties remaining unpaid at the time of death. These liabilities are treated as a debt on the estate of the deceased and executors/administrators are authorised to deduct and pay these liabilities out of the estate of the deceased person. Broadly, a 3-year period applies to allow Revenue to collect unpaid tax, interest and penalties. The Group recommends that similar provision be made for LPT.

8.9.2 Where deferral of LPT occurs and LPT remains unpaid at the time of death, mechanisms will be needed to identify these cases and ensure that deferred LPT is paid before the property is sold or otherwise transferred.

8.9.3 The principal way the Revenue Commissioners currently find out about a person's assets/property following death is when the executor/personal representative makes an application to the Probate Office for a grant of probate. A copy of all such applications[61] is sent by the Probate Office to Revenue for the purposes of ensuring that potential inheritance tax liabilities are identified.

8.9.4 The Group recommends that the probate application system be adapted to provide Revenue with details of any LPT issues (unpaid tax or deferrals) that relate to the property in respect of which probate is sought. In order to improve the efficiency of the current system, the Group also recommends that the application be made via an electronic platform that ensures the data are shared simultaneously by the Probate Office and Revenue[62].

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[61] Known as the Inland Revenue Affidavit.

[62] Legislation already exists to allow for this, see sections 48(8) and (9), Capital Acquisitions Tax Consolidation Act 2003.

8.10 Suggested overall LPT compliance framework

8.10.1 The Group has set out in the preceding paragraphs its views on the individual elements of a compliance framework for LPT. In this Section, the Group sets out its view on how these individual elements should be drawn together to provide a comprehensive compliance framework for the administration of LPT. This framework should involve Revenue each year, as part of its overall compliance programme for taxes and duties, carrying out compliance checks to make sure that people are paying the right amount of LPT at the right time.

8.10.2 These compliance checks should provide:

- Assurance that the LPT system is operating correctly – that the correct LPT is being declared and paid.
- Assurance that all properties liable to LPT have registered.
- Assurance as respects self assessed valuations.
- Assurance regarding a person's entitlement to exemption or deferment.

- Assurance regarding the correct recording of a person's circumstances and the circumstances of his/her property.
- Assurance regarding the correct use of payroll systems to collect LPT and of other collection at source systems.

8.10.3 A LPT compliance check should usually involve examination by Revenue of the LPT return for the most recent tax year and, in some instances, Revenue should examine earlier years. Revenue should always notify the customer of the year under enquiry. Where a LPT default arises due to deliberate behaviour by the customer, all relevant tax years where deliberate errors occurred should be examined by Revenue. The Group considers that, as is the case with other taxes, Revenue should not be entitled to enquire into a tax return after the expiry of a period of 4 years starting at the end of the tax year in which the return is delivered unless there are grounds for believing that fraud or neglect applies. Likewise, refunds of LPT should not be made after the expiry of a period of 4 years after the end of the tax year to which the refund relates.

8.10.4 In addition, to recovering any underpaid LPT, the Group believes that a civil penalty should always be charged in the following circumstances:

- Where an underpayment, irrespective of the amount, arises due to the deliberate behaviour of the taxpayer, or
- Where a total underpayment (for all years examined) in excess of one year's liability arises due to the careless behaviour of the taxpayer.

8.10.5 The Group considers that a civil penalty should not be charged in the following circumstances:

- Where the LPT underpayment arose due to an innocent error, or
- Where an underpayment arose due to careless or deliberate behaviour by the customer but the error is corrected by the customer under the self-correction procedures.

8.10.6 In all circumstances, the LPT tax underpaid (and interest, where appropriate) must be paid to Revenue.

Chapter 9: Implementation

9.1 System requirements

9.1.1 The introduction of a comprehensive annually recurring property tax is the biggest reform of the Irish tax system in decades. From an operational perspective, it is almost entirely new for the Office of the Revenue Commissioners. Successful implementation will require the creation of new systems capable of dealing efficiently and effectively with a client base of almost 2 million people. These systems will also have to be fully or partially integrated with other elements of taxation. Most projects of this scale would have lead times of years whereas this is to be achieved by 2013.

9.1.2 In the development of the system, it is imperative that it be sufficiently simple and automated to meet the 2013 imperative. It must also have all the capacity necessary for a fully mature system. Information technology and staff resourcing will be critical.

9.1.3 In terms of information technology, the following is just a brief flavour of the type of systems development that will be needed to deliver the tax described in this report:

- A registration system to identify all liable properties.
- An assessing system to record and process self-assessments; amend self-assessments as necessary; and issue assessments where no self-assessment is made.
- A collection system to account for the tax; allocate it across local authority areas; issue demands etc to non-payers; and manage the recovery processes where there is a tax default.
- A system for managing and keeping track of deferred tax and calculating the interest element.
- A system for administering the lien/charge on property, including issuing certificates of discharge as part of the conveyancing process for property disposals.

9.1.4 These systems will take time to develop and will have to be funded. These are upfront and immediate costs.

9.1.5 There will also be an ongoing overhead associated with the collection of the tax. At present, the Revenue Commissioners' overhead to taxes collected runs at just under 1%. In the first few years of the operation of the property tax, the Group would anticipate that the operational costs will be higher than this as the systems

bed down. As the overall infrastructure is completed and the public get used to the tax, it is envisaged that these fixed overheads would fall back closer to current levels.

9.2 Recommendations

9.2.1 The implementation of the tax requires the following:

- A decision by Government on the basis and design of the tax by July 2012.
- The preparation and passing of the legislative underpinning for the tax in a Finance No. 2 Bill 2012 (also amending the Provisional Collection of Taxes Act).
- The development of an implementation plan by the Office of the Revenue Commissioners with the Departments of Finance and Environment Community and Local Government including the development work to identify liable properties (Chapter 1 refers).
- A comprehensive public information and communication plan.
- The commitment by Government to provide appropriate resources to meet the set-up and ongoing costs of the tax.

9.2.2 The Group considers that the above are essential to the successful delivery of the property tax in 2013.

Appendix 1: Terms of reference

Inter-Departmental Group on Property Tax

Terms of reference

To consider the design of a property tax to be approved by Government to replace the household charge and that is equitable and is informed by previous work and international experience.

The property tax is to:

- meet the immediate financial requirements of the EU/IMF programme;
- provide a stable funding base for the local authority sector in the medium and longer terms; incorporating an appropriate element of local authority responsibility subject to any national parameters;
- be collected centrally by the most cost efficient and effective means;
- facilitate easy and/or phased payments by households;

- be easily determined (e.g. on a self assessment basis), and having regard to the information currently available (or to be made available through registrations for the household charge) on residential property and/or house ownership details;
- ensure the maximum degree of fairness between and across both urban and rural areas.

The Group is also to consider the appropriate arrangements for:

- a robust audit function; and
- strong enforcement and penalty provisions for non-compliance.

Appendix 2: List of written submissions received by the Group

Organisations that made submissions:

1. AACO (Association of Architectural Conservation Officers)
2. Age Action Ireland
3. CCMA (County and City Managers Association)
4. Chambers Ireland
5. CIF (Construction Industry Federation)
6. CSO (Central Statistics Office)
7. Douglas Newman Good
8. Dublin Chamber of Commerce
9. Environmental Pillar
10. Finance Strategic Policy Committee of Dublin City Council
11. IBEC (Irish Business and Employers Confederation)
12. ICMSA (Irish Creamery Milk Suppliers Association)
13. ICOMOS (Int. Council Monuments and Sites)
14. ICTU (Irish Congress of Trade Unions)
15. IFA (Irish Farmers' Association)
16. IPOA
17. Irish Planning Institute
18. Irish Taxation Institute
19. LGMA (Local Government Management Agency)
20. MABS (Money Advice and Budgeting Service)
21. NCA (National Consumer Agency)
22. North Great George's Street Preservation Society
23. Ordnance Survey Ireland
24. Publicpolicy.ie
25. SCSI (Society of Chartered Surveyors Ireland)
26. Smart Taxes
27. Social Justice Ireland
28. South Dublin Chamber
29. SVP (St. Vincent De Paul)
30. TASC (Think-Tank for Action on Social Change)

Private individuals who made submissions:

31. Ms Neena Aeri
32. Mr Edmond Baily
33. Mr Robin Boyd
34. Mr Mike Brophy
35. Mr Cormac Browne
36. Mr Richard Callan
37. Mr Tony Carey
38. Mr Clive Carroll
39. Ms Esther Casey
40. Ms Louise Casey
41. Mr Micheál Collins
42. Mr Tim Collins
43. Mr Tim Conlan
44. Mr Christopher Conway
45. Mr and Mrs Seamus and Caroline Corballis
46. Ms Elaine Cotton
47. Mr Justin Coughlan

Appendix 2: Written submissions received by the Group.

48. Mr Kieran Cummins
49. Mr Clive Dalby
50. Mr Muiris de Buitléir
51. Mr Leo DeLaney
52. Mr John B. Dillon
53. Ms Majella Dolan
54. Mr Martin Doyle
55. Mr Colm Duggan
56. Mr Des Dwyer
57. Mr Paul Feddis
58. Mr Chris Finnegan
59. Mr Neil and Ms Rachel Finnegan
60. Ms Nicola Finnegan
61. Mr Geoffrey H.T. Fitzjohn
62. Mr Richard A. ('Tony') FitzPatrick
63. Mr John Fizelle
64. Mr Paul Fogarty
65. Mr John Gallagher
66. Mr Michael Gallwey
67. Mr John Geraghty
68. Mr Rob and Ms Ingrid Goodbody
69. Ms Catherine Gorman
70. Dr. Eugene Gribbin
71. Dr. Berna Grist
72. Mr Kevin Hamill
73. Mr Ray and Ms Anne Hennessy
74. Ms Alison Horan
75. Mr Thomas Hunter McGowan
76. Mr Patrick M.R. Hyde
77. Mr Paddy Keating
78. Mr Louis Kilmartin
79. Mr Conor Kirwan
80. Mr Con Lucey
81. Mr Ray Lund
82. Mr Pat Lynch
83. Mr Michael J.J. & Ms Marie Macfarlane
84. Mr David MacPherson
85. Mr Anthony J. Mangan
86. Mr William McAuliffe
87. Mr Michael McCann
88. Mr Dermot McDonnell and Ms Noreen O'Leary
89. Ms Noreen McDonnell
90. Mr Ciaran McGee
91. Mr Trevor Moore
92. Mr Colin Moran
93. Mr Andrew Murphy
94. Ms Nessa Murphy
95. Mr Kevin J. Murray
96. Mr Derek Nolan and Ms Joelle Oliver
97. Ms Teresa Nolan
98. Mr John & Ms Cathy O'Connor
99. Mr Terry O'Connor
100. Ms Enid O'Dowd
101. Mr Sean O'Grady
102. Mr Mike O'Malley
103. Mr Brian O'Donnell
104. Ms Linda O'Dwyer
105. Ms Ciara O'Mahony & Ms Maeve O'Connell
106. Ms Maeve O'Rourke
107. Ms Judy Osborne
108. Mr Liam Réamonn
109. Ms Michelle Reilly
110. Mr Vincent Roche
111. Mr Shane Ross T.D. (on behalf of a constituent)
112. Ms Anne Ryder
113. Mr Joseph Scully
114. Ms Eileen Shanahan
115. Mr Liam Trundle
116. Ms Olivia Walker
117. Mr John Walsh
118. Mr Simon Wilson
119. Mr Eamon Winters

Appendix 3: Options considered by the Group but not recommended

This appendix describes the options considered by the Group for use as a basis of assessment for the tax which, ultimately, were not recommended. The Group's deliberations and reasons for not recommending each option are presented below.

1. Floor area – unadjusted

Using floor area of a housing unit as the basis for assessment would be simple for taxpayers to use and would be cost efficient to administer.

Floor area is an objective fact that can be measured and determined by taxpayers. A self-assessed return by the taxpayer could be aided if properties were grouped into floor area bands.

Banding would also allow both taxpayers and the Revenue Commissioners to disregard modest extensions of floor areas - for example, attic conversions and small

conservatories. Although this may give rise to disputes over what constitutes 'modest' and ultimately leading to a not insignificant level of appeals. Incorporating floor area measurements into the assessment basis for the tax would also encourage more sustainable development forms and the more efficient construction of new housing space.

However, the Group agrees with the 2009 Commission on Taxation that using floor space or area alone as the basis of assessment would offend the principle of equity[63] as owners of similarly sized properties in large urban areas would pay the same tax irrespective of whether or not the properties were located in affluent areas or not. Similar issues could arise between urban and rural areas - a large house in a low value rural area could generate a greater tax liability than a small, and more expensive, apartment in a high value urban location.

A number of possibilities for applying adjustment factors to floor area as a basis for assessment were also considered.

[63] Commission on Taxation, 2009, p. 165, Government Publications Sales Office. www.commissionontaxation.ie

2. Adjusted floor areas as a proxy for market values

The feasibility of using floor areas as a proxy for determining market values was considered. Under this option, the taxable value of the property would be calculated by multiplying the floor area of the house or apartment by a local value adjustment factor which would be based on the relative values of houses between areas.

Taxable value = Floor area (band midpoint) multiplied by the local value adjustment factor.

The taxable value would in effect be a proxy for market value. It would be highest in the most expensive areas.

The tax liability would be the taxable value multiplied by a nationally determined tax rate. i.e.

Tax charge = Floor area (band mid- point) multiplied by the local value adjustment factor multiplied by the tax rate.

This approach in its general application would address vertical equity concerns but would result in overvaluing housing units in poor condition located in the more expensive areas.

The attraction of this approach is that self-assessment and tax administration would be straightforward. Taxpayers could place their properties in the

appropriate floor area band and would calculate the taxable value and tax charge by reference to tables and ready reckoners published and made available (including on line) by the Revenue Commissioners.

The practical application of this model would require detailed information on relative price values between areas and disaggregation of areas of the country and of the bigger cities by valuation – in effect dividing the land area of the State into valuation "zones". This would be a major undertaking requiring the collection and analysis of data on recorded selling (as opposed to asking) prices and floor areas of residential properties in the State during the year prior to the introduction of the tax and the presentation of these data in the form of a zoning map[64]. A challenge is that, unless the level of disaggregation and fine detail were very high, this approach would not adequately reflect significant value differences between neighbouring areas.

The Group concluded that the shortcomings outweighed the advantages and do not recommend this option.

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[64] Economist Ronan Lyons has recently compiled and presented a value zoning map dividing the country into 10 relative valuation zones using advertised asking prices as advertised on the property website www.daft.ie. The map is included in a paper presented by Mr Lyons at a meeting of the Statistical and Social Inquiry Society on 15 March 2012 – see: www.ssisi.ie/RLyons_draft.pdf. In current market conditions, there is anecdotal evidence of considerable divergences between asking and realised prices.

3. Floor areas adjusted using rebuilding costs

The County and City Managers' Association (CCMA) in their submission[65] and in subsequent discussions recommended that the taxable value of residential properties could be levied on the estimated rebuilding cost of the property. This would be calculated by multiplying the area of the property in square metres by the estimated average rebuilding costs per square metre. Under this approach, estimates of rebuilding costs for each local authority area could be prepared and published periodically by the DECLG. The CCMA recommended a 5 band structure for rebuilding costs to simplify administration of the tax.

Construction costs used by local authorities and the DECLG for social housing purposes would meet some of the requirements for a suitable data base. These data are based on actual tenders and potentially provide the granularity needed in relation to location and house size to a sufficient degree for comparative purposes between regions and to county level[66].

This proposal would ease taxpayer compliance and reduce administration costs. The methodology is simple and transparent. The calculation of taxable values would

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[65] www.environ.ie/en

[66] Annual estimates of house rebuilding costs are prepared and published annually by the Society of Chartered Surveyors for the Dublin, Cork, Galway, Waterford and Limerick areas.

be based on measurable and publicly available information.

The disadvantage of this approach is that the product of floor areas and rebuilding costs does not correspond to relative values across the country and particularly between neighbouring areas within a single local authority area and does not satisfy vertical and horizontal equity tests. The Group does not recommend this approach.

4. Hybrid basis of assessment

The Group also considered the case for a “hybrid” approach in which a matrix of factors would determine liability.

The Group considered as a basis of assessment a wider set of factors than purely market value. In this option property owners would be required to assess their tax in respect of three characteristics – market value, house type or size and local service factor. Given its terms of reference and the role of the new property tax in funding local government, the Group felt that there is a very strong case for developing some alignment between the level of the tax charged and the level of service provision and funding requirements in the local authority where the property is located. The local

service factor would be supplied to the property owner as this value is determined by virtue of the average spend by the property owner's own local authority (i.e. the area in which the property is located).

Market value and local service factor are discussed in more detail in Chapter 3.

The second component element of the hybrid option considered is a factor based on the physical characteristics of the property. The Group considered two options, namely, house type (apartments; semi-detached or terraced property; and detached properties) and size of the property.

In relation to house type, while there would be an increasing scale between the three categories of property, this approach does not distinguish between relative sizes within categories. Thus apartments, whether large or small, would pay the same amount within this component of the total charging system.

The second option considered by the Group, by way of a physical characteristic of the property, was the floor area of the property. This approach would allow for greater refinement of property types and distinction between properties of the same overall type. Using this characteristic, property owners would be required to measure the floor area of their property, which would then be used to assess the level of the tax. Using floor

area offers a means to distinguish precisely between the footprints and general scale of different properties. The Group also recognises that floor size may not be that easy for the owner to determine or for the Revenue to check without detailed rules to set out what should be counted (e.g. fully converted attics, substantial 'sunroom' type extensions, fully functioning habitable areas unconnected to the main house, etc.) and what should not be counted (e.g. partially converted attics; minor conservatories, storage rooms, pantries, garages, etc.).

The Group point out that its approach in relation to this hybrid option has been heavily influenced by the weighting that Government might wish to give to the uncertain state of the housing market and the relatively small level of transactions taking place. However, these approaches reflect many of the shortcomings discussed in sections 1 and 2 of this Appendix. In addition to including market value as a component element of the tax they would also involve factoring elements into the assessment which in themselves contribute to the market value of a residential property as well as an inherent necessity for arbitrary apportionments of the tax liability between the different assessment criteria. Having considered these issues, the Group does not recommend this approach as it considers market value,

as an objective measure, to be superior on equity and transparency grounds.

Appendix 4: Income exemption limits for deferrals

In recommending an income level of €25,000 for joint and co-owners/spouses/civil partners/cohabitees within the meaning of the 2010 Act[67], the Group had regard to the analysis it commissioned from the ESRI at the beginning of its work. The ESRI study considered households classified by decile of fully equivalised disposable income, whereas the Group's recommendations relate to the gross income of the joint and co-owners/spouses/civil partners/cohabitees. Also, the ESRI study considered the impact of an income exemption limit of €12,000 (single) / €20,000 (couple) as its base case, together with two alternatives (€10,000 and €18,300: single in both cases), whereas the Group's recommendations relate to an income limit of €15,000 (single)/€25,000 (joint owners, spouses, civil partners, cohabitees) for the purposes of access to deferral.

[67] The Civil Partnership and Certain Rights and Obligations of Cohabitants Act 2010.

Appendix 4: Income exemption limits for deferrals

An income level of €25,000 for joint and co-owners, spouses, civil partners or cohabitees is recommended in order to enable most households in the bottom four deciles to have the option of deferral. This is considered appropriate, having regard to the findings in the ESRI study regarding potential impacts on households and having regard to the need for balance and equity in terms of the burden thereby imposed on those with higher (but still average or below average) incomes.

The income level of €15,000 for a single person is derived by applying the same 1:1.66 single: couple equivalence scale used by the ESRI, i.e., €25,000/ 1.66 = €15,000. That scale is broadly reflected in social welfare payment rates i.e. for any given payment type, such as Jobseeker's Allowance or State Pension, the payment rate for a couple is broadly 166% that of a single person and is widely accepted internationally.

Appendix 5: The financing of local authorities

Local authorities provide a range of services to residents in their areas. These services and the total State wide expenditures are shown in Table A.5.1

Table A.5.1: 2011 local authority budgeted expenditure by service area

Service area	€ m	% of Total Expenditure
Environmental services (includes fire and emergency services)	748.8	16.5%
Water services	709.8	15.6%
Road Transportation and Safety	878.5	19.3%
Housing and Building	773.3	17.0%
Development Management	282.9	6.2%
Recreation and Amenity	383.8	8.4%

Service area	€ m	% of Total Expenditure
Agriculture, Education, Health and Welfare	426.5	9.4%
Miscellaneous Services	344.3	7.6%
Total	**4,547.9**	**100.0%**

Data on the funding of these expenditures is shown in Table A.5.2

Table A.5.2: 2011 local authority income by source

Source	€m	% of Total Income
Commercial rates	1,367.5	30.1
Receipts from own goods and services	1,246.4	27.4
Local Government Fund (LGF)[68]	705.4	15.5
Other Government Grants/Subsidies[69]	1,128.5	24.8

[68]The LGF is a fund financed by the full proceeds of motor tax, income from the household charge, and bank interest

Appendix 5: The financing of local authorities

Source	€m	% of Total Income
Pension related deductions	78.1	1.7
Provision for Credit/Debit Balances	22.0	0.5
Total	**4,547.9**	**100**

This information for each local authority area is provided in Table A.5.3 below.

[69] Goverment grants and subsidies include grants for regional and local roads, housing grants, higher education grants, group water subsidies, etc.

Table A.5.3: Sources of 2011 current income by local authority

County Councils	Government Grants/ Subsidies		Provision of Goods and Services		General Purpose Grants		Pension Related Deductions		Commercial Rates to be levied		Total
	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million
Carlow	18.65	(43.7%)	8.50	(19.9%)	9.29	(21.8%)	0.84	(2.0%)	5.40	(12.6%)	42.68
Cavan	23.80	(38.7%)	10.65	(17.3%)	15.45	(25.1%)	1.10	(1.8%)	10.57	(17.2%)	61.58
Clare	33.40	(31.7%)	23.16	(22.0%)	11.04	(10.5%)	1.97	(1.9%)	35.90	(34.0%)	105.46
Cork	87.59	(29.4%)	72.72	(24.4%)	37.42	(12.6%)	6.10	(2.0%)	93.81	(31.5%)	297.65
Donegal	48.53	(32.7%)	42.81	(28.8%)	33.33	(22.4%)	3.01	(2.0%)	20.93	(14.1%)	148.62
Dun Laoghaire Rathdown	26.25	(13.9%)	42.16	(22.3%)	28.40	(15.0%)	3.10	(1.6%)	88.90	(47.1%)	188.80
Fingal	30.77	(12.6%)	70.43	(28.9%)	22.52	(9.2%)	3.72	(1.5%)	116.50	(47.8%)	243.95
Galway	56.02	(41.3%)	23.07	(17.0%)	30.34	(22.4%)	2.50	(1.8%)	23.64	(17.4%)	135.57
Kerry	46.21	(38.5%)	33.40	(27.8%)	20.65	(17.2%)	2.59	(2.2%)	17.30	(14.4%)	120.15
Kildare	29.32	(23.8%)	32.88	(26.7%)	19.96	(16.2%)	2.09	(1.7%)	38.88	(31.6%)	123.13
Kilkenny	24.43	(35.9%)	14.24	(20.9%)	16.44	(24.2%)	1.08	(1.6%)	11.83	(17.4%)	68.03
Laois	17.60	(27.0%)	22.43	(34.4%)	15.14	(23.2%)	0.00	(0.0%)	10.02	(15.4%)	65.19
Leitrim	15.48	(39.1%)	5.95	(15.0%)	12.65	(31.9%)	0.84	(2.1%)	4.68	(11.8%)	39.60
Limerick	34.57	(29.0%)	34.83	(29.2%)	19.42	(16.3%)	1.94	(1.6%)	28.40	(23.8%)	119.15
Longford	13.39	(33.1%)	9.58	(23.7%)	12.03	(29.7%)	0.82	(2.0%)	4.66	(11.5%)	40.49
Louth	19.99	(33.7%)	20.68	(34.9%)	9.98	(16.8%)	0.94	(1.6%)	7.74	(13.0%)	59.33
Mayo	50.83	(40.5%)	29.50	(23.5%)	29.74	(23.7%)	2.40	(1.9%)	12.91	(10.3%)	125.37
Meath	24.52	(26.7%)	22.71	(24.8%)	23.29	(25.4%)	1.35	(1.5%)	19.82	(21.6%)	91.69
Monaghan	26.29	(47.1%)	9.55	(17.1%)	12.65	(22.7%)	0.99	(1.8%)	6.28	(11.3%)	55.77
North Tipperary	24.51	(40.7%)	12.32	(20.5%)	15.23	(25.3%)	1.14	(1.9%)	6.96	(11.6%)	60.17
Offaly	12.57	(21.8%)	23.04	(39.9%)	13.15	(22.8%)	0.99	(1.7%)	7.99	(13.8%)	57.74
Roscommon	19.68	(30.0%)	17.02	(25.9%)	18.49	(28.1%)	0.00	(0.0%)	10.51	(16.0%)	65.70
Sligo	16.07	(30.9%)	16.11	(30.9%)	15.38	(29.5%)	0.00	(0.0%)	4.51	(8.7%)	52.07
South Dublin	36.94	(15.6%)	53.43	(22.5%)	18.11	(7.6%)	3.60	(1.5%)	125.00	(52.7%)	237.07
South Tipperary	24.74	(35.7%)	16.96	(24.5%)	18.68	(27.0%)	1.38	(2.0%)	7.51	(10.8%)	69.25
Waterford	22.76	(34.7%)	14.45	(22.0%)	19.23	(29.3%)	1.35	(2.1%)	7.75	(11.8%)	65.55
Westmeath	19.72	(30.5%)	16.76	(25.9%)	17.41	(26.9%)	1.09	(1.7%)	9.76	(15.1%)	64.74
Wexford	31.67	(31.8%)	31.86	(32.0%)	16.51	(16.6%)	1.71	(1.7%)	17.93	(18.0%)	99.67
Wicklow	26.64	(29.9%)	27.84	(31.2%)	15.90	(17.8%)	1.60	(1.8%)	17.16	(19.2%)	89.15
Sub Total County Councils	862.96	28.83%	759.03	(25.4%)	547.81	18.30%	50.24	1.68%	773.26	25.83%	2993.30

Appendix 5: The financing of local authorities

City Councils	Government Grants/ Subsidies		Provision of Goods and Services		General Purpose Grants		Pension Related Deductions		Commercial Rates to be levied		Total
	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million
Cork	42.24	(21.9%)	63.76	(33.1%)	19.44	(10.1%)	3.50	(1.8%)	63.84	(33.1%)	192.79
Dublin	148.45	(20.2%)	232.03	(31.5%)	57.39	(7.8%)	17.50	(2.4%)	280.50	(38.1%)	735.87
Galway	17.70	(20.8%)	26.14	(30.7%)	6.65	(7.8%)	1.01	(1.2%)	33.55	(39.4%)	85.06
Limerick	19.33	(24.9%)	18.01	(23.2%)	8.34	(10.8%)	1.30	(1.7%)	30.51	(39.4%)	77.49
Waterford	14.98	(25.3%)	19.35	(32.7%)	5.60	(9.5%)	1.11	(1.9%)	18.09	(30.6%)	59.14
Sub Total City Councils	242.71	21.10%	359.29	31.23%	97.42	(8.5%)	24.42	(2.1%)	426.49	(37.1%)	1,150.34

Borough Councils	Government Grants/ Subsidies		Provision of Goods and Services		General Purpose Grants		Pension Related Deductions		Commercial Rates to be levied		Total
	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million
Clonmel	1.83	(11.7%)	6.12	(39.2%)	2.59	(16.6%)	0.20	(1.3%)	4.88	(31.2%)	15.61
Drogheda	1.76	(7.0%)	7.15	(28.2%)	3.57	(14.1%)	0.40	(1.6%)	12.44	(49.1%)	25.31
Kilkenny	0.42	(3.2%)	4.71	(36.2%)	1.40	(10.8%)	0.16	(1.2%)	6.31	(48.5%)	13.00
Sligo	1.82	(9.1%)	8.88	(44.4%)	2.58	(12.9%)	0.00	(0.0%)	6.74	(33.7%)	20.01
Wexford	0.93	(6.4%)	4.30	(29.3%)	1.85	(12.7%)	0.09	(0.6%)	7.47	(51.0%)	14.65
Sub Total Borough Councils	6.76	7.6%	31.15	35.17%	11.99	(13.5%)	0.85	(1.0%)	37.83	(42.7%)	88.58

Town Councils	Government Grants/ Subsidies		Provision of Goods and Services		General Purpose Grants		Pension Related Deductions		Commercial Rates to be levied		Total
	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million
Arklow	0.18	(2.8%)	2.00	(32.0%)	1.34	(21.4%)	0.12	(1.9%)	2.61	(41.8%)	6.24
Athlone	0.62	(6.1%)	2.72	(26.9%)	1.37	(13.6%)	0.15	(1.5%)	5.25	(51.9%)	10.11
Athy	0.20	(4.2%)	1.71	(36.2%)	0.62	(13.2%)	0.07	(1.5%)	2.12	(44.9%)	4.71
Ballina	0.16	(2.6%)	1.65	(26.2%)	1.40	(22.2%)	0.05	(0.7%)	3.04	(48.3%)	6.29
Ballinasloe	0.16	(3.9%)	1.45	(35.4%)	0.75	(18.2%)	0.05	(1.1%)	1.69	(41.3%)	4.10
Birr	0.19	(7.3%)	0.68	(26.6%)	0.70	(27.7%)	0.02	(0.6%)	0.97	(37.9%)	2.55
Bray	0.55	(3.3%)	6.23	(37.7%)	3.65	(22.1%)	0.18	(1.1%)	5.93	(35.8%)	16.53
Buncrana	0.18	(5.8%)	0.81	(25.8%)	0.80	(25.6%)	0.03	(1.0%)	1.32	(41.8%)	3.15
Bundoran	0.13	(5.9%)	0.55	(25.6%)	0.49	(23.0%)	0.03	(1.2%)	0.95	(44.4%)	2.15
Carlow	0.46	(4.1%)	3.90	(34.9%)	1.47	(13.2%)	0.06	(0.6%)	5.26	(47.2%)	11.15
Carrick on Suir	0.67	(15.4%)	1.89	(43.3%)	0.99	(22.7%)	0.05	(1.1%)	0.76	(17.5%)	4.36
Carrickmacross	0.18	(7.6%)	0.30	(12.9%)	0.51	(22.2%)	0.02	(1.0%)	1.30	(56.2%)	2.30
Cashel	0.42	(15.4%)	1.05	(38.9%)	0.57	(20.9%)	0.03	(1.0%)	0.64	(23.7%)	2.71
Castlebar	0.45	(6.8%)	1.66	(25.3%)	0.80	(12.2%)	0.05	(0.7%)	3.61	(54.9%)	6.58
Castleblayney	0.15	(8.8%)	0.27	(16.0%)	0.40	(23.8%)	0.02	(1.2%)	0.84	(50.3%)	1.68

Appendix 5: The financing of local authorities

Town Councils	Government Grants/ Subsidies		Provision of Goods and Services		General Purpose Grants		Pension Related Deductions		Commercial Rates to be levied		Total
	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million	% of total	€ million
Cavan	0.20	(4.2%)	1.75	(37.5%)	0.67	(14.5%)	0.03	(0.6%)	2.01	(43.2%)	4.66
Clonakility	0.18	(7.2%)	0.57	(23.1%)	0.52	(21.1%)	0.00	(0.0%)	1.20	(48.6%)	2.47
Clones	0.13	(9.3%)	0.26	(19.1%)	0.51	(37.8%)	0.01	(1.0%)	0.44	(32.8%)	1.35
Cobh	0.13	(4.3%)	0.96	(31.8%)	1.05	(34.9%)	0.00	(0.0%)	0.87	(29.0%)	3.00
Dundalk	1.58	(6.0%)	6.55	(24.9%)	3.94	(15.0%)	0.46	(1.8%)	13.73	(52.3%)	26.26
Dungarvan	0.43	(6.3%)	2.26	(33.2%)	0.79	(11.6%)	0.06	(0.9%)	3.27	(48.0%)	6.80
Ennis	0.31	(2.7%)	3.69	(32.1%)	2.04	(17.8%)	0.00	(0.0%)	5.44	(47.4%)	11.48
Enniscorthy	0.28	(5.6%)	2.10	(41.0%)	1.02	(19.9%)	0.03	(0.5%)	1.69	(33.0%)	5.11
Fermoy	0.15	(5.0%)	1.15	(38.1%)	0.73	(24.0%)	0.00	(0.0%)	1.00	(32.9%)	3.03
Kells	0.15	(7.0%)	0.85	(39.5%)	0.42	(19.5%)	0.02	(1.1%)	0.71	(32.9%)	2.16
Killarney	0.22	(1.6%)	3.71	(27.8%)	1.43	(10.8%)	0.17	(1.3%)	7.78	(58.5%)	13.31
Kilrush	0.11	(5.8%)	0.50	(26.4%)	0.56	(29.3%)	0.00	(0.0%)	0.73	(38.4%)	1.91
Kinsale	0.18	(7.8%)	0.70	(30.5%)	0.34	(15.1%)	0.00	(0.0%)	1.06	(46.6%)	2.28
Letterkenny	0.43	(5.7%)	1.92	(25.4%)	0.88	(11.7%)	0.09	(1.1%)	4.24	(56.1%)	7.55
Listowel	0.20	(5.9%)	0.93	(28.0%)	0.62	(18.5%)	0.05	(1.5%)	1.54	(46.1%)	3.33
Longford	0.36	(5.7%)	2.20	(35.1%)	0.97	(15.4%)	0.05	(0.7%)	2.70	(43.0%)	6.27
Macroom	0.13	(6.0%)	0.56	(26.4%)	0.53	(24.8%)	0.00	(0.0%)	0.91	(42.8%)	2.11
Mallow	0.20	(4.1%)	1.68	(35.1%)	0.95	(19.9%)	0.00	(0.0%)	1.96	(41.0%)	4.79
Midleton	0.18	(6.0%)	0.54	(18.3%)	0.49	(16.6%)	0.00	(0.0%)	1.74	(59.1%)	2.94
Monaghan	0.18	(2.8%)	1.80	(28.6%)	0.91	(14.4%)	0.07	(1.1%)	3.35	(53.2%)	6.31
Naas	0.37	(3.7%)	2.87	(28.3%)	1.26	(12.4%)	0.08	(0.8%)	5.56	(54.8%)	10.15
Navan	0.41	(4.8%)	2.83	(33.4%)	0.45	(5.3%)	0.04	(0.4%)	4.74	(56.0%)	8.47
Nenagh	0.15	(2.5%)	1.66	(27.7%)	0.96	(16.0%)	0.00	(0.0%)	3.22	(53.8%)	5.99
New Ross	0.18	(4.1%)	2.14	(49.5%)	0.86	(19.8%)	0.00	(0.0%)	1.14	(26.5%)	4.32
Skibbereen	0.14	(7.6%)	0.38	(20.4%)	0.37	(20.1%)	0.00	(0.0%)	0.95	(51.9%)	1.84
Templemore	0.13	(8.6%)	0.42	(27.9%)	0.58	(37.9%)	0.00	(0.0%)	0.39	(25.6%)	1.52
Thurles	0.31	(5.9%)	1.84	(35.2%)	0.80	(15.4%)	0.06	(1.2%)	2.20	(42.3%)	5.21
Tipperary	0.70	(16.7%)	1.54	(36.8%)	0.70	(16.6%)	0.05	(1.2%)	1.20	(28.7%)	4.19
Tralee	2.41	(13.1%)	6.98	(38.0%)	2.42	(13.2%)	0.27	(1.5%)	6.30	(34.3%)	18.39
Trim	0.20	(9.2%)	0.65	(29.4%)	0.49	(22.3%)	0.02	(1.1%)	0.84	(38.0%)	2.20
Tullamore	0.20	(3.3%)	1.65	(27.3%)	1.09	(18.1%)	0.05	(0.8%)	3.05	(50.5%)	6.03
Westport	0.20	(3.7%)	1.66	(31.4%)	0.68	(12.8%)	0.03	(0.5%)	2.73	(51.6%)	5.30
Wicklow	0.20	(3.6%)	2.16	(39.8%)	1.32	(24.4%)	0.07	(1.3%)	1.68	(30.9%)	5.42
Youghal	0.17	(4.3%)	1.40	(35.6%)	0.97	(24.6%)	0.00	(0.0%)	1.39	(35.4%)	3.92
Sub Total Town Councils	16.13	(5.7%)	89.70	31.51%	48.17	(16.9%)	2.62	(0.9%)	128.05	(45.0%)	284.67
Misc. Bodies	0		7.1	79.08%	0		0		1.9	(20.9%)	9.07
Overall Total	**1128.6**	(24.9%)	**1246.4**	27.54%	**705.4**	(15.6%)	**78.1**	(1.7%)	**1367.5**	(30.2%)	4525.96

The local government fund (LGF)

The LGF is financed from motor tax receipts, income from the household charge and bank interest. Previously there was also an Exchequer contribution, but this was eliminated for 2012 in anticipation of revenue from the household charge, and in due course, the LPT, coming on-stream. LGF has been the mainstay of central government funding of local government. Previously, the legislation established a minimum level of Exchequer funding. This was removed two years ago.

Given the demographic and other differences between local authority areas, the relative dependence on LGF grants shows broad variation, ranging between 5% and 38% of individual local authority budgets.

Motor tax

Revenue reductions resulting from the change to an emissions-based assessment with lower rate levels, along with reductions in the national fleet have reduced motor tax as a consistent funding source. The emission based system, along with that applying to Vehicle Registration Tax (VRT) is currently subject to review.

Exchequer

Significant reductions in the central funding of local government has been achieved in recent years (in excess of 20% over the last 3 years). Overall, in the period 2008-2012, revenue expenditure has been reduced by €736m (14%) and total staff by 8,250 (22%) across all local authorities.

Appendix 6: Table of selected international property tax systems

Country	Type of Property Tax	Average Charge	Tax Base	Liable Person	Assessment
UK (England & Wales)	Council Tax Both land and buildings liable	£1,196 (€1,461) England[1]; £1,012 (€1,267) Wales (2011)[2]	Market value (using value bandings)	Occupier	Valuation Office Agency (last general valuation in 1991)
UK (Scotland)	Council Tax Both land and buildings liable	£984 (€1,205) (2011)[3]	Market value (using value bandings)	Occupier	Assessor General's Office
UK (NI)	Domestic Rates Both land and buildings liable	£789 (€964) (2011)[4]	Market value (capped at £400,000)	Occupier	Central Government (Valuation and Lands Agency)
Denmark	Property Value Tax (Ejendomsvaerdiskat) applies to built property only and is collected centrally. Land Tax (grundskyld) applies to land and goes to municipal authority	No figure available. Property Value Tax: 1% of taxable value up to a limit; 3% above limit. Land Tax varies between 1.6% & 3.4% depending on location[5]	Market value	Owner	Central Government (every two years)
France	Land and Building Tax (Taxe Fonciere)	€1,875 national average for both charges (2011)[6]	Cadastral rental value of the property (as set by administration)	Occupier (Taxe d'Habitation)	Centre des Impôts Fonciers (Service de Cadastre)

Country	Type of Property Tax	Average Charge	Tax Base	Liable Person	Assessment
	Housing Tax for local services (Taxe d'Habitation)			Owner (Taxe Fonciere)	
Spain	Municipal Property Tax (Impuesto sobre Bienes Inmuebles - IBI) Applies to land and buildings. Yearly local rates for services (basura y alcantarillado)	Typically between €200 and €800 per annum €200-€250 p/a[7]	Cadastral value of property as set by municipality (50-70% of market value)	Owner liable for IBI but it may be charged to tenant if agreed in contract Owner liable for local rates	Local government
Germany	Grundsteuer – Property Tax on land and buildings	Varies from €100-400 p/a (2010)[8]	State-assessed market value	Owner liable but it may be charged to tenant if agreed in contract	State (last general valuation in 1964)
US (Varies by State – see below)	Generally States tax land and buildings (real property) A few states, e.g. Pennsyl-vania, have a form of site value tax	$1,917 per year for a median value home (2009)[9] (€1,478)	Generally market value	Generally owner	Generally local assessment officials
Pennsylvania	Nearly 20 cities employ a split rate property tax, taxing land at a higher rate and built property at a lower rate	$2,223 per year for a median value home (2009) [10] (€1,714)	Market value / site value	Owner	Local assessment officials

Country	Type of Property Tax	Average Charge	Tax Base	Liable Person	Assessment
Illinois	Real Property (land and buildings)	$3,507 per year for a median value home (2009)[11] (€2,704)	Market value	Owner	Local assessment officials.
Massachusetts	Real Property (land and buildings)	$3,511 per year for a median value home (2009)[12] (€2,707)	Market value	Owner	Local assessment officials

[1] http://www.communities.gov.uk/publications/corporate/statistics/counciltax201112
[2] www.parliament.uk/briefing-papers/SN05924.pdf, p.28.
[3] Scottish Local Government Financial Statistics 2010-11http://www.scotland.gov.uk, p.15
[4]http://www.dsdni.gov.uk/housing_statistics_2010-2011.pdf
[5] http://www.globalpropertyguide.com/Europe/Denmark/Taxes-and-Costs
[6] http://www.french-property.com/news/tax_france/local_rates_2011/
[7] http://www.properties-in-europe.com/info_spain_tax.htm
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