An Roinn Airgeadais
Department of Finance

Review of Local Property Tax

The report of the Interdepartmental Group – March 2019

Prepared by the Tax Division,
Department of Finance
www.gov.ie/finance

Contents

Glossary 4
List of Figures 5
List of Tables 6
Terms of Reference 7
Members of the Review Group 8

Executive Summary and Recommendations 9

Background and Context 9
The purpose of this review 10
The Review Process 10
Recommendations 11
Structure of the Report 15

Chapter 1. Economic Context 16

1.1 Economic Rationale for a Property Tax 16
1.2 The Macroeconomy 17
1.3 The Public Finances 18
1.4 Property Prices 20
1.5 Consumer Prices 23
1.6 The Labour Market 24

Chapter 2. LPT as a Funding Source 26

2.1 A Source of Funding for Local Authorities 26
2.2 Equalisation 28
2.3 The Local Adjustment Factor 29
2.4 Self-Funding 31
2.5 Local Retention 32

Chapter 3. The Administration of LPT 33

3.1 General overview 33
3.2 Liability for LPT - properties, persons and dates 33
3.3 Valuation of properties 34
3.4 Calculation of LPT liability 34
3.5 Payment of LPT 38
3.6 Compliance 39

Chapter 4. Estimated Impact of Changes in Property Values on LPT Yields43

4.1 Current LPT Valuations for 2013 44
4.2 Changes in Property Values 2013 to 2019 45
4.3 Options Considered 52
4.4 Distributional Impact Analysis 73
4.5 Advantages and Disadvantages of the Scenarios 77

4.7 Conclusion 79
Chapter 5. Stakeholder Engagement and Consultation Process 80
5.1 Overview 80
5.2 Key Themes 80
5.2 Other Issues 88
5.3 Conclusion 88
Chapter 6. Recommendations from Thornhill (2015) and other Considerations 89
6.1 Context 89
6.2 Methodology and Assessment Criteria 90
6.3 Thornhill (2015) Recommendations 90
6.4 2019 Assessment of the Thornhill (2015) Recommendations. 92
References 113
Appendices 114
Appendix A Submissions Received 114
Appendix B Local Authorities Funding Model 115
Appendix C How Equalisation Works in Practice 117

Glossary

Baseline	Every local authority is entitled to receive a minimum amount of funding under the LPT allocation process. This minimum level of funding is known as the 'LPT baseline'.
BOC	Oireachtas Budgetary Oversight Committee
Current LPT rate	0.18 per cent to €1 Million and 0.25 per cent over €1 million
Current valuation period	1 May 2013 until 31 December 2019
DHPLG	Department of Housing, Planning and Local Government
DPER	Department of Public Expenditure and Reform
Deferral	The process by which a liable taxpayer can postpone payment of their LPT liabilities where there is an inability to pay
Equalisation	A mechanism which ensures that all 31 local authorities receive a minimum amount of funding from the local retention of LPT that is at least equivalent to their LPT baseline.
Exemption	The process by which a taxpayer can have their liability to LPT removed for a number of reasons
HICP	Harmonised Index of Consumer Prices. This measures the change over time in the prices of consumer goods and services, used or paid for by euro area households. The term "harmonised" signifies the fact that all EU member states follow the same methodology.
GPG	General Purpose Grant. In the local government sector GPGs were grants awarded not for any specific purpose but for the normal work of a local authority.
LAF	Local Adjustment Factor
LPT	Local Property Tax
PBO	Oireachtas Parliamentary Budget Office
PPR	Property Price Register
RPPI	Residential Property Price Index
SVT	Site Value Tax
Valuation	Assigning a value to taxable properties to be used as the base for calculating LPT liabilities

List of Figures

Figure 1.1 Growth of the Economy ... 18
Figure 1.2 Exchequer Tax Receipts ... 19
Figure 1.3 LPT as a Percentage of Total Exchequer Tax Receipts ... 20
Figure 1.4 Residential Property Price Index for all Properties ... 21
Figure 1.5 Residential Property Price Indices by Property Type ... 22
Figure 1.6 New Dwellings Completions by Type ... 23
Figure 1.7 HICP and Compensation Per Employee Rates ... 24
Figure 1.8 Unemployment rate 15-74 year olds ... 25
Figure 2.1 Local Authority Revenue Budget 2017 ... 26
Figure 4.1 Share of Properties by Valuation band in 2013 ... 44
Figure 4.2 Summary of LPT charge per property changes at November 2019 valuations (compared to current 2018 LPT charges without LAF) ... 53
Figure 4.3 Scenario 1 Some Indication of spread of impacts ... **59**
Figure 4.4 Scenario 2 Some Indication of spread of impacts ... 61
Figure 4.5 Scenario 3 Some Indication of spread of impacts ... 63
Figure 4.6 Scenario 4 Some Indication of spread of impacts ... 66
Figure 4.7 Median price change bwetween May 2013 and December 2018 base on stamp duty execution ... 70
Figure 4.8 Scenario 5 Some Indication of spread of impacts ... 72
Figure 4.9 SWITCH model distributional analysis of Scenario 1 in comparison to the benchmark scenario ... 74
Figure 4.10 SWITCH model distributional analysis of Scenario 2 in comparison to the benchmark scenario ... 75
Figure 4.11 SWITCH model distribututional analysis of Scenario 3 in comparison to the benchmark scenario ... 75
Figure 4.12 SWITCH model distributional analysis of Scenario 4 in comparison to the benchmark scenario. ... 76
Figure 4.13 SWITCH model distributional analysis of Scenario 5 in comparison to the benchmark scenario ... 77
Figure 6.1 Indexation Growth 2013=100 ... 96
Figure 6.2 Growth in €15,000 Threshold ... 96
Figure 6.3 Growth in €25,000 Threshold ... 97
Figure A.1. LPT Funding and the Central Fund ... 116
Figure A.2. Equalisation in Practice ... 117
Figure A.3 LPT variation decisions 2018 ... 118
Figure A.4 LPT Collection ... 119

List of Tables

Table 1.1 Economic Activity Source 2012 to 2017 – CSO 25
Table 2.1 Allocations to the Local Authorities from the Equalisation Fund 2015 to 2019 29
Table 2.2 Local Adjustment Factor 2015 to 2019 30
Table 3.1 Valuation bands and liabilities 35
Table 3.2 Number of exemptions in operation by category 37
Table 3.3 Number of Deferrals from 2013 to 2018 38
Table 3.4 LPT collected and number of properties returned by tax year 40
Table 3.5 Properties returned by local authority by tax year. 41
Table 3.6 LPT collected by local authority by tax year. 42
Table 4.1 Shares of properties moving valuation band from May 2013 to rebased November 2019 values 46
Table 4.2 Transition Matrix of shars of properties moving valuation bands from 2013 to rebased 2019 values ... 47
Table 4.3 Share of LPT properties by valuation band May 2013 and rebased November 2019 48
Table 4.4 LPT forecast yield in 2018 with and without LAF 49
Table 4.5 LPT charge per property in 2018 with LAF 50
Table 4.6 LPT charge per property in 2018 without LAF 51
Table 4.7 LPT yield at November 2019 values and average per property increase (compared to current 2018 LPT charges without LAF) 52
Table 4.8 Summary of Scenarios 57
Table 4.9 Charge per property in Scenario 1 (compared to current 2018 charges without LAF 58
Table 4.10 LPT charge per property in Scenario 2 (compared t current LPT charges without LAF) 60
Table 4.11 LPT charge per property in Scenario 3 (compared to 2018 charges without LAF) 62
Table 4.12 Scenario 4 by local authority *weighted average, ** average weighted by properties in bands in each authority 64
Table 4.13 Scenario 4 - incrementally increasing rates by valuation band, with an overall yield targe of 500 million with a floor of 90 in band 1 65
Table 4.14 Valuation bands under current and scenario 5 approach 67
Table 4.15 Impact of changes in bands under Scenario 5 67
Table 4.16 Transition matrix of shares of properties moving valuation band under scenario 5 68
Table 4.17 Projected yields by local authority under scenario 5 69
Table 4.18 Summary of Advantages and Disadvantages of the scenarios 78
Table 4.19 Exchequer Impact of the Scenarios 79
Table 6.1 Movement in HICP, Compensation per Employee, CPI and Jobseekers allowance 2013-2021 95

Terms of Reference

The terms of reference of the review are to:

- Examine in particular the impact on LPT liabilities of property price developments.
- Consider the outstanding recommendations of the 2015 Thornhill Review of the Local Property Tax.
- Provide a number of policy choices for consideration.

In conducting the review the group is to have regard to the principle of achieving relative stability in the LPT payments of those liable for the tax and provide clear direction on the likely payments faced by households in 2020.

Members of the Review Group

Department of Finance	John Hogan (Chairman) Anna Donegan Brendan O'Connor * Matt McGann * Kevin Nolan Mojdeh Khandanian
Department of the Taoiseach	John Shaw
Department of Public Expenditure And Reform	Patricia Coleman Clare Costello Margot Dunne
Department of Housing, Planning and Local Government	Paul Lemass Lorraine O'Donoghue
Office of the Revenue Commissioners	Brian Boyle** Philip Brennan** Jean Kennedy Keith Walsh
Secretariat in the Department of Finance	Matthew Jones

*Matt Mc Gann replaced Brendan O'Connor in August 2018.
** Phillip Brennan replace Brian Boyle in September 2018

The Group would also like to thank Colm Roche in the Department of Finance Economics section and Alice Talbot in the Department of Housing Planning and Local Government for their contributions to this report.

Executive Summary and Recommendations

Background and Context

The Local Property Tax (LPT) was introduced in the Finance (Local Property Tax) Act 2012. It is not the first property tax applied in Ireland as it was preceded by other forms of taxation on property, including domestic rates and also the Residential Property Tax which was abolished in Finance Act 1997. A charge on non-principal private residences (NPPR) applied between 2009 and 2013. There was also a Household Charge (HHC) which was an annual charge introduced under the Local Government (Household Charge) Act 2011 which was payable by liable owners of residential properties for the year 2012.

The design of the LPT was considered in 2012 by an Interdepartmental Group chaired by Dr Don Thornhill, referred to as 'Thornhill (2012)' in this report. The tax was introduced in 2013 and is collected by the Revenue Commissioners. It was the largest extension of self-assessment in the history of the State, with over 1.3 million taxpayers obliged to file LPT returns and pay the tax in respect of approximately 1.9 million properties.

The purpose of the LPT is to provide a stable and sustainable source of funding for local authorities. The LPT has yielded approximately €2.7 billion since its introduction in 2013. LPT is a self-assessed tax charged on the market value of residential properties in the State. Liable persons must pay their LPT liabilities on an annual basis.

An advantage of a recurring property tax is that it provides a reliable and predictable source of income, broadens the tax base and is more employment and enterprise "friendly" than taxes on income.

In 2015, the Minister for Finance engaged Dr. Don Thornhill to conduct a review of the LPT and make recommendations in relation to its operation and in particular any impacts on LPT liabilities as a result of property price developments. In line with one of his recommendations, the Government agreed to postpone the revaluation date for the LPT from 1 November 2016 to 1 November 2019. This postponement meant that property owners continued to have their properties valued for LPT purposes on the basis of their 1 May 2013 declared valuation and so were not faced with significant increases in their LPT liabilities in 2017, 2018 and 2019 as a result of increased property values. In the absence of changes to the LPT legislation, the valuations of properties on 1 November 2019 will be the basis for calculating LPT liabilities in 2020 and beyond.

The purpose of this review

The Minister for Finance and Public Expenditure and Reform decided that it was important to review the tax in advance of the upcoming revaluation date on 1 November 2019, in the context of property price developments since the tax was introduced. The review would also consider the outstanding recommendations from the Thornhill (2015) Review of the LPT. The current review included a public consultation process which took place from 20 April until 10 May 2018. Seventeen submissions were received as part of the consultation process and are listed in appendix A. The responses to the consultation are summarised in chapter 5.

The Review Process

SCOPE

The scope of the review includes the impact on LPT liabilities of property price developments which requires consideration of the next revaluation date and the frequency of revaluation thereafter. The outstanding recommendations of the Thornhill 2015 review of the LPT are also considered.

2018 REVIEW GROUP

The Review Group was chaired by the Department of Finance and included representatives from the Departments of the Taoiseach, Public Expenditure and Reform, Housing Planning and Local Government and the Office of the Revenue Commissioners.

CHALLENGES

Property prices have increased significantly since the first valuation date on 1 May 2013. However, the rate of increase has been uneven with larger increases in urban areas, particularly in Dublin. The Review Group noted that the LPT was an important funding source for local authorities and that regular revaluations were important in order to maintain the legitimacy of the tax. The challenge was therefore to find a way to ensure the sustainability of the tax in a manner that was fair, easily understood and affordable while maintaining the link to market value.

The group was of course conscious of the challenges presented by the significant increases in property values since the first valuation date in May 2013, the unevenness of those increases geographically and the importance of revaluation proceeding in order to maintain the integrity of the tax. All of these factors introduced significant complexity to the task of attaining moderate and affordable adjustments to the tax in an even manner across the country. The group acknowledged that revisions to certain aspects of the LPT would affect the availability of funding to individual local authorities and in this context the role of the Exchequer in addressing this would need to be considered by the Minister in making final decisions on next steps. The group considered that this consequential role for the Exchequer did not fall within the remit of the group but was an important factor in forthcoming deliberations on the tax by the Minister and Government.

Recommendations

REVALUATION

- The Review Group recommends that ideally revaluation should take place as planned on 1 November 2019 if Government is satisfied it provides modest and affordable adjustments. The Group consider that further delays in revaluation may present risks to the long term sustainability of the tax.

- The Review Group recommends that valuations should be reviewed every four years. This provides a balance between timely capture of changes in the property market and reducing compliance and administration costs. It would facilitate the regular addition of new properties into the LPT charge.

TIMING OF LAF NOTIFICATION

- The Review Group agreed that the Local Adjustment Factor (LAF) notification date to the Revenue Commissioners should occur in mid-October except in the year that property valuations fall due for revaluation. In that instance the LAF notification date would be 31 August at the latest, to facilitate Revenue's processing of the required notification procedure.

SCENARIOS

- The Review Group agreed that a no policy change scenario should be presented along with five alternative methods of calculation. No policy change means that the current central rate would apply to the market value of all residential properties on 1 November 2019. This would produce an estimated yield of €729 million.

- The Review Group recommended that a target annual yield should be identified in advance for purposes of scenario analysis. This provides a consistent means of evaluating the suggested scenarios for a broad range of taxpayers. For the purpose of the review, the Review Group targeted a broad yield of €500 million, a modest increase on the 2018 yield of €482m and recent years.

- On this basis, the Review Group considered five different approaches to the calculation of the LPT liabilities in respect of the 20 existing valuation bands.

    - **Scenario 1** is based on a central LPT rate for all properties and produces a yield of €500 million. The rate is 0.114 per cent for all valuation bands and all local authorities.
    - **Scenario 2** is based on targeting individual local authority yields equal to the expected current yield for 2018 without the Local Adjustment Factor (LAF). The rate in each local authority is adjusted to meet these targets following estimated valuation increases. In Scenario 2, the LPT rates vary between 0.085 per cent and 0.144 per cent.

- **Scenario 3** has been modelled on the basis of a different LPT rate for each valuation band (increasing with each band) and again set to collect the overall target of €500 million (with no LAF). In Scenario 3, the LPT rate ranges from 0.108 per cent in band 1, and increases in increments of 0.001 per cent to 0.126 per cent in band 19.
- **Scenario 4** is a variation of scenario 3 with one adjustment. Based on Scenario 3, and with the same target of €500 million, it maintains the first valuation band at a liability of €90. The rationale for the floor of €90 is that there are minimum costs incurred by local authorities for the services which they supply to each household. This floor generates an additional €13 million, and impacts by reducing rates for bands other than the first band.
- **Scenario 5** increases all of the valuation band thresholds by 80%. The midpoint of each band increases correspondingly and the rate is reduced to leave the liability in each band unchanged.

- As all of the scenarios involve “winners” (reduced liability) and “losers” (increased liability) which may be different in each scenario, the Review Group considered therefore that it must be a matter for Government as to which, if any, of the options provides for moderate and affordable adjustments. This may impact on the revaluation date.

- The Review Group recommends that the LPT rate applied to all properties exceeding €1million in market value should remain at 0.25 per cent with one exception. Scenario 5 is based on broader bands up to €1.8 million and if this scenario is chosen, then the Review Group recommend that the 0.25 per cent rate should apply to properties above the €1.8 million valuation.

EQUALISATION AND LOCAL RETENTION

The Review Group recommends

- That the equalisation contribution from local authorities, equivalent to 20 per cent of their LPT yield, be discontinued and that all local authorities retain 100 per cent of the LPT that is collected in their own local authority area. While this will help to strengthen transparency and accountability it is acknowledged that it may result in an additional cost to the Exchequer in the absence of other changes.

- The Review Group recommends that to the greatest extent possible the local retention change should be Exchequer neutral with baseline shortfalls being offset by a rebalancing of programme funding (including self-funding or other compensating mechanisms). DPER and DHPLG would need to work bilaterally on options to mitigate the impact on the Exchequer of the proposed 100% retention in the context of the Estimates process.

- The Review Group recommends that the LAF be amended to permit upward only adjustments to a maximum of 15 per cent.

EXEMPTIONS

The Review Group recommends:

- That all of the exemptions should be reviewed regularly and kept to a minimum in order to keep the base broad and minimise the impact on those paying the tax.

- That exempted properties constituting the unsold trading stock of builders/developers in May 2013, or such properties sold by them (while remaining unused) in the period 1 January 2013 to 31 October 2019, should be liable for LPT from 1 November 2019.

- That exempted properties purchased by 'first-time buyers' in the period between 1 January 2013 and 31 December 2013 for use as their sole or main residence should be liable for LPT from 1 November 2019.

- That all new residential properties built between valuation dates should be retrospectively valued as if they had existed on the preceding valuation date.

DEFERRALS

The Review Group recommends:

- That most deferrals, such as the deferral option for those taxpayers with lower incomes, should be maintained and some thresholds should be increased.

- That the income thresholds for LPT deferrals be reviewed regularly by reference to (i) movements in the CPI, (ii) wage growth in the economy, and (iii) changes in fixed income payments by the State. From the next valuation date, the Review Group recommends that the deferral thresholds be increased to €18,000 for a single owner and €30,000 for a couple

- That, as the number of LPT liable persons qualifying for the mortgage interest deferral would reduce over time as the mortgages involved matured, and that the LPT revenue deferred would taper, accordingly the deferral option on the current basis should be retained.

- That relief for owner-occupiers aged over 80 years with a long-term illness who are living alone (as recommended by Thornhill (2015)), would be more appropriately considered in the context of the social welfare code rather than through further tax reliefs. Such individuals may also be able to benefit from other reliefs including the ability to defer their LPT liability based on the income thresholds.

- That the interest rate which applies to LPT deferrals should be retained at 4 per cent.

OTHER

- On balance, the Review Group does not support deductibility of LPT for landlords.
- The Review Group does not recommend the deductibility of management fees in the calculation of LPT.
- The Review Group consider some of the recommendations are mutually reinforcing and should be considered and sequenced together. For example the proposed thresholds increases should be done at the same time as the revaluation as they are related in terms of economic growth, wage growth and inflation.

Structure of the Report

Chapter 1 provides the economic context for the LPT and includes an overview of the macroeconomy, property price developments, consumer prices and the labour market.

Chapter 2 provides an overview of how the LPT yield is allocated to the local authorities, and covers the concept of local retention which is addressed in one of the recommendations in Thornhill (2015).

Chapter 3 provides an overview of the administration of the LPT, the basis for liability to LPT and how the LPT is calculated.

Chapter 4 discusses the impact of movements in property values on LPT yield and provides five potential scenarios to be aligned with the revaluation on 1 November 2019. It also provides a distributional impact analysis of the options and outlines the key advantages and disadvantages of each scenario.

Chapter 5 summarises the submissions received in response to the consultation process.

Chapter 6 considers the recommendations of Thornhill (2015).

Chapter 1. Economic Context

This chapter reviews the economic rationale for imposing a property tax before setting out changes in the economic context since the introduction of the Local Property Tax (LPT) in 2013. Next it provides an overview of the macroeconomy, with a particular focus on GDP and modified GNI with forecasts of both up to and including 2021 provided. The analysis shows a marked improvement in the public finances over the period since the LPT was introduced. It also includes the property and consumer prices trends which show that although consumer prices have barely increased since the introduction of the LPT, property prices are around 80 percent higher. The final section deals with the labour market and shows the dramatic improvement in this area in terms of both unemployment as well as total employment.

1.1 Economic Rationale for a Property Tax

The taxation of property through a recurring annual tax is less economically distortionary than tax imposed on either income or capital as it does not induce behavioural change on the part of tax payers, does not impact the supply or demand of labour and does not involve the taxation of an entity subject to constant asset price fluctuation. Analysis by the OECD suggests tax on property is considered the least harmful to growth (Arnold et al 2011).

As a form of taxation, property tax is considered efficient to the extent it both broadens the tax base and applies to a base that is immovable and largely inelastic. In contrast, taxes on incomes and business activities tend to bring about behavioural change.

Whilst the progressivity of property tax depends on tax incidence and the distribution of property assets across income groups, it can be perceived as regressive when seen as a tax on housing consumption, since housing's share of expenditure decreases as income levels rise[1]. However, when viewed as a capital tax, property tax can be considered progressive since capital tends to be more heavily concentrated in the hands of higher income earners.

An annual property tax provides a reliable and predictable source of revenue for the Exchequer, as it applies at a fixed rate to a stable stock of properties. In contrast, transaction-based taxes (such as Stamp Duty, Capital Gains Tax and Capital Acquisitions Tax) are contingent on transaction volumes and changing property values which in turn can exacerbate price cycle fluctuations.

Property tax also offers a policy instrument to support asset price stabilisation, through its role in dampening house price volatility and overall property market boom-bust cycle dynamics. Analysis by the OECD has found that lower levels of property tax, together with less frequent property

[1] See CSO release on Household Budget Survey 2015-2016 available at: https://www.cso.ie/en/releasesandpublications/ep/p-hbs/hbs20152016/hexp/

valuation updates tend to be associated with a higher degree of property price fluctuations (Blöchliger et al 2015).

Property tax can also promote sustainable land use through its impact on land use patterns. Well-designed property taxation, in conjunction with efficient land use planning and transport policy can support more efficient land use and reduce the environmental impact from transport and energy usage.

Property tax also broadly conforms to the principle of horizontal equity in that tax payers in comparable positions and financial circumstances should optimally pay broadly similar levels of tax.

Property taxes also follow the beneficiary principle since the tax liability is compensated through the consumption of local services including housing, recreational activities, open spaces, street cleaning and lighting. As highlighted in Thornhill 2012, property tax revenues can also help boost civic engagement and enhance the public accountability of elected local authority members and officials. Furthermore, annual property taxes provide a means of defraying Exchequer financial support for local service provision.

1.2 The Macroeconomy

The LPT was introduced in 2013 at a time when government resources were stretched, though signs of economic recovery had begun to emerge. Real GDP grew by 1.3 percent in 2013, up from zero the previous year, while Modified Total Domestic Demand (MDD), a measure that removes many of the well documented multinational company-related distortions (which contributed to the spike in GDP in 2015) grew by 1.9 percent, also a considerable improvement on the 0.4 percent marginal growth observed the year before.[2] With sustained growth since then, the size of the economy measured in GDP terms was 54 percent larger in 2017 than it was in 2013, demonstrating the improvement in the macroeconomic context since the LPT was introduced.

Looking ahead, the Department of Finance forecasts that growth in GDP will continue at a strong pace albeit not as dramatic as in the recent past. In 2018 the economy is expected to grow by 7.5 percent and then moderate to 4.2 percent in 2019, 3.6 percent in 2020 and 2.5 percent in 2021. Modified Domestic Demand is also forecast to continue its sustained growth, but as with GDP the pace of growth is expected to moderate.

[2] Modified total domestic demand (MDD) is defined as total domestic demand minus the effects of trade within intellectual property and aircraft leasing industries. This provides a more accurate measure of the domestic Irish economy.

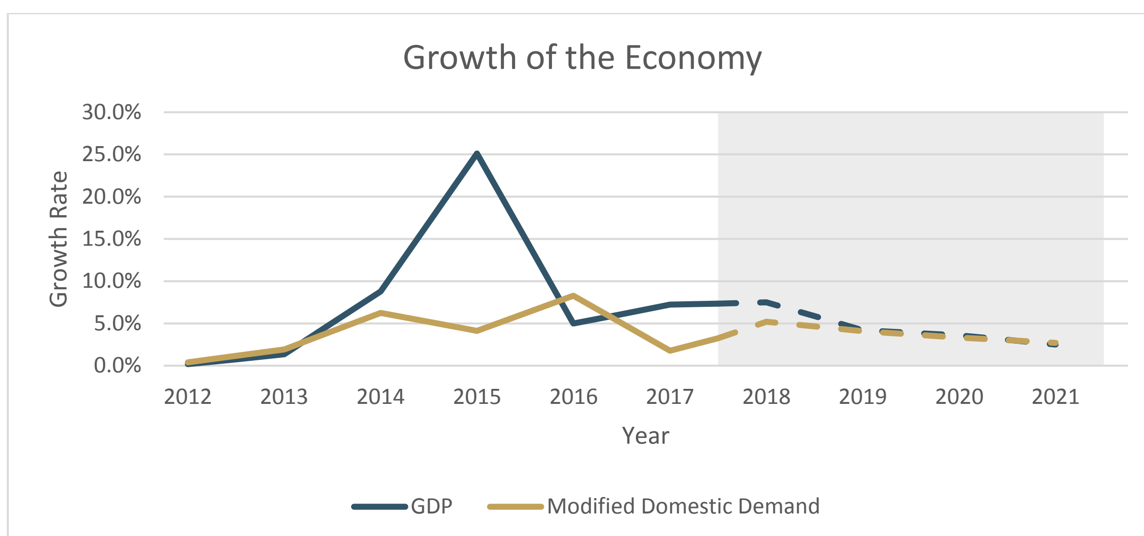

Figure 1.1 Growth of the Economy

Source: 2012 to 2017 - CSO; 2018 to 2021 - Department of Finance

1.3 The Public Finances

When LPT was introduced the public finances were under considerable pressure. The 2012 report of the LPT Design Group noted that one of the guiding principles of the tax should be to provide local government with a stable funding base in the long term, given that Ireland had a higher rate of central government funding going to local government than was generally the case internationally. In 2013 the General Government deficit was -6.1 percent of GDP and although this was a considerable improvement on the three previous years, it was significantly above the 3 percent threshold required under the Stability and Growth Pact. The deficit has been falling steadily since then, and a small surplus of €106 million was recorded in 2018, with surpluses of 0.3 and 0.4 percent projected in 2020 and 2021. General government expenditure is also expected to rise from €77.3 billion in 2017 to €91 billion in 2021.

In its first full year of operation (2014) the LPT yielded €491 million, which was about 1.2 percent of the total Exchequer tax receipts. The yield has remained relatively flat, fluctuating between €463 million and €491 million recorded between 2014 and 2018. Over the same period the total tax revenue increased steadily from €41.3 billion to €50.7 billion resulting in a diminishing proportion of the overall tax take attributable to LPT. In 2017 LPT made up just 0.9 percent of the total Exchequer and LPT tax revenue.[3]

[3] As discussed further later, Thornhill (2015) recommended that LPT receipts be paid to the Local Government Fund rather than the Exchequer. This recommendation was implemented in 2017. Thus, while the LPT no longer comprises part of Exchequer receipts, it was deemed useful for illustrative purposes to retain its comparison to Exchequer taxes in years subsequent to this implementation in Figure 1.2.

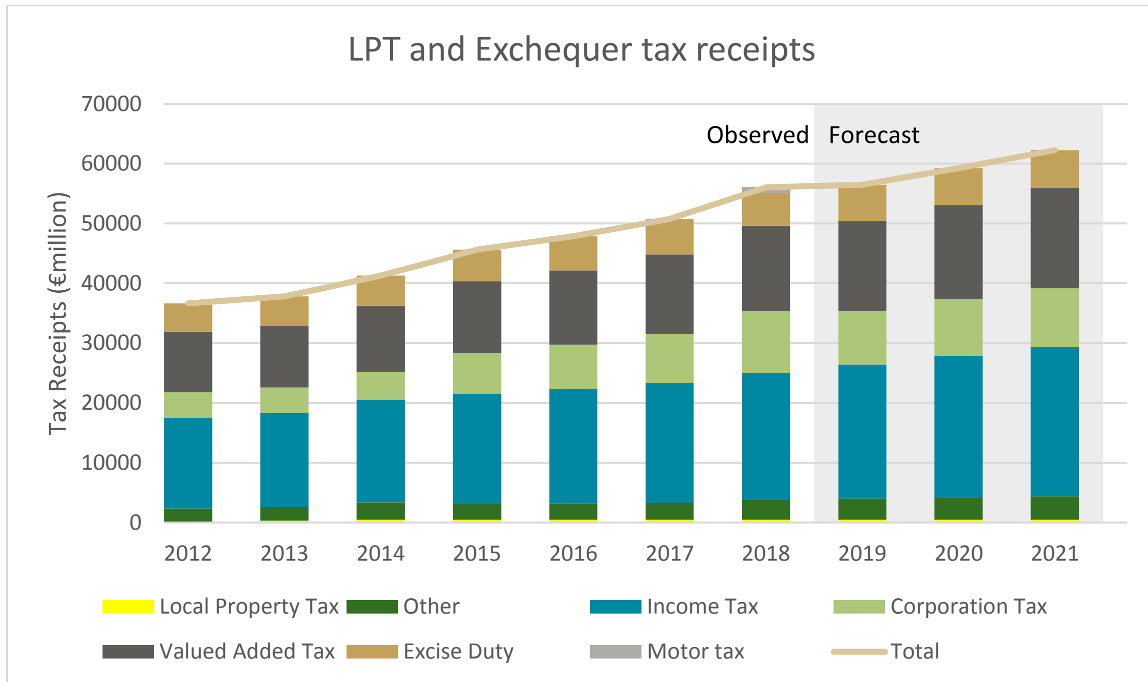

Figure 1.2 Exchequer Tax Receipts

Source: Department of Finance.

For illustrative purposes LPT held constant at 2017 yield from 2018 to 2021.This shows the indicative impact which a no policy change and no revaluation scenario would generate in terms of the contribution of LPT to overall tax take, although LPT will no longer form part of the Exchequer tax revenue from 2018 onwards.

One of the recommendations in the Thornhill (2015) review was that LPT receipts should be paid to the Local Government Fund. This recommendation was implemented in 2017. Therefore LPT is no longer an Exchequer tax receipt from 2018 onwards, but it is noteworthy that its share of Exchequer tax receipts up to end-2017 was on a downward trend. As shown in figure 1.3, the percentage of total Exchequer tax receipts represented by LPT initially rose from 2013 to 2014 as the tax was introduced mid-2013. Since then the share has steadily fallen reflecting the rise in total tax receipts and the static nature of current LPT liabilities. LPT revenues have remained broadly constant as rates and valuations have been held constant. In the absence of policy change, this trend is expected to continue, with the share of LPT revenue to total Exchequer tax falling to around 0.8 percent in 2021. These revenue assumptions are based on the stock of properties liable to LPT as of May 2013 and therefore do not incorporate new dwellings since 2013 nor those that are expected to be built over the period to 2021.

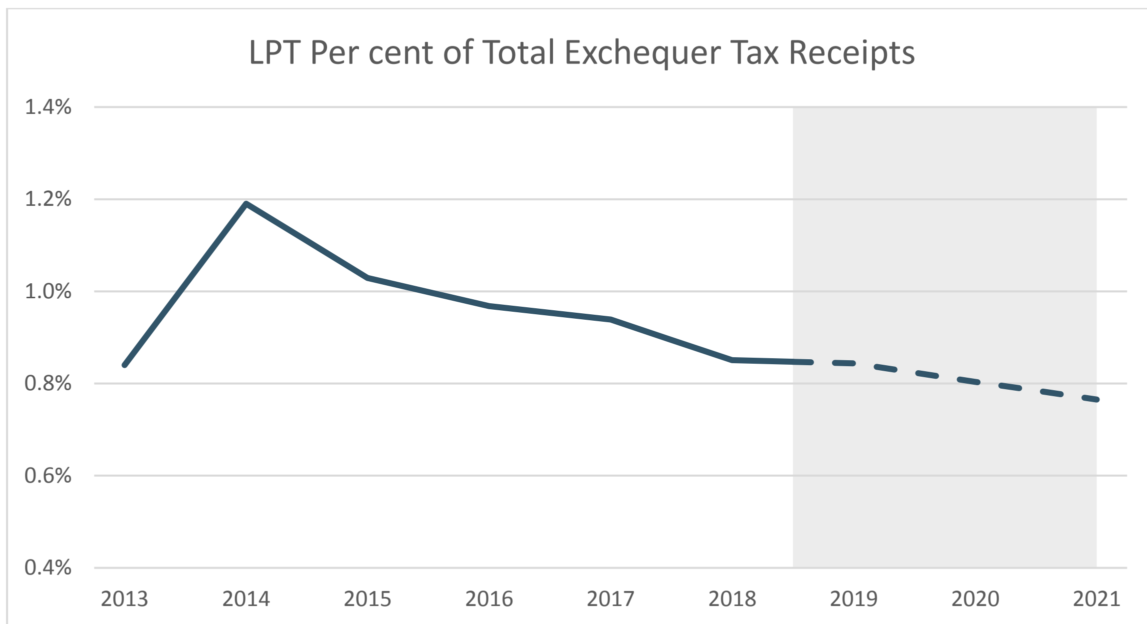

Figure 1.3 LPT as a Percentage of Total Exchequer Tax Receipts

Source: Department of Finance. For illustrative purposes LPT held constant at 2017 yield from 2018 to 2021.

1.4 Property Prices

The LPT central rate is 0.18 percent of the value of the property at the valuation date of 1 May 2013. Since this date, the property market has gone through a transformation. National property prices reached a trough around March 2013, where the national property price index was 55 percent below the peak level previously reached in April 2007. Since 2013, prices have grown rapidly with prices 18 percent higher in 2014. While this growth rate was the highest in a single year period the rates continue to be elevated, with a 7 percent increase in 2015, 9 percent in 2016 and 12 percent in 2017. The increases in the first eight months of 2018 indicate growth continuing along this trajectory. Nationally, property prices are 80 percent higher than they were at the introduction of the LPT, though around 20 percent below the 2007 peak. They are around 82 percent higher in Dublin and 76 percent higher outside of Dublin as of August 2018 than they were in May 2013.

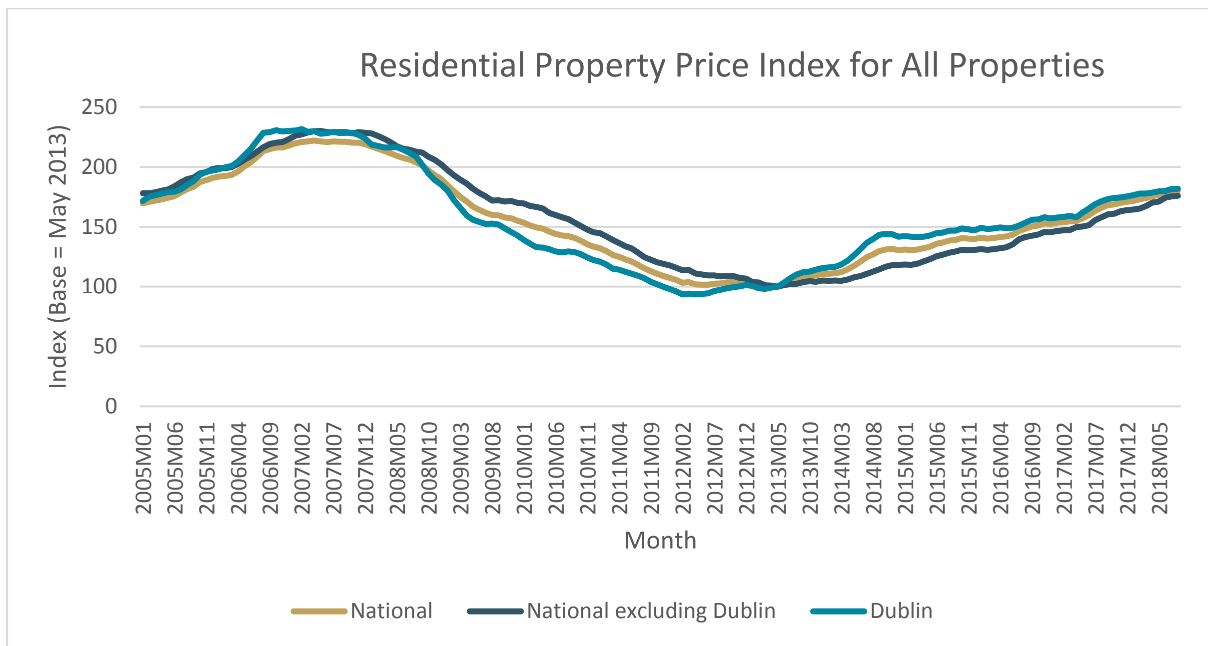

Figure 1.4 Residential Property Price Index for all Properties

Source: CSO

Figure 1.5 shows a breakdown of the evolution of prices in the sector. While the price increases in the residential property sector have been broadly felt across the property types and regions, there is some variation. Nationally, prices of apartments are up by 90 percent since May 2013, and houses are up 78 percent. The price of Dublin apartments are up by 89 percent and Dublin houses by 80 percent. A national index is not included in the graph as this is broadly mirrored by the national-houses index due to the weight of the “National - houses” sub-sector in the total. Prices of all residential properties outside of Dublin have trailed the other categories in the period since the introduction of the LPT.

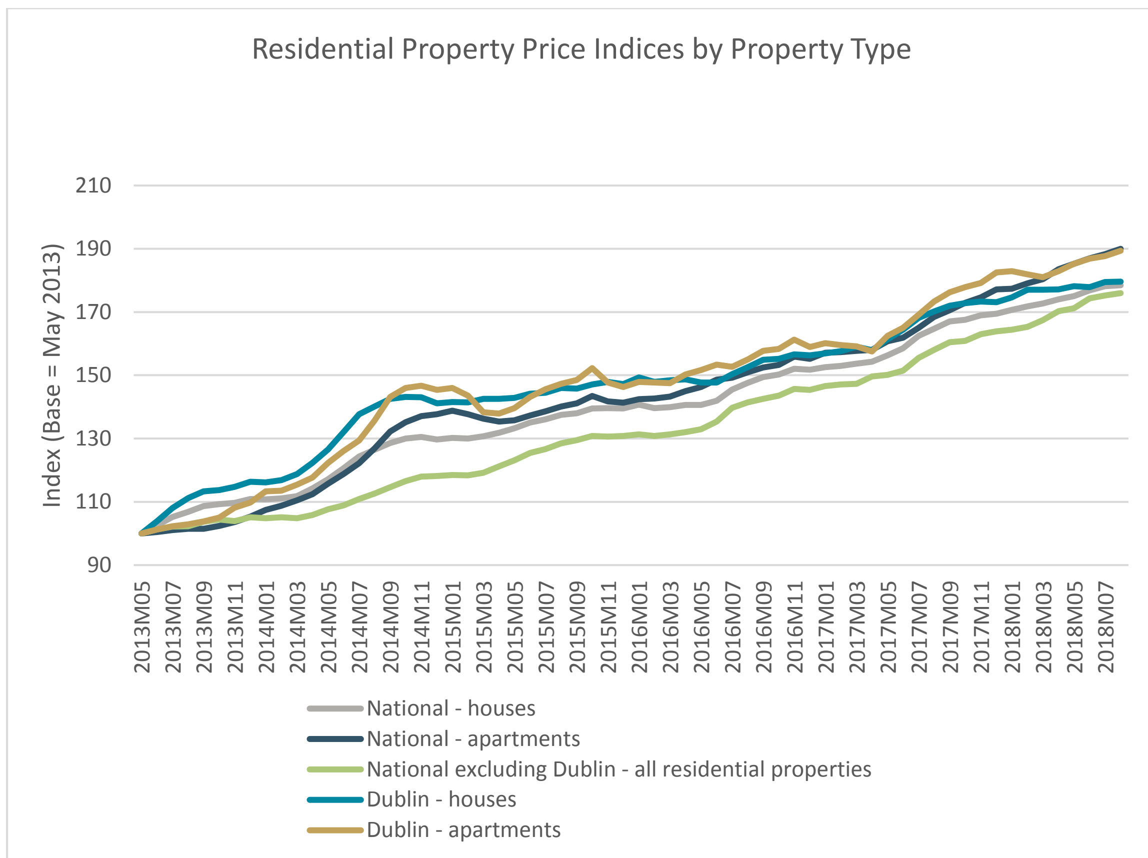

Figure 1.5 Residential Property Price Indices by Property Type

Source: CSO

Furthermore, there has been a rebound in the number of dwelling completions since the introduction of the LPT, as can be seen in figure 1.6. The number of completions from 2012 to 2017 range from a low of just over 4,500 in 2013 to a high of almost 14,500 in 2017. The overall growth rate from 2016 to 2017 was 45.7 percent, with growth most pronounced for apartments at 92.4 percent. Quarter 1 of 2018 shows continued growth of the sector, with growth of 26.9 percent for total dwellings from quarter 1 of 2017. The number of apartments continue to be in the minority of new dwelling completions with scheme completions the largest group.

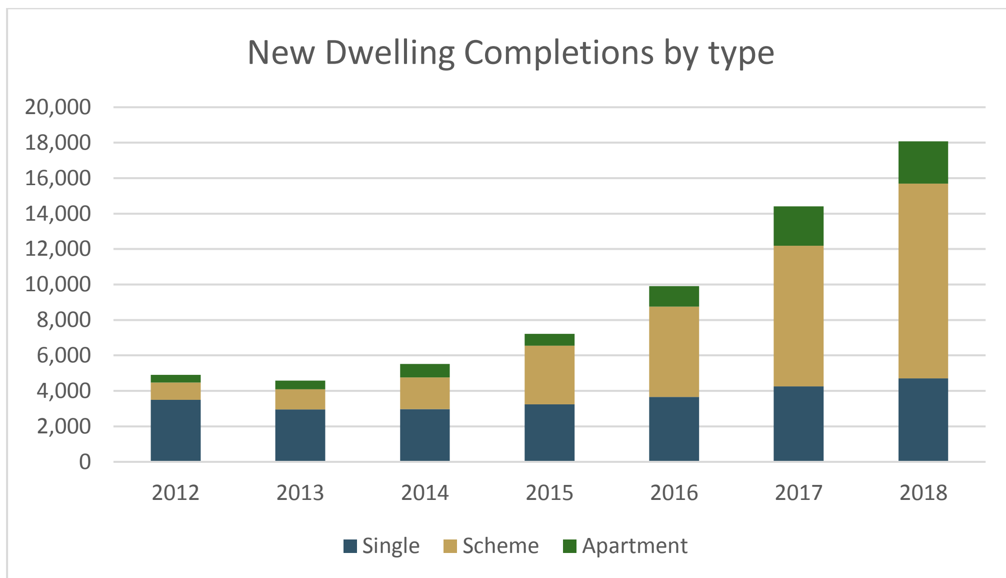

Figure 1.6 New Dwellings Completions by Type

Source: CSO New Dwelling Completions

1.5 Consumer Prices

Though prices in the housing sector continue their robust growth, inflation in the rest of the economy remains subdued. Inflation as measured by the Harmonised Index of Consumer Prices (HICP) registered just 0.3 percent in 2017. This is an increase on the figure for 2016 when the inflation rate was -0.2 percent. Since 2013, inflation has been subdued and prices in 2017 were just 0.8 percent higher than they were when the LPT was introduced. These low numbers are further contextualised when compared to the target inflation rate of the ECB which is “below but close to 2 percent”. If inflation had followed the trajectory targeted by the ECB, price levels would be around 10 percent higher in 2017 than they were in 2013. The Department of Finance forecasts inflation to pick up in the short term with HICP in 2018 projected to be 0.7 percent and then accelerating to 2.9 percent in 2021.

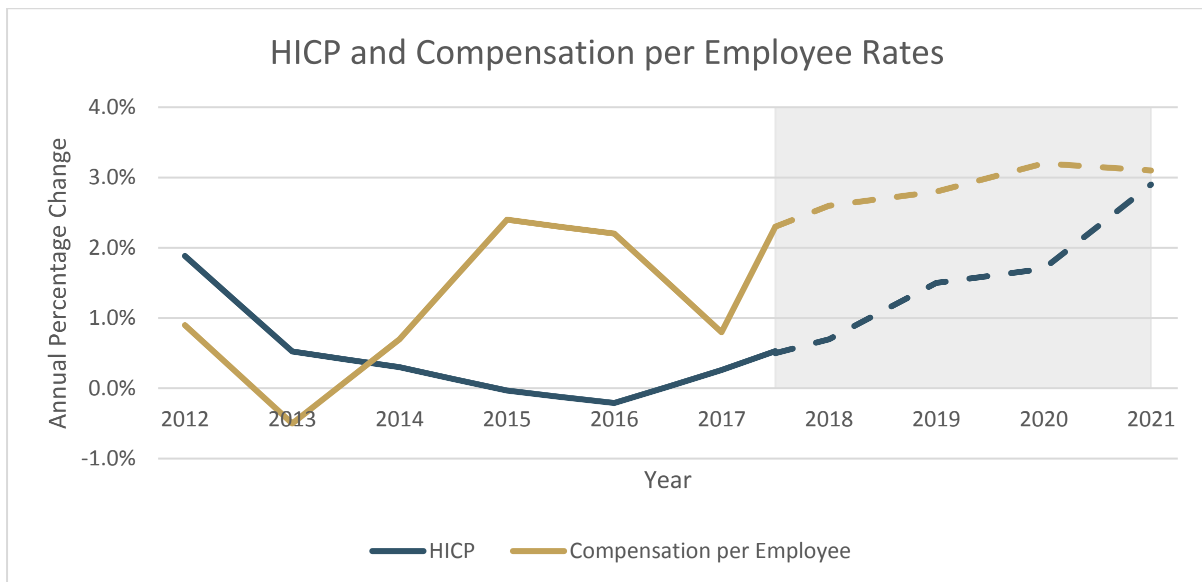

Figure 1.7 HICP and Compensation Per Employee Rates

Source: 2012 to 2017 - CSO; 2018 to 2021 - Department of Finance

1.6 The Labour Market

The labour market provides a reliable indicator of the underlying health of the Irish economy. Employment has continued to strengthen since 2013. Although the improvement has been somewhat less dramatic than growth in GDP and Modified Domestic Demand it has nevertheless been substantial. The average annual unemployment rate for the 15-74 age group has fallen steadily since 2012 and it is projected to continue to fall over the short-term. The seasonally-adjusted unemployment rate recorded in October 2018 was 5.3 percent. Wage growth as measured by compensation per employee has been subdued when compared to the improvement in the unemployment rate, though it is running considerably higher than the rate of inflation in recent years. In 2015 and 2016, Compensation per Employee grew at 2.4 percent and 2.2 percent respectively and then moderated somewhat in 2017. Wage growth is expected to pick up over the coming years. The total number of people in employment underlines the improvements in the labour market in recent years. The total number in employment reached 2.26 million in Q2 2018, which is the highest number recorded in the history of the State.

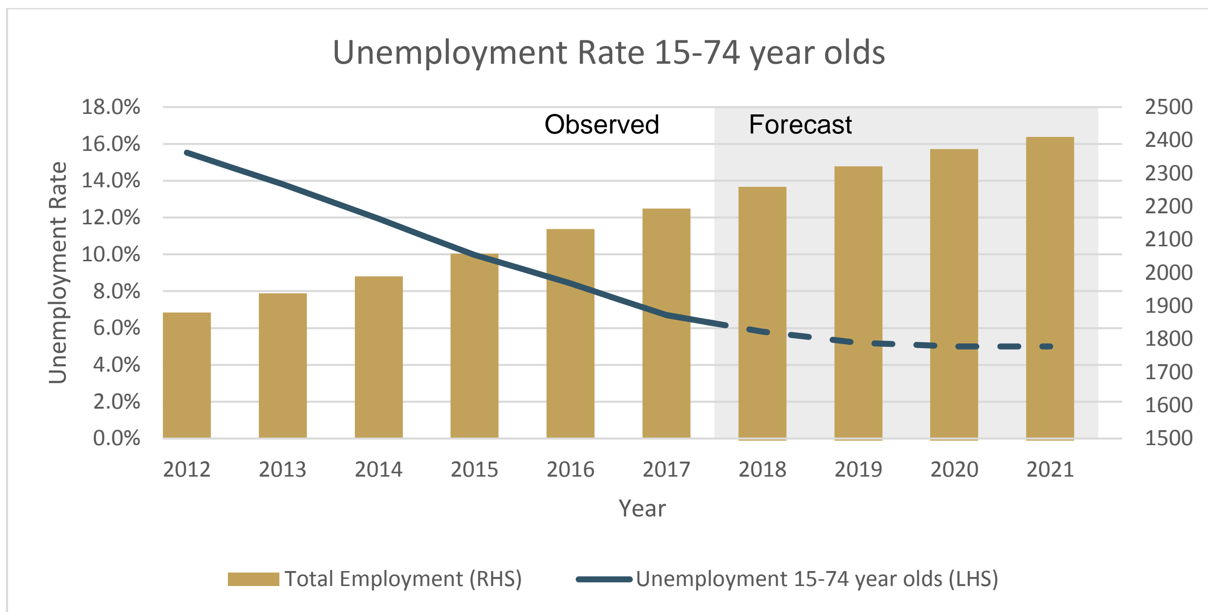

Figure 1. 8 Unemployment rate 15-74 year olds

Source: 2012 to 2017 - CSO; 2018 to 2021 - Department of Finance

	2012	2013	2014	2015	2016	2017	2018*	2019*	2020*	2021*
% change (unless otherwise stated)										
Economic Activity										
Real GDP	0.2	1.3	8.8	25.1	5.0	7.2	7.5	4.2	3.6	2.5
Modified Domestic Demand	0.4	1.9	6.2	4.1	8.3	1.8	5.2	4.1	3.3	2.7
Prices										
HICP	1.9	0.5	0.3	0.0	-0.2	0.3	0.7	1.5	1.7	2.9
Residential Property Price Index	-3.2	6.5	17.9	7.1	9.0	12.1	8.9†			
Labour Market										
Compensation per Employee**	0.7	-0.4	0.5	2.5	2.3	0.2	2.4	3.0	3.3	3.3
Unemployment (percent)	15.5	13.8	11.9	9.9	8.4	6.7	5.8	5.2	5.0	5.0
Total Employment ('000)	1880	1938	1989	2057	2132	2194	2259	2321	2373	2410

Table 1.1 Economic Activity

Source 2012 to 2017 – CSO

** Budget 2019 Economic and Fiscal Outlook forecasts*

*** Non-agriculture employee 2012-2017 outturn based on National Income and Expenditure 2017. 2018-2023 are Budget 2019 forecasts.*

†Figure for 12 month change up to August 2018 – CSO

Chapter 2. LPT as a Funding Source

This chapter briefly outlines the LPT model and how the funding allocation to the local authorities is determined. It explains some of the key elements of the model including equalisation, local adjustment factor and self-funding and also introduces the concept of local retention as a means of enhancing transparency and local accountability. Further detail and examples are available in appendix B.

2.1 A Source of Funding for Local Authorities

In 2017 the total budgeted local authority revenue (current) expenditure was €4.3 billion, with an additional €1.9 billion budgeted for capital projects. Of the €0.5 billion LPT allocated in 2017, local authorities utilised €0.4 billion in the day-to-day management of their authorities and for the provision of local public services. €32 million was ring-fenced to help fund current housing and roads programmes, with a further €76 million designated for specific housing capital programmes. For two-thirds of local authorities, allocations of LPT in 2017 contributed to over 12 per cent of their annual revenue income. Five local authorities were heavily dependent on LPT as it represented approximately 20 per cent of their revenue income.

Figure 2.1 below shows that €0.4 billion of LPT utilised in 2017 represented approximately 9 per cent of the local authority revenue budget.

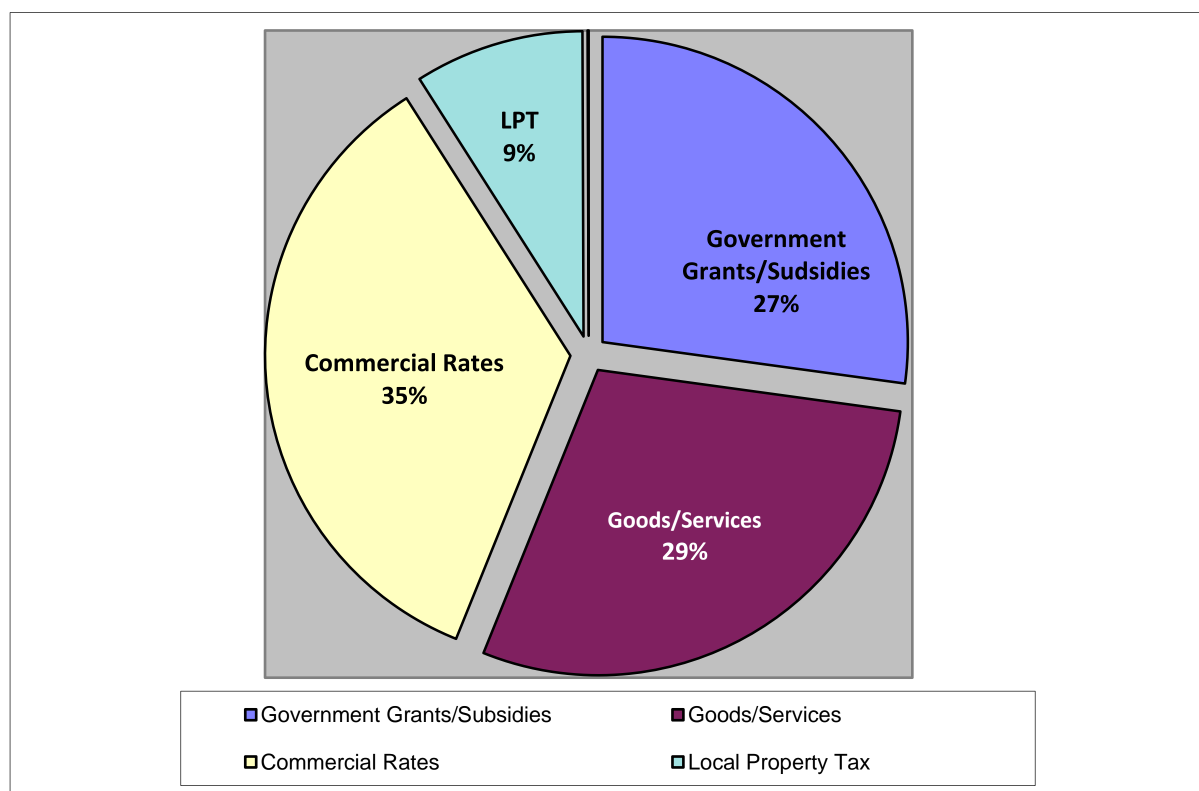

Figure 2.1 Local Authority Revenue Budget 2017

FUNDING THE BASELINE

Local authorities' cost and income bases vary significantly from one another as do their LPT bases and ability to raise funds from other sources. For example, some local authorities do not have a sufficient commercial rates base to make up the funding gap.

The 2017 baseline of €356 million is linked, for the most part, to funding previously allocated from the Local Government Fund as General Purpose Grants (€282.6m) and to the levels of Pension Related Deductions retained by local authorities in 2014 (€73.6m).

The final LPT allocation takes into account the decisions of local authority members to vary LPT rates in the local area, in accordance with the Finance (Local Property Tax) Act 2012 (2012 Act). Ten local authorities were in a surplus funding position when compared to their 2017 baseline and the remaining 21 local authorities required additional funding to bring them to the minimum baseline level.

Baseline Review

In May 2018, the Minister for Housing, Planning and Local Government established a group to review LPT baseline funding of local authorities. The objective of this review was to recommend a set of key indicators which may be used to allocate any available additional funding to local authorities in a fair, equitable and transparent manner.

Indicators include

- Demographics such as population, population change and/or make-up of the population;
- Physical characteristics such as size/area, the physical environment, the rural - urban divide and population density;
- Socio-economic indicators such as deprivation or unemployment rates;
- Income generating capacity such as the commercial rate base or recourse to other charges.

A consultation process helped to inform this baseline work which included a broad range of stakeholders. The work of the Baseline Review Group is completed and the Minister for Housing, Planning and Local Government is currently considering its recommendations.

2.2 Equalisation

LPT allocations to individual local authorities are decided annually in accordance with Government policies. Funding allocations are decided in advance of collection, based on estimates of the LPT yield in individual local authority areas for the following liability year. Equalisation ensures that all 31 local authorities receive a minimum amount of funding from the local retention of LPT that is at least equivalent to their LPT baseline. If 80 per cent of the estimated LPT yield in a local authority area is lower than an authority's baseline, the authority is topped-up or equalised to that baseline. The funding comes from the compulsory 20 per cent contribution from all local authorities and where necessary, additional funding from the Exchequer.

Table 2.1 shows the distribution of equalisation funds in the years 2015-2019.

2015-2019 LPT Income for Local Authorities in receipt of Equalisation	Forecasted LPT yield post variation (€m)	Total LPT Funding Allocations 2015 -2019 (€m)	Of which, contribution from Equalisation Funding (€m)
Carlow County Council	€19.83	€29.12	€13.26
Cavan County Council	€22.10	€45.36	€27.68
Cork City Council	€53.10	€59.10	€9.25
Donegal County Council	€54.35	€120.80	€77.32
Galway County Council	€74.49	€70.02	€10.14
Kerry County Council	€71.38	€58.06	€7.56
Kilkenny County Council	€37.34	€50.73	€20.87
Laois County Council	€25.58	€41.93	€21.27
Leitrim County Council	€10.65	€43.43	€34.91
Limerick City & County Council	€82.03	€85.35	€19.03
Longford County Council	€10.80	€43.19	€34.50
Louth County Council	€47.11	€45.80	€8.17
Mayo County Council	€51.83	€94.10	€52.70
Monaghan County Council	€18.77	€53.93	€38.97
Offaly County Council	€24.59	€36.30	€16.63
Roscommon County Council	€19.94	€48.86	€32.91
Sligo County Council	€26.34	€51.59	€30.52
Tipperary County Council	€60.47	€125.68	€77.06
Waterford City & County Council	€47.05	€89.55	€51.82
Westmeath County Council	€31.82	€53.65	€28.23
Wexford County Council	€64.01	€67.47	€15.65
Total	**€853.57**	**€1,314.04**	**€628.47**

Table 2.1 Allocations to the Local Authorities in receipt of Equalisation Funding 2015 to 2019

2.3 The Local Adjustment Factor

While the rate of the LPT is currently set centrally at 0.18 per cent on properties valued up to €1 million, the LPT legislation provides local authorities with some flexibility to vary this rate up or down to a maximum of 15 per cent. If a local authority decides to reduce the local LPT rate, the authority forgoes the equivalent amount of the reduced LPT yield from its LPT allocation. If an authority decides to increase the LPT rate locally, it receives the full amount of the increased LPT yield collected. Table 2.2 shows how the LAF was applied 2015-2019.

+/- per cent variation	2015	2016	2017	2018	2019
-15	Clare, Dublin City, DLR, South Dublin, Fingal, Wicklow	Clare, Dublin City, DLR, Fingal, South Dublin,	Dublin City, DLR, Fingal, South Dublin	Dublin City, DLR, South Dublin	Dublin City, DLR, South Dublin
-10	Cork City, Cork Co.	Cork City		Fingal	Fingal
-7.5	Kildare	Kildare, Monaghan			
-5		Cork Co.			
-3	Limerick, Longford, Mayo, Westmeath	Longford	Longford		
-1.5	Louth	Louth			
Standard rate	17 local authorities	20 local authorities	23 local authorities	20 local authorities	22 local authorities
2.5				Waterford City & County	Waterford City & County
5			Wexford	Kerry, Longford,	
7.5				Limerick City & County	Limerick City & County
10			Galway Co., Limerick	Laois, Wexford, Tipperary	Laois, Wexford
15					Longford
No. +/- variations	14 reduced	11 reduced	5 reduced 3 increased	4 reduced 7 increased	4 reduced 5 increased

Table 2.2 Local Adjustment Factor 2015 to 2019

For 2019, four local authorities decided to decrease the LPT rate, three by the maximum 15 per cent and one by 10 per cent, at a cost of €28.4 million. In 2019, five local authorities increased the LPT rate, one by 15 per cent, two by 10 per cent, one by 7.5 per cent and one by 2.5 per cent raising an additional €3.4 million. The net effect of local variation of the rate in 2019 will be a reduction in LPT receipts of €24.9 million.

The estimated LPT yield, the baseline and the equalisation funding requirement are interlinked; if the amount of LPT retained locally was higher, the equalisation amount would decrease accordingly, but the overall funding allocation would remain the same. In comparing table 2.1 and 2.2, it can be observed that some local authorities apply a downward LAF and received equalisation funding despite not being able to fund the baseline. For example Longford did not

meet the baseline in 2017 (or previous years). It raised €2.10 million from LPT and received €7.22 million from equalisation funding in 2017. It applied a downward LAF (albeit small) over the three years as shown in table 2.2. However, Longford applied an upward LAF in 2018 and 2019 respectively. LAF is considered later in Chapter 6.

2.4 Self-Funding

All of a local authority's LPT allocation is used to provide services within the local authority area. Most local authorities (2/3rds approximately) spend the entire amount of their LPT allocation on the essential day-to-day running of the local authority, for example in the provision of local services such as street cleaning, maintenance of parks, street lighting, provision of library services etc.

Apart from the amounts used for providing local services as set out above, some local authorities with larger property tax bases such as those in urban and commuter areas, e.g. the Dublin authorities, are required by the Minister for Housing, Planning and Local Government to use a proportion of their LPT allocation to fund certain housing or roads services in their area, thereby replacing the need for central Government funding of these services. This process is known as self-funding. The amount that those authorities are required to self-fund housing and/or roads services is linked to their LPT baseline. For the 10 authorities in a surplus funding position, the Government decided that a portion of the surplus should be available for the authority's discretionary purposes, with the remainder (if any) to fund some local services in the housing and roads areas.

The portion being retained by these 'surplus' authorities for their own use is an amount equal to their individual baseline plus 20 per cent of the total expected LPT income in their respective areas (before any decision to vary rates) or, in the case where that surplus will be less than 20 per cent, the full amount.

Approximately €108.8m (20 per cent) of the LPT yield supported housing and roads services in 2018. Of this, approximately €92m from LPT supported Housing Services. 80 per cent of the overall LPT allocation, or €395.3m, was used at the local authorities' own discretion.

Appendix C provides further details on the local authority model including equalisation and examples of LPT allocations in the case of a self-funding local authority (Dublin City Council) and a local authority not having a self-funding requirement (Kilkenny County Council).

2.5 Local Retention

Thornhill (2015) recommended that over the medium term, the Government should consider moving to a system whereby local authorities retain 100 percent of the LPT revenues raised in their area. Thornhill (2015) recognised that authorities with weaker tax bases would consequently need to receive supplementary Exchequer funding. Arguments in favour of local retention are that it enhances transparency and local accountability and that this contributes to good governance. This is discussed further in Chapter 6.

Chapter 3. The Administration of LPT

3.1 General overview

Local Property Tax (LPT) is an annual tax charged on the market value of certain residential properties in the State. Those liable to pay LPT, are, for the most part, the owners of residential properties, including rental properties. The tax is broad in scope with a limited number of exemptions allowed. However, a system of deferral arrangements is available where there is an inability to pay and specified conditions are met. Revenue is responsible for the administration and collection of the tax. The tax operates on a self-assessment basis and the level of compliance has been consistently high since its introduction in 2013. The tax is collected centrally by Revenue with the funds then transferred to local government. Revenue estimate that the cost of administering LPT is of the order of €13m annually or about 2.8 per cent of the estimated LPT collected for 2018. The legislation underpinning the structure and administration of LPT is contained in the following Acts:

- Finance (Local Property Tax) Act 2012;
- Finance (Local Property Tax) (Amendment) Act 2013;
- Finance (Local Property Tax) (Amendment) Act 2015.

3.2 Liability for LPT - properties, persons and dates

There are three 'tests' to be applied to determine if LPT is payable in respect of a particular property and by whom it is payable:

- Is there a liable property?
- Is there a liable person in relation to the property?
- Is this the position on a specified date in a year?

LIABLE PROPERTIES

Subject to a limited number of exemptions, LPT applies to residential properties. It is sufficient for a property to be liable if it is suitable for use as a residence even if it is not actually occupied as such. Certain derelict or uninhabitable properties may therefore fall outside the LPT charge. Mobile homes, vehicles and vessels (boats) are also not liable.

LIABLE PERSONS

Essentially, liable persons are those who are entitled to the immediate possession of a property, or to receive rents from a property. For the most part, this is the owner of a property. However, in the case of life tenancies or long leases of at least 20 years, the liability transfers from the owner to the tenant.

LIABILITY DATE

The liable person in relation to a liable property on a liability date is responsible for the payment of LPT for the following year, regardless of whether or not he or she sells the property before the beginning of the following year. The first liability date was 1 May 2013, however a date of 1 November is the liability date in any subsequent year. With the exception of the initial six-month period 1 July to 31 December 2013, LPT is payable for the year following the year in which the liability date falls.

3.3 Valuation of properties

MARKET VALUE

The LPT charge is based on the market value of a property on a specified date, called the valuation date. In estimating market value, no account is taken of any burden or claim on a property such as a mortgage or loan. On 1 May 2013, liable persons were required to value their properties. The precise value did not have to be declared to Revenue but, instead, the relevant valuation band had to be selected (see below). While Revenue did not value properties for LPT purposes, it provided extensive valuation guidance to property owners in the run up to May 2013.

Property owners were required to file a return with Revenue declaring the relevant valuation band and LPT liability but could subsequently self-correct their LPT liability where properties were under or overvalued at 1 May 2013.

REVENUE ESTIMATE

In the run up to May 2013, liable persons were issued with a 'Revenue Estimate'. This was not an estimate of the market value of a property as such but, rather, a 'default' tax liability that became payable if a self-assessment was not made by the liable person. This estimate could be displaced only by the submission of the liable person's own valuation.

A liable person's self-assessment can, in turn, be replaced by a Revenue assessment of the LPT liability where Revenue does not agree with the self-assessment. A Revenue assessment can be appealed to the independent Tax Appeals Commission where a liable person does not agree with the amount assessed by Revenue.

3.4 Calculation of LPT liability

VALUATION BANDS

A sequence of valuation bands, most with a uniform width of €50,000 ranging from €100,000 to €1 million are used in place of point-estimate property valuation. It was recognised that property valuation is not an exact science and providing valuation bands eased the valuation challenge. Liable persons were required to select the appropriate valuation band for their property valuation.

Table 3.1 shows the valuation bands and corresponding tax liabilities.

Valuation Band	Valuation Band Range (€)	Mid-Point of Band (€)	Annual LPT liability (€)
1	0–100,000	50,000	90
2	100,001–150,000	125,000	225
3	150,001–200,000	175,000	315
4	200,001–250,000	225,000	405
5	250,001–300,000	275,000	495
6	300,001–350,000	325,000	585
7	350,001–400,000	375,000	675
8	400,001–450,000	425,000	765
9	450,001–500,000	475,000	855
10	500,001–550,000	525,000	945
11	550,001–600,000	575,000	1,035
12	600,001–650,000	625,000	1,125
13	650,001–700,000	675,000	1,215
14	700,001–750,000	725,000	1,305
15	750,001–800,000	775,000	1,395
16	800,001–850,000	825,000	1,485
17	850,001–900,000	875,000	1,575
18	900,001–950,000	925,000	1,665
19	950,001–1,000,000	975,000	1,755
20	Over €1m		

Table 3.1 Valuation bands and liabilities

RATES OF TAX

The standard tax rate of 0.18 per cent is applied to the mid-point of the relevant valuation band to calculate the tax liability. Properties valued over €1 million are chargeable to LPT on their estimated actual market value and not a valuation band. For properties valued at over €1 million, the standard tax rate of 0.18 per cent applies to the value amount up to €1 million and a higher rate of 0.25 per cent applies to the amount that exceeds €1 million.

As explained in Chapter 2, local authorities have the discretion to increase or decrease their LPT allocations via the LAF, by up to 15 per cent every year. Local authorities must notify their LAF to Revenue by 30 September if they want the adjusted rate to be effective for the following year. Table 2.2 in the previous chapter shows the rate adjustments in operation for the years 2015 to 2019.

VALUATION PERIOD

A valuation period is the period for which a single property valuation has effect. The first (and current) valuation period runs from 1 July 2013 to 31 December 2019. This valuation period was originally due to end on 31 December 2016 but was extended by the Finance (Local Property Tax) (Amendment) Act 2015 for an additional three years. The property valuation for this valuation period was established on 1 May 2013. The next valuation date is 1 November 2019 for the valuation period 2020 to 2022.

Any property that was not a liable property, that was exempt from LPT or that did not exist on 1 May 2013 does not become a liable property until the next valuation period 2020 to 2022. For example, a property that was in the course of construction on 1 May 2013 but that was not completed until February 2015 does not have to be valued for LPT purposes until 1 November 2019 and remains outside the LPT charge until the year 2020.

In line with the single property valuation lasting for a full valuation period, a liable person is not required to file a subsequent return with Revenue unless an exemption or deferral is being claimed or the payment method is being changed.

EXEMPTIONS

A number of categories of residential properties can be exempted from the payment of LPT if they satisfy the relevant qualifying conditions. While the claiming of exemptions operates on a self-assessment basis, claims may then be subject to compliance checks by Revenue and a person who has claimed an exemption may be required to provide evidence of eligibility for the particular exemption.

The following categories of property are eligible for an exemption:

- Charitable bodies (recreational activities);
- Charitable/Public bodies (special needs accommodation) ;
- Registered nursing homes;
- Properties vacated because of long-term mental/physical infirmity;
- Residence of a severely incapacitated person;
- Properties fully chargeable to commercial rates;
- Unfinished housing estates;
- Significant pyrite damage;
- Certain properties purchased between 1 January 2013 and 31 December 2013;
- Trading stock of builder/developer – unsold at 1 May 2013 or sold in the period 1 January 2013 to 31 October 2019.

Table 3.2 below shows the number of exemptions in operation for the various categories of exemption for the years 2013 to 2018.

Exemption Category	2013 No. (000s)	2014 No. (000s)	2015 No. (000s)	2016 No. (000s)	2017 No. (000s)	2018 No. (000s)
Charitable bodies (recreational activities)	0.2	0.2	0.2	0.2	0.2	0.2
Charitable bodies (special needs accommodation)	7.9	6.8	6.9	7.0	7.3	7.7
Registered nursing homes	0.3	0.3	0.3	0.3	0.3	0.3
Properties vacated because of long-term mental/physical infirmity	6.2	6.5	6.9	7.0	7.4	7.7
Residence of severely incapacitated person	1.8	1.8	1.9	1.9	2.0	2.0
Properties fully chargeable to commercial rates	2.3	2.3	2.2	2.2	2.3	2.3
Unfinished housing estates	3.3	3.3	3.3	3.3	3.3	3.3
Significant pyrite damage	0.2	0.2	0.3	0.8	1.1	1.4
Certain properties purchased between 1 January 2013 and 31 December 2013	3.4	9.4	12.1	11.9	11.8	11.7
Trading stock of builder/developer (unsold at 1 May 2013 or sold in the period 1 January 2013 to 31 October 2019	10.1	11.6	12.4	12.3	11.9	11.8
Mobile Homes	0.3	0.3	0.3	0.3	0.3	0.3
Totals	**35.7**	**42.4**	**46.5**	**46.9**	**47.6**	**48.7**

Table 3.2 Number of exemptions in operation by category

DEFERRALS

A system of deferral arrangements is available where there is an inability to pay and specified conditions are met, whereby a person may opt to defer, or partially defer, payment of the tax. Interest is charged on deferred amounts but at a lower rate (i.e. 4 per cent annually) than the rate charged in default cases (i.e. 8 per cent annually). The deferred amount, including interest, is a charge on the property. Deferred LPT and interest have to be paid on the sale or transfer of the property.

The deferral option is available in the following circumstances:

- Where the annual gross income of the liable person does not exceed €15,000 (single person) and €25,000 (couple). Marginal relief applies for owner-occupiers whose income is not more than €10,000 above the income limits to permit deferrals of up to 50 per cent of the LPT liability.

- For owner-occupiers who have an outstanding mortgage, an adjusted gross income limit applies where gross income less 80 per cent of mortgage interest paid falls below €15,000 (single person) and €25,000 (couple). This option is available until the end of 2019. Marginal relief applies for owner-occupiers whose adjusted income is not more than €10,000 above the adjusted income limits. Marginal relief permits deferrals of up to 50 per cent of the LPT liability.
- Where a liable person who was the sole owner of a property dies, the person's personal representative may be eligible for a deferral for a maximum period of three years commencing with the date of death.
- Where a person enters into a formal Debt Settlement Arrangement or a Personal Insolvency Arrangement, a deferral may apply for the period for which the arrangement is in place.
- Where a person suffers an unexpected and unavoidable significant financial loss or expense, as a result of which he or she is unable to pay the LPT without causing excessive financial hardship. This category of deferral requires advance Revenue approval.

Table 3.3 below shows the number of deferrals in operation and the corresponding deferral category for the years 2013 to 2018. The number of deferrals in operation at any one time, and for any year, is constantly changing as properties move in and out of deferral. There are several reasons for this such as the payment of LPT, a reduction in a person's annual income and the cancellation of deferrals that were incorrectly claimed.

DEFERRAL TYPE	2013 No. (000s)	2014 No. (000s)	2015 No. (000s)	2016 No. (000s)	2017 No. (000s)	2018 No. (000s)
Below income threshold	29.8	36.9	45.0	53.8	57.4	56.3
Deceased person's estate	0.4	0.4	0.5	0.5	0.6	0.8
Formal insolvency arrangement	0.3	0.4	0.6	0.7	0.8	0.9
Hardship	0.1	0.2	0.2	0.2	0.2	0.2
Totals	**30.6**	**37.9**	**46.3**	**55.2**	**59.0**	**58.2**

Table 3.3 Number of Deferrals from 2013 to 2018

3.5 Payment of LPT

The liability date for a given year is 1 November in the preceding year. While it may happen that the ownership of a property changes between 1 November and 31 December in a year, the person who was the liable person on 1 November is still responsible for payment in the following year. However, in anticipation of the sale of a property, it has become the practice for sellers and buyers to agree an apportionment of the LPT liability between themselves depending on the date of transfer of ownership.

There are a range of payment options for LPT. Depending on the selected method of payment, LPT can be payable at different times during the payment year. LPT can be paid in full in one payment by:

- Single direct debit authority - payable by 21 March;
- Cheque or debit/credit card – payable early January;
- Payment through approved payment outlets (An Post, Payzone, etc.) - payable early January.

LPT can be paid by phased payments by:

- Deduction at source over the year from salary or occupational pension;
- Deduction at source over the year from certain payments received from the Department of Employment Affairs and Social Protection;
- Deduction at source from certain farm payments received from the Department of Agriculture, Food and the Marine;
- Direct debit - evenly over the year;
- Payment (including debit/credit card) through approved payment outlets (An Post, Payzone, etc.) - evenly over the year.

Some payment methods, such as direct debit or deduction at source from salary, are automatically rolled over to subsequent years unless a liable person advises Revenue that the payment method is to be changed.

3.6 Compliance

Revenue is responsible for all administration, collection, enforcement and audit aspects of LPT. Compliance is supported by a range of deterrent, collection and enforcement methods in addition to interest charges and penalties for non-compliance.

COMPLIANCE METHODS

Since the introduction of LPT, compliance rates have been consistently high, i.e. at least 97 per cent each year. Revenue's usual range of compliance methods are applied to LPT. These include-

- Collection through the courts and sheriffs;
- Attachment notices served on certain third parties;
- Refusal of tax clearance certificates;
- Interest charged on unpaid tax;
- Publication of tax defaulters.

In addition, there are some dedicated LPT compliance arrangements. These are-

- In the absence of a self-assessment, collection of the 'Revenue Estimate' amount;
- Mandatory deduction at source from salaries and occupational pensions;
- Mandatory deduction at source from certain payments made by the Departments of Employment Affairs and Social Protection and Agriculture, Food and the Marine;
- Surcharge applied to a liable person's income tax or corporation tax liability for non or late filing of an LPT return;
- Unpaid LPT becomes a statutory charge on a property until such time as it is paid.

SALES AND TRANSFERS OF PROPERTY

Revenue has put arrangements in place to facilitate sellers and purchasers of residential property and solicitors acting on their behalf to establish if there is any unpaid LPT at the time of sale. Purchasers, their solicitors and lending institutions are concerned to avoid a situation whereby property is transferred to a new owner with a charge for unpaid LPT attached to the property. The arrangements facilitate sellers in reviewing their property valuations and facilitate purchasers in ascertaining the sellers' compliance with LPT requirements.

Tax Year	2013	2014	2015	2016	2017	2018 (provisional)
LPT liability (€ million)	258	504	431	448	452	455
Properties returned (million)	1.85	1.84	1.90	1.93	1.92	1.91

Table 3.4 LPT collected and number of properties returned by tax year

Tables 3.5 and 3.6 show the amount of LPT collected for the years 2013 to 2017 and the number of properties to which this relates. This information is shown on an aggregate basis and broken down by local authority.

Properties returned (000s) by local authority	2013	2014	2015	2016	2017	2018 (provisional)
Carlow	22.1	22	22.8	23.2	23.2	23.1
Cavan	30	29.8	30.6	31.3	31.1	30.9
Clare	51.6	51.4	52.9	53.7	53.4	53.5
Cork City	52.5	52.3	53.6	54.6	54.3	54.2
Cork County	161.2	161	165.9	168.5	168.1	167.9
Donegal	71.7	71.2	72.8	74.2	73.4	73.4
Dublin City	225.4	223.8	229.4	232.7	231.4	230.1
Dun Laoghaire Rathdown	82.4	82	83.4	84.4	84.3	83.8
Fingal	99.1	98.7	103	104.7	104.3	104
Galway City	31.4	31.3	32	32.6	32.5	32.5
Galway County	70.1	69.8	71.8	73.2	72.7	72.5
Kerry	67.7	67.4	68.7	69.7	69.3	69.1
Kildare	75.7	75.4	78.4	79.9	79.6	79.1
Kilkenny	35.5	35.4	36.6	37.2	37.1	37
Laois	29.2	29	30.5	31.1	30.9	30.7
Leitrim	15.8	15.7	16.1	16.4	16.2	16.3
Limerick City and County	76.6	76.3	78.6	80.1	79.7	79.1
Longford	16.7	16.6	17	17.3	17.1	17.1
Louth	47.9	47.6	49.7	50.8	50.4	50.5
Mayo	58.3	58	59.2	60.1	59.8	59.6
Meath	65.5	65.2	68.2	69.6	69.1	68.8
Monaghan	22.5	22.4	23	23.4	23.2	23.2
Offaly	27.7	27.6	28.7	29.3	29	28.9
Roscommon	27.3	27.2	27.9	28.5	28.3	28.3
Sligo	29.7	29.6	30.2	30.9	30.7	30.6
South Dublin	94.2	93.9	97.6	99	98.8	98.2
Tipperary	63.9	63.6	65.4	66.4	66	65.8
Waterford City and County	49.3	49	50.7	51.6	51.3	51.4
Westmeath	34.5	34.3	35.6	36.2	36.1	36
Wexford	62.9	62.6	64.5	65.6	65.1	64.9
Wicklow	51.7	51.4	52.9	53.8	53.6	53.2

Table 3.5 Properties returned by local authority by tax year.

LPT Collected (€m) by local authority	2013	2014	2015	2016	2017	2018 (provisional)
Carlow	2.1	4.1	3.9	3.9	3.8	3.8
Cavan	2.4	4.6	4.3	4.3	4.4	4.4
Clare	5.4	10.5	8.3	9.8	9.9	9.8
Cork City	6.2	11.9	10.2	11.4	11.7	11.8
Cork County	21.6	42.2	35.6	39.8	40.1	39.9
Donegal	5.9	11.4	10.7	10.6	11.1	11.1
Dublin City	42.9	83.6	66.2	66.8	68.8	69.1
Dun Laoghaire Rathdown	27.3	53	42.2	42.6	44.3	44.3
Fingal	20.2	39.4	31.2	31.3	30.6	32.4
Galway City	4.4	8.5	8	8	8.3	8.3
Galway County	7.7	15	14.1	15.4	15.6	14.2
Kerry	7.4	14.6	13.8	13.8	14.3	15.1
Kildare	11.4	22.3	19.2	20.9	20.2	20.3
Kilkenny	4	7.7	7.3	7.3	7.4	7.3
Laois	2.7	5.1	4.8	4.8	4.7	5.1
Leitrim	1.2	2.3	2.1	2.1	2.1	2.2
Limerick City and County	8.2	16.2	14.8	16.9	16.7	16.3
Longford	1.2	2.3	2.1	2.1	2.1	2.3
Louth	5.1	10	9.2	9.3	9.1	9
Mayo	5.5	10.8	9.8	10	10.5	10.4
Meath	9.2	18	16.7	16.8	16.1	16.1
Monaghan	2	4	3.7	3.7	3.8	3.8
Offaly	2.6	5.1	4.8	4.8	4.7	4.7
Roscommon	2.1	4.2	3.9	3.9	3.9	3.9
Sligo	2.8	5.5	5.2	5.1	5.2	5.3
South Dublin	16.5	32.5	26	26.2	25.4	25.5
Tipperary	6.2	12.2	11.6	11.6	11.8	13
Waterford City and County	5	9.9	9.5	9.5	9.5	9.7
Westmeath	3.4	6.7	6	6.2	6.2	6.1
Wexford	6.4	12.5	11.9	12.5	12.6	13.2
Wicklow	9	17.7	14	16.6	16.8	16.8

Table 3.6 LPT collected by local authority by tax year.

(The figures in the above two tables are based on preliminary Revenue estimates and may be subject to change).

Chapter 4. Estimated Impact of Changes in Property Values on LPT Yields

For the first valuation period for Local Property Tax (LPT) from 2013 to 2019, the tax has been charged on the value of properties as at 1 May 2013. This chapter reviews the impact of property price developments since 2013 on LPT valuations and yield. This includes analysis of potential changes to LPT rates and includes modelling of a no policy change option.

As shown in Chapter 1, the LPT has been falling as a percentage of total tax revenue although the pressure on local services continues to increase. The Review Group were required to have regard to achieving relative stability in property tax payments for those liable to the tax. On this basis a broad target yield of €500 million was selected which represents a small increase on the revenue yield in recent years.

Local authorities have applied LAF both upwards and downwards and to differing extents. Looking at 2017 for example, the LAFs applied varied from -15 per cent to +10 per cent. In drawing up the scenarios in this chapter, it was necessary to run them with no LAF element so that comparative LPT liabilities could be shown across the scenarios.

There are over 130,000 local authority properties of which approximately one third are in the Dublin area. Currently these are valued in Band 1 for LPT purposes. The Review Group did not recommend a change in this position for the next valuation period but suggests that the matter be kept under review.

Since 2013, new builds have been exempt but as the residential market has changed significantly in the intervening period and on equity grounds, it was decided to include projections for residential construction between 2013 and 1 November 2019 in the scenarios.

The penultimate section is a distributional impact analysis which shows the estimated impact on household incomes using the ESRI SWITCH tax and benefit micro-simulation model together with an assessment of how progressive or regressive the impact of each of the policy scenarios are expected to be for households.

The final section in the chapter summarises the advantages and disadvantages of each of the scenarios.

4.1 Current LPT Valuations for 2013

Table 3.1 in the previous chapter set out the current valuation bands and tax liabilities. Tax returns filed by property owners with Revenue for LPT indicated the valuation band of each property on 1 May 2013. Overall, 27 per cent of properties are valued in the first valuation band, with 28 per cent and 21 per cent in the following two valuation bands respectively and 90 per cent of properties are valued below €300,000. As shown in Figure 4.1, there is considerable variation in the distribution of properties by valuation bands across local authorities.

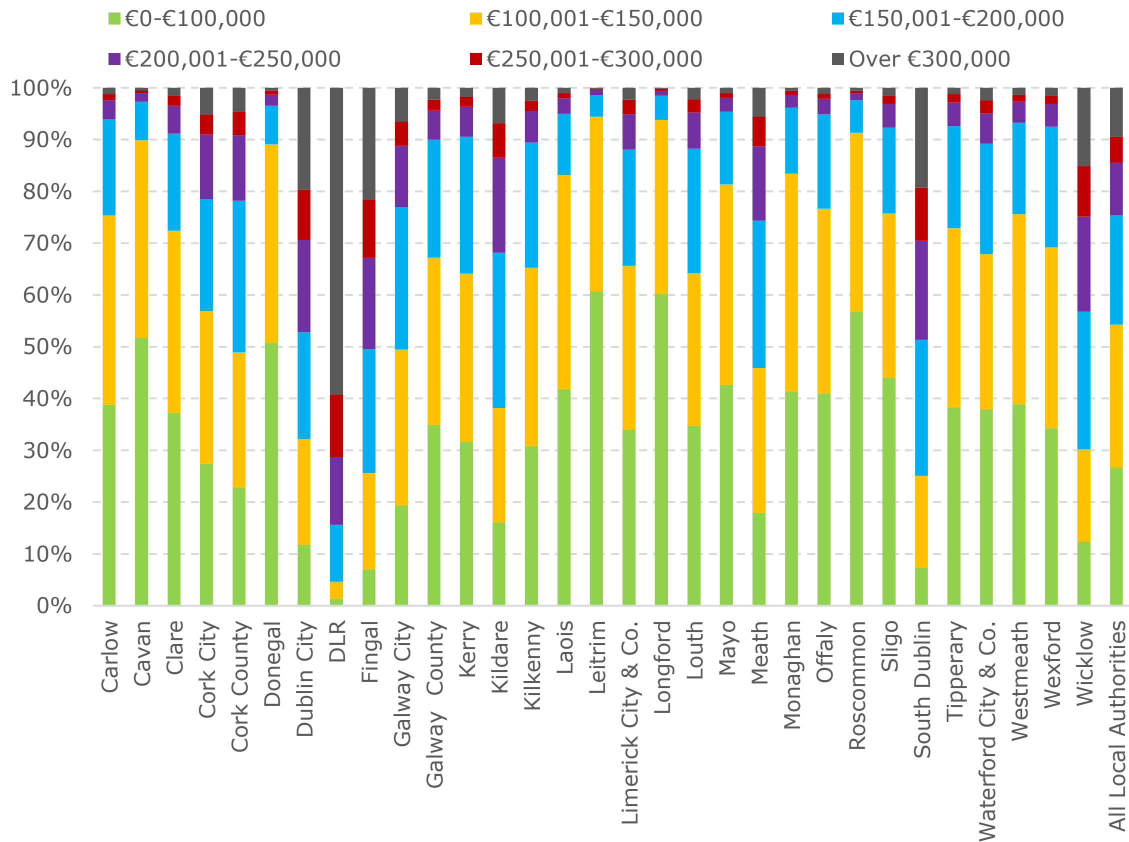

Figure 4.1 Share of Properties by Valuation band in 2013

4.2 Changes in Property Values 2013 to 2019

For the next valuation period (beginning in 2020), LPT will be charged on the value of properties as at 1 November 2019. For the purposes of this report, a number of data sources are combined to project the likely values of the stock of residential properties that will apply in November 2019. It should be noted that any variation between the outturn for house prices in November 2019 and the assumptions used here may impact upon the revenue collected and the impact of the illustrative scenarios below.

As discussed in Chapter 1, the Central Statistics Office (CSO) publishes a monthly Residential Property Price Index (RPPI) tracking changes in house and apartment prices in the form of an index.[4] While this shows changes in price trends, the index does not provide actual property prices that are necessary to assess changes in property values since 2013 and their potential impact on future LPT yield. To achieve this, an approach based on the method used in Thornhill (2015) is adopted.[5]

Data are collected from the Property Price Register (PPR) for 2010 through 2017.[6] This provides a listing of all properties sold since 2010 and their price at the time of sale. The RPPI is then used to "rebase" all the PPR valuations (2010 through 2017) back to May 2013 levels. This includes using regional sub-indices of the RPPI to reflect price trends, in Dublin and three other regions of the country separately.

As the PPR data rebased to 2013 levels are a reasonable match to LPT 2013 values, this suggests that although the PPR is based on the properties sold over a period, it also reflects the stock of total properties in the country (as recorded in LPT).[7] As an extrapolation, movements of property values in the PPR data can reasonably be used as a proxy for the overall property stock.

Using movements in the RPPI, May 2013 PPR levels are rebased to March 2018 prices,[8] In the absence of disaggregated regional house price growth forecasts for the existing stock of all houses, Department of Finance forecasts for economy-wide price growth of new builds is used to roll forward March 2018 estimates to create indicative November 2019 levels.

Table 4.1 shows the proportion of property owners that experience valuation band changes from between 2013 and the indicative 2019 values. Around 12 per cent of properties would see no change in valuation band (i.e., they have increased in value but this increase would not be sufficient to move the property into a higher valuation band). Over 15 per cent of properties would rise by 1 valuation band, 25 per cent by 2 bands while almost half (48 per cent) of all properties rise by 3 or more bands. Given prices in Dublin have increased at faster rates, the changes for Dublin properties are higher for than for the rest of the country.

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[4] Revenue Stamp Duty returns are one of the key datasets used by the CSO to create the RPPI.

[5] See also O'Connor and Lynch in Administration, vol. 64, no. 1 (2016), pp. 29–60.

[6] The PPR is compiled by the Property Services Regulatory Authority from Revenue Stamp Duty data and published at https://www.propertypriceregister.ie/website/npsra/pprweb.nsf/page/ppr-home-en.

[7] The analysis undertaken for the Thornhill review in 2015 reached the same conclusion. Some differences arise through the structure of LPT, e.g., all local authority owned properties are assigned to the first valuation band for LPT purposes.

[8] March 2018 was the most recent month for which RPPI data were available at the time this analysis was being undertaken.

Band Change	All	Dublin	Rest of Country
No change	12.4 %	2.4%	17.3%
Up 1 band	15.1%	3.1%	21.0%
Up 2 bands	24.5%	15.0%	29.2%
Up 3 bands	19.0%	22.3%	17.4%
Up 4 bands	11.5%	19.0%	7.8%
Up 5+ bands	17.5%	38.2%	7.3%

Table 4.1 Shares of properties moving valuation band from May 2013 to rebased November 2019 values

To provide further detail, Table 4.2 shows a transition matrix approach to illustrate the changes based on the shares of properties in each 2013 valuation band that remain in the same band and those that move to higher valuation bands. The interpretation of the transition matrix is as follows, for example the first row shows the changes for properties in the first valuation band since 2013: 36.1 per cent of these remain in valuation band 1 based on their 2019 values; 36.6 per cent move to band 2 and 27.4 per cent move to valuation band 3.

The transition matrix highlights some features that are worth noting.

First, none of the properties in valuation band 2 and above in 2013 remain in the same band in 2019. Price changes (a national increase averaging over 90 per cent over the period) are applied to all properties uniformly[9], the increases since 2013 are such that they increase any property's price by more than €50,000. For example, a property valued barely over the threshold for band 2 at €100,100, with an increase of around 90 per cent would be valued at over €190,000 in 2019. Only in the first valuation band of zero to €100,000 is there scope for properties to increase by the projected levels and not move valuation band.

Second, given the increases since 2013 at the higher valuation bands the majority or all properties are moving to valuation band 20 (i.e. values over €1 million). This is also driven by uniform application of the price increases. For example, once band 11 is reached, any property valued at €550,000 or over moves to the €1 million plus band based on a 90 per cent increase. It is important to note (shown later in Table 4.3), only small numbers of properties are in these higher bands.

[9] As noted earlier, regional RPPIs are used in the analysis but these are also applied uniformly in their respective areas. The forward-looking assumption used to roll prices forward from March 2018 to November 2019 is only available at national level also.

	Valuation Band based on rebased November 2019 values																			
Valuation Band based on May 2013 values	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	36.1%	36.6%	27.4%																	
2		0.0%	14.0%	53.9%	32.1%															
3			0.0%		20.2%	53.7%	26.1%													
4				0.0%			24.8%	52.0%	23.2%											
5					0.0%				27.6%	51.2%	21.3%									
6						0.0%					31.7%	46.4%	21.9%							
7							0.0 %					1.8%	30.2%	46.5%	21.5%					
8								0.0%						4.6%	27.2%	46.1%	22.1%			
9									0.0%							6.2%	28.0%	41.5%	24.3%	
10										0.0%								7.3%	27.4%	65.4%
11											0.0%									100.0%
12												0.0%								100.0%
13													0.0%							100.0%
14														0.0%						100.0%
15															0.0%					100.0%
16																0.0%				100.0%
17																	0.0%			100.0%
18																		0.0%		100.0%
19																			0.0%	100.0%
20																				100.0%

Table 4.2 Transition Matrix of shares of properties moving valuation bands from 2013 to rebased 2019 values

The changes in valuation bands from the PPR rebased data (using observed RPPI growth up to March 2018 and Department of Finance forecasts thereafter) are then applied to Revenue's LPT data to roll these forward and create rebased November 2019 LPT data.

Table 4.3 shows the shares of LPT properties at each valuation band based on the May 2013 values and the November 2019 rebased values. As would be expected, the most significant change to November 2019 values are the decreases in shares of properties at lower valuation bands and the movement of these properties to higher bands.

Valuation Band	Values	LPT May 2013	LPT November 2019 Rebased
1	€1-€100,000	27.0 %	11.7 %
2	€100,001-€150,000	27.8 %	11.8 %
3	€150,001-€200,000	21.1 %	12.0 %
4	€200,001-€250,000	10.0 %	12.2 %
5	€250,001-€300,000	4.8 %	10.7 %
6	€300,001-€350,000	2.9 %	9.1 %
7	€350,001-€400,000	1.8 %	7.0 %
8	€400,001-€450,000	1.2 %	5.3 %
9	€450,001-€500,000	0.9 %	4.0 %
10	€500,001-€550,000	0.6 %	3.0 %
11	€550,001-€600,000	0.4 %	2.4 %
12	€600,001-€650,000	0.3 %	1.7 %
13	€650,001-€700,000	0.2 %	1.5 %
14	€700,001-€750,000	0.2 %	1.1 %
15	€750,001-€800,000	0.1 %	0.9 %
16	€800,001-€850,000	0.1 %	0.9 %
17	€850,001-€900,000	0.1 %	0.8 %
18	€900,001-€950,000	0.1 %	0.7 %
19	€950,001- €1,000,000	0.1 %	0.7 %
20	€1,000,000+	0.2 %	2.7 %

Table 4.3 Share of LPT properties by valuation band May 2013 and rebased November 2019

CURRENT POSITION

LPT yielded €477 million to the Exchequer in 2017 and yielded €482 million in 2018. The difference between 2017 collection and 2018 reflects changes in timing of payments and in Local Adjustment Factor (LAF) decisions by local authorities in the two years as well as the impact of Revenue compliance programmes. Were there no LAF in operation, the estimated yield is €497 million for 2018. Table 4.4 shows these projected yields by local authority.

To provide context for the analysis to follow, Table 4.5 shows the per property LPT charge in each local authority in each valuation band based on LPT 2018 LAF rates. Table 4.6 shows a counterfactual per property LPT charge were there no LAF in operation.

It should be noted local authority owned properties are automatically assigned to valuation band 1 (€1 to €100,000). [10] There are approximately 130,000 of such properties and they will contribute €11 million of the forecast yield for 2018. Were no LAF in operation, these local authority owned properties would contribute €12 million of the expected yield. The €497 million 2018 estimated yield without LAF is used as the baseline for the scenarios that follow.[11]

Local Authority	2018 Yield With LAF	2018 Yield Without LAF
Carlow	€4.1m	€4.1m
Cavan	€4.6m	€4.6m
Clare	€10.3m	€10.3m
Cork City	€11.9m	€11.9m
Cork Co.	€41.5m	€41.5m
Donegal	€11.3m	€11.3m
Dublin City	€70.3m	€82.5m
DLR	€44.4m	€52.0m
Fingal	€34.7m	€38.7m
Galway City	€8.4m	€8.4m
Galway Co.	€14.8m	€14.8m
Kerry	€15.0m	€14.4m
Kildare	€21.9m	€21.9m
Kilkenny	€7.7m	€7.7m
Laois	€5.6m	€5.1m
Leitrim	€2.2m	€2.2m
Limerick	€17.2m	€16.1m
Longford	€2.4m	€2.3m
Louth	€9.8m	€9.8m
Mayo	€10.6m	€10.6m
Meath	€17.7m	€17.7m
Monaghan	€3.9m	€3.9m
Offaly	€5.1m	€5.1m
Roscommon	€4.1m	€4.1m
Sligo	€5.4m	€5.4m
South Dublin	€27.1m	€32.2m
Tipperary	€13.3m	€12.2m
Waterford	€10.1m	€9.9m
Westmeath	€6.5m	€6.5m
Wexford	€13.6m	€12.5m
Wicklow	€17.2m	€17.2m
All	€470m	€497m

Table 4.4 LPT forecast yield in 2018 with and without LAF

[10] The analysis here and following assumes that all local authority owned properties remain in band 1.
[11] Here and in the following analysis, the LPT rate for properties over €1m is left at 2018 levels (0.25 per cent).

Local Authority	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8	Band 9	Band 10	Band 11	Band 12	Band 13	Band 14	Band 15	Band 16	Band 17	Band 18	Band 19
Carlow	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Cavan	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Clare	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Cork City	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Cork Co.	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Donegal	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Dublin City	€77	€191	€268	€344	€421	€497	€574	€650	€727	€803	€880	€956	€1,033	€1,109	€1,186	€1,262	€1,339	€1,415	€1,492
DLR	€77	€191	€268	€344	€421	€497	€574	€650	€727	€803	€880	€956	€1,033	€1,109	€1,186	€1,262	€1,339	€1,415	€1,492
Fingal	€81	€203	€284	€365	€446	€527	€608	€689	€770	€851	€932	€1,013	€1,094	€1,175	€1,256	€1,337	€1,418	€1,499	€1,580
Galway City	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Galway Co.	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Kerry	€95	€236	€331	€425	€520	€614	€709	€803	€898	€992	€1,087	€1,181	€1,276	€1,370	€1,465	€1,559	€1,654	€1,748	€1,843
Kildare	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Kilkenny	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Laois	€99	€248	€347	€446	€545	€644	€743	€842	€941	€1,040	€1,139	€1,238	€1,337	€1,436	€1,535	€1,634	€1,733	€1,832	€1,931
Leitrim	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Limerick	€97	€242	€339	€435	€532	€629	€726	€822	€919	€1,016	€1,113	€1,209	€1,306	€1,403	€1,500	€1,596	€1,693	€1,790	€1,887
Longford	€95	€236	€331	€425	€520	€614	€709	€803	€898	€992	€1,087	€1,181	€1,276	€1,370	€1,465	€1,559	€1,654	€1,748	€1,843
Louth	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Mayo	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Meath	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Monaghan	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Offaly	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Roscommon	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Sligo	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
South Dublin	€77	€191	€268	€344	€421	€497	€574	€650	€727	€803	€880	€956	€1,033	€1,109	€1,186	€1,262	€1,339	€1,415	€1,492
Tipperary	€99	€248	€347	€446	€545	€644	€743	€842	€941	€1,040	€1,139	€1,238	€1,337	€1,436	€1,535	€1,634	€1,733	€1,832	€1,931
Waterford	€92	€231	€323	€415	€507	€600	€692	€784	€876	€969	€1,061	€1,153	€1,245	€1,338	€1,430	€1,522	€1,614	€1,707	€1,799
Westmeath	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Wexford	€99	€248	€347	€446	€545	€644	€743	€842	€941	€1,040	€1,139	€1,238	€1,337	€1,436	€1,535	€1,634	€1,733	€1,832	€1,931
Wicklow	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755

Table 4.5 LPT charge per property in 2018 with LAF

Carlow	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Cavan	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Clare	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Cork City	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Cork Co.	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Donegal	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Dublin City	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
DLR	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Fingal	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Galway City	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Galway Co.	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Kerry	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Kildare	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Kilkenny	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Laois	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Leitrim	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Limerick	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Longford	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Louth	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Mayo	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Meath	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Monaghan	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Offaly	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Roscommon	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Sligo	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
South Dublin	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Tipperary	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Waterford	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Westmeath	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Wexford	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755
Wicklow	€90	€225	€315	€405	€495	€585	€675	€765	€855	€945	€1,035	€1,125	€1,215	€1,305	€1,395	€1,485	€1,575	€1,665	€1,755

Table 4.6 LPT charge per property in 2018 without LAF

4.3 Options Considered

The scenario options considered below attempt to balance the twin objectives of minimising the LPT charge exposure which residential property owners have to valuation increases, whilst also protecting the stability of the revenue source to the State generated through the LPT.

NO POLICY CHANGE

In the absence of a policy change, properties will be revalued based on November 2019 valuation bands for 2020 LPT and the current LPT rate will apply. While November 2019 property values are presently unknown, the rebasing analysis in this chapter is used to approximate a no policy change scenario. The annual LPT yield at rebased November 2019 values and the central rate (0.18 per cent) is €729 million.[12] Not included in the €729 million is an estimated €42 million yield from properties previously exempt from LPT (purchased as a home since 2 May 2013 but exempt for the reasons outlined earlier, or new and unused since 2013).[13] Table 4.7 shows the €771 million yield (€729 million plus €42 million from previously exempt properties) at rebased 2019 values for each local authority.

Local Authority	Yield Rebased November 2019 Values
Carlow	€5.8m
Cavan	€6.1m
Clare	€14.6m
Cork City	€19.0m
Cork Co.	€60.1m
Donegal	€15.1m
Dublin City	€157.6m
DLR	€75.3m
Fingal	€68.3m
Galway City	€12.7m
Galway Co.	€21.5m
Kerry	€20.0m
Kildare	€32.4m
Kilkenny	€11.1m
Laois	€7.2m
Leitrim	€2.9m
Limerick	€23.4m
Longford	€2.9m
Louth	€14.2m
Mayo	€14.5m
Meath	€25.8m
Monaghan	€5.1m
Offaly	€6.9m
Roscommon	€5.5m
Sligo	€8.0m
South Dublin	€50.6m
Tipperary	€17.0m
Waterford	€14.9m
Westmeath	€9.1m
Wexford	€17.3m
Wicklow	€26.2m
All	€771m

Table 4.7 LPT yield at November 2019 values

[12] The €729m yield would be reduced by around €35m if the 2018 LAF decisions were applied.
[13] The €42m is estimated from a combination of Revenue stamp duty data from 2013 and 2018 and Department of Finance annual estimates for price growth in new build construction for 2018 and 2019.

The same per property charges shown in Table 4.6 would apply, with higher yield overall arising from more properties moving to the higher valuation bands. Figure 4.2 provides a measure of the spread of the per property increases.

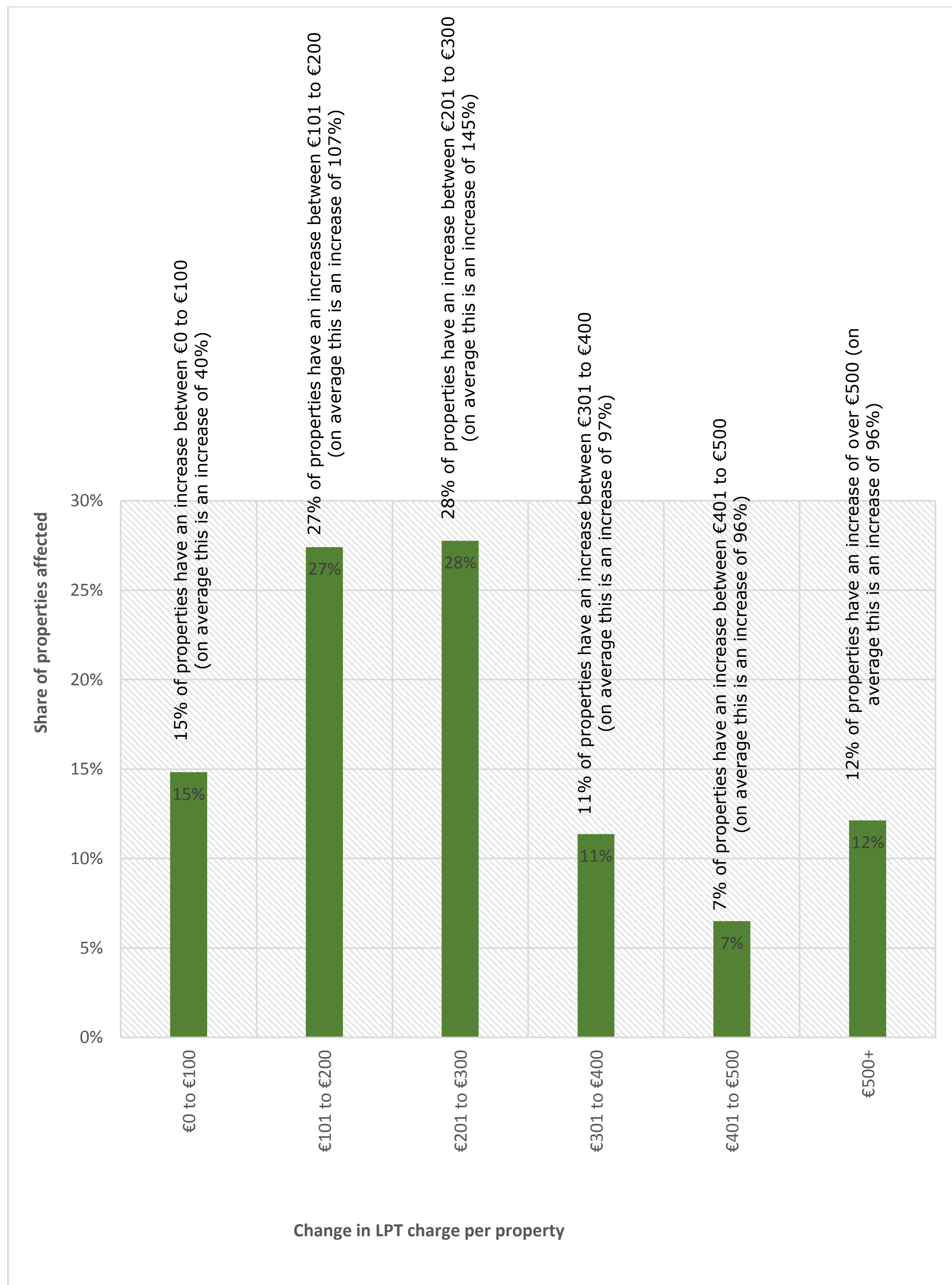

Figure 4.2 Summary of LPT charge per property changes at November 2019 valuations (compared to current 2018 LPT charges without LAF)

ALTERNATIVE SCENARIOS

The rebased November 2019 values are used to run the scenarios outlined below and assess their impacts relative to a baseline no policy change assumption. Five scenarios are analysed, targeting a broad yield of €500 million per annum, and compared against the baseline of 2018 LPT without LAF adjustments (expected to yield around €497 million). All five scenarios include in the €500 million target, additional receipts from properties built since May 2013 previously exempt[14] (around €28 million in receipts depending on the scenario and the relevant new LPT rates). [15]

- Scenario 1: an indicative central LPT rate is applied to all properties such that the total yield following the valuation increases is constrained at €500 million (the yield shares by local authority are therefore based on the projected amounts in each local authority following the valuation increases).

- Scenario 2: each local authority has a yield target equal to its expected yield under current LPT 2018 without LAF (shown in the final column of Table 4.4) and the rate in each local authority is adjusted to meet these targets following valuation increases.

- Scenario 3: a different LPT rate is applied in each valuation band (increasing with each band), set to collect the overall target of €500 million (no local authority variation or adjustments).

Two further scenarios (scenarios 4 and 5) are discussed later. Table 4.8 shows a summary of the results for scenarios 1 to 3.

In Scenario 1, the implied central rate is 0.114 per cent.

In Scenario 2, indicative LPT rates vary between 0.085 per cent and 0.144 per cent.

In Scenario 3, the LPT rate goes from 0.108 per cent in band 1, up in increments of 0.001 per cent to 0.126 per cent in band 19. Therefore the difference in the rate is greatest between the lowest (band 1) and the highest (band 19).

The final columns for each scenario in Table 4.8 show the change in liability in respect of the average property (valued based on CSO median prices projected to November 2019) in each local authority. In some cases, there are decreases. As the €500 million target yield includes receipts from previously exempt properties, (i.e. new builds not previously liable to LPT) the implication is that the LPT charge for some existing properties must be reduced as the table indicates.

While the overall changes in liability in Table 4.8 are relatively small in many cases, these mask larger changes for some properties.[16] Tables 4.9, 4.10. and 4.11 (for scenarios 1 to 3 respectively) show the per property charge at each valuation band, again assuming the midpoint band value is

[14] All exemptions except new builds are taken as constant

[15] The €28m is estimated from a combination of Revenue data from 2013 and 2017 and Department of Finance estimates for construction for 2018 and 2019.

[16] For taxpayers in local authority areas that have applied a downward LAF in 2018, there would be an additional increase in LPT liabilities than compared to the baseline.

used to calculate the liability. Figures 4.3, 4.4 and 4.5 show a measure of the spread of properties and the increases or decreases in each scenario.

The mix of increases and decreases reflects the distributions of properties across valuation bands in 2013 and 2019, valuation increases and rate reductions through LAF where applicable. All of these vary by local authority. However, some observations can be made:

- Local authorities with greater shares of properties in valuation band 1 in 2013 tend to show larger increases under all scenarios relative to the baseline. As band 1 is wider (€1 to €100,000), the step up in LPT charge is larger than a movement between higher bands (€50,000 intervals). This impacts more so on rural local authorities.

- Local authorities with greater shares of properties falling in band 2 or band 3 tend to feature smaller increases or decreases relative to baseline. Properties in these cases move to higher valuation bands but this is cancelled out by reduced rates so the LPT charge is lessened.

- Local authorities with more properties at higher valuation bands tend to face higher charges relative to baseline where valuation increases are less likely to be cancelled out by reduced rates. Further, Dún Laoghaire–Rathdown County Council and South Dublin County Council in particular have more properties with valuations growing at higher rates. As such they contribute more to overall yield in Scenario 2 and conversely less in Scenario 1. In Scenario 2 they need to set higher rates to meet their yield targets.

- In Scenario 3, the average rates by local authority reflect the distribution of properties, therefore the Dublin local authorities have higher average rates because they have a greater number of properties in the higher valuation bands. However, the same rates apply to higher valuation band properties, regardless of location.

While it is possible to devise a tax rate that can keep the overall LPT yield constant from one valuation period to the next, it's not possible to keep the liability for individual property owners constant in a situation where property values do not increase at a uniform rate across the country. In this context, it is inevitable that there will be both winners (reduced liability) and losers (increased liability) with any rate changes. The various alternative scenarios presented in this chapter attempt to minimise the wins and losses. However, doing this involves a trade-off between fairness on the one hand and simplicity and transparency on the other hand. Scenario 2 applies a different rate to each local authority area, which combined with potentially 31 different local variations (LAF), results in 31 different rates. While this is a more complex structure than the current two-rate system, it is relatively simple when compared with scenario 3. Scenario 3 applies a different rate to all 20 valuation bands, which in isolation could have potential, but which combined with potentially 31 different local variations (LAF), results in 620 different rates. While it may be technically possible to design a system with 620 different tax rates, it presents significant implementation challenges. One of the reasons for the successful implementation of the LPT and its consistently high compliance rates is its simplicity and transparency. This keeps administration

costs down for Revenue and compliance costs down for taxpayers. Introducing significant complexity into the system may undermine the model and add to administrative costs.

Furthermore, while it is possible in moving to a graduated rate structure from the current 0.18 per cent central rate to start the graduated rates at a lower rate than 0.18 per cent, such flexibility would be more difficult to achieve with regard to future revaluations once a graduated rate structure has been introduced. So, trying to minimise winners and losers in relation to the 2019 revaluation based on the particular circumstances pertaining at this time may store up problems for subsequent revaluations. The Review Group considers that any revised system should be future-proofed as much as possible.

Local Authority	Scenario 1			Scenario 2			Scenario 3		
	LPT Yield	LPT Rate	Increase for the Average Property**	LPT Yield	LPT Rate	Increase for the Average Property**	LPT Yield	LPT Rate ***	Increase for the Average Property**
Carlow	€3.6m	0.114%	€53	€4.2m	0.131%	€74	€3.5m	0.110%	€46
Cavan	€3.9m	0.114%	-€26	€4.7m	0.138%	€17	€3.7m	0.109%	-€33
Clare	€9.3m	0.114%	-€26	€10.4m	0.128%	-€1	€9.0m	0.110%	-€33
Cork City	€12.1m	0.114%	-€59	€12.0m	0.113%	-€61	€12.0m	0.111%	-€65
Cork Co.	€38.3m	0.114%	€32	€41.6m	0.124%	€54	€37.6m	0.111%	€25
Donegal	€9.6m	0.114%	€53	€11.4m	0.135%	€79	€9.3m	0.109%	€46
Dublin City	€105.9m	0.114%	€170	€83.2m	0.085%	€46	€108.0m	0.118%	€174
DLR	€51.5m	0.114%	€71	€52.6m	0.117%	€88	€52.6m	0.121%	€94
Fingal	€45.0m	0.114%	-€35	€39.0m	0.097%	-€90	€45.6m	0.116%	-€38
Galway City	€8.1m	0.114%	€89	€8.5m	0.120%	€105	€8.0m	0.111%	€83
Galway Co.	€13.7m	0.114%	€32	€14.8m	0.124%	€54	€13.3m	0.110%	€25
Kerry	€12.7m	0.114%	-€26	€14.5m	0.130%	€3	€12.4m	0.110%	-€33
Kildare	€20.7m	0.114%	€56	€22.6m	0.125%	€91	€20.4m	0.111%	€52
Kilkenny	€7.0m	0.114%	€32	€7.7m	0.125%	€56	€6.9m	0.110%	€25
Laois	€4.6m	0.114%	€110	€5.2m	0.130%	€138	€4.4m	0.110%	€103
Leitrim	€1.8m	0.114%	€53	€2.3m	0.141%	€86	€1.8m	0.109%	€46
Limerick	€14.9m	0.114%	-€26	€16.2m	0.124%	-€8	€14.5m	0.110%	-€33
Longford	€1.9m	0.114%	€53	€2.3m	0.144%	€90	€1.8m	0.109%	€46
Louth	€9.0m	0.114%	€32	€10.1m	0.127%	€61	€8.8m	0.110%	€25
Mayo	€9.2m	0.114%	-€83	€10.8m	0.133%	-€59	€8.9m	0.110%	-€89
Meath	€16.4m	0.114%	-€2	€18.0m	0.125%	€29	€16.2m	0.111%	-€7
Monaghan	€3.2m	0.114%	€110	€4.0m	0.141%	€157	€3.1m	0.109%	€103
Offaly	€4.4m	0.114%	€110	€5.1m	0.132%	€141	€4.3m	0.110%	€103
Roscommon	€3.5m	0.114%	€53	€4.2m	0.137%	€81	€3.4m	0.109%	€46
Sligo	€5.1m	0.114%	€53	€5.6m	0.126%	€68	€5.0m	0.110%	€46
South Dublin	€32.2m	0.114%	€56	€32.5m	0.115%	€59	€32.1m	0.113%	€52
Tipperary	€10.8m	0.114%	-€26	€12.3m	0.130%	€3	€10.5m	0.110%	-€33
Waterford	€9.5m	0.114%	-€26	€10.0m	0.120%	-€15	€9.3m	0.110%	-€33
Westmeath	€5.8m	0.114%	€110	€6.6m	0.129%	€136	€5.6m	0.110%	€103
Wexford	€10.9m	0.114%	-€26	€12.7m	0.132%	€6	€10.6m	0.110%	-€33
Wicklow	€16.9m	0.114%	€56	€17.6m	0.119%	€72	€16.8m	0.113%	€52
All	€502m	0.114%	€89	€502m	0.120%*	€105	€499m	0.110%*	€78

*weighted average; **based on CSO median prices in each local authority and compared to current 2018 LPT charges without LAF; ***average weighted by properties in bands in each local authority.

Table 4.8 Summary of Scenarios

Local Authority	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8	Band 9	Band 10	Band 11	Band 12	Band 13	Band 14	Band 15	Band 16	Band 17	Band 18	Band 19
Carlow	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Cavan	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Clare	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Cork City	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Cork Co.	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Donegal	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Dublin City	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
DLR	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Fingal	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Galway City	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Galway Co.	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Kerry	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Kildare	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Kilkenny	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Laois	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Leitrim	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Limerick	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Longford	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Louth	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Mayo	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Meath	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Monaghan	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Offaly	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Roscommon	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Sligo	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
South Dublin	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Tipperary	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Waterford	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Westmeath	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Wexford	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112
Wicklow	€57	€143	€200	€257	€314	€371	€428	€485	€542	€599	€656	€713	€770	€827	€884	€941	€998	€1,055	€1,112

Table 4.9 Charge per property in Scenario 1

Scenario 1 – Some indications of spread of impacts

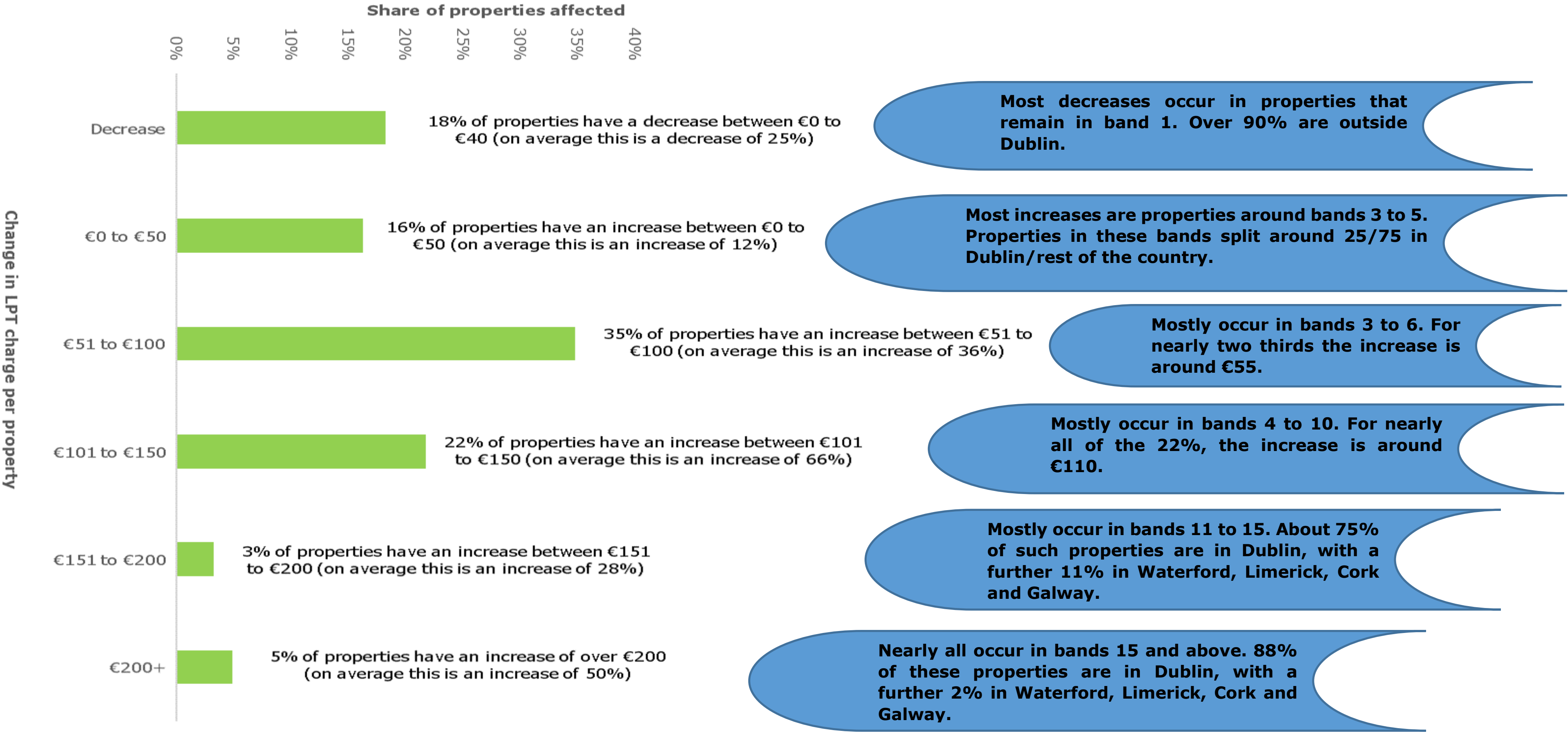

Figure 4.3 Scenario 1 Some indications of spread of impacts

Local Authority	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8	Band 9	Band 10	Band 11	Band 12	Band 13	Band 14	Band 15	Band 16	Band 17	Band 18	Band 19
Carlow	€66	€164	€229	€295	€360	€426	€491	€557	€622	€688	€753	€819	€884	€950	€1,015	€1,081	€1,146	€1,212	€1,277
Cavan	€69	€173	€242	€311	€380	€449	€518	€587	€656	€725	€794	€863	€932	€1,001	€1,070	€1,139	€1,208	€1,277	€1,346
Clare	€64	€160	€224	€288	€352	€416	€480	€544	€608	€672	€736	€800	€864	€928	€992	€1,056	€1,120	€1,184	€1,248
Cork City	€57	€141	€198	€254	€311	€367	€424	€480	€537	€593	€650	€706	€763	€819	€876	€932	€989	€1,045	€1,102
Cork Co.	€62	€155	€217	€279	€341	€403	€465	€527	€589	€651	€713	€775	€837	€899	€961	€1,023	€1,085	€1,147	€1,209
Donegal	€68	€169	€236	€304	€371	€439	€506	€574	€641	€709	€776	€844	€911	€979	€1,046	€1,114	€1,181	€1,249	€1,316
Dublin City	€43	€106	€149	€191	€234	€276	€319	€361	€404	€446	€489	€531	€574	€616	€659	€701	€744	€786	€829
DLR	€59	€146	€205	€263	€322	€380	€439	€497	€556	€614	€673	€731	€790	€848	€907	€965	€1,024	€1,082	€1,141
Fingal	€49	€121	€170	€218	€267	€315	€364	€412	€461	€509	€558	€606	€655	€703	€752	€800	€849	€897	€946
Galway City	€60	€150	€210	€270	€330	€390	€450	€510	€570	€630	€690	€750	€810	€870	€930	€990	€1,050	€1,110	€1,170
Galway Co.	€62	€155	€217	€279	€341	€403	€465	€527	€589	€651	€713	€775	€837	€899	€961	€1,023	€1,085	€1,147	€1,209
Kerry	€65	€163	€228	€293	€358	€423	€488	€553	€618	€683	€748	€813	€878	€943	€1,008	€1,073	€1,138	€1,203	€1,268
Kildare	€63	€156	€219	€281	€344	€406	€469	€531	€594	€656	€719	€781	€844	€906	€969	€1,031	€1,094	€1,156	€1,219
Kilkenny	€63	€156	€219	€281	€344	€406	€469	€531	€594	€656	€719	€781	€844	€906	€969	€1,031	€1,094	€1,156	€1,219
Laois	€65	€163	€228	€293	€358	€423	€488	€553	€618	€683	€748	€813	€878	€943	€1,008	€1,073	€1,138	€1,203	€1,268
Leitrim	€71	€176	€247	€317	€388	€458	€529	€599	€670	€740	€811	€881	€952	€1,022	€1,093	€1,163	€1,234	€1,304	€1,375
Limerick	€62	€155	€217	€279	€341	€403	€465	€527	€589	€651	€713	€775	€837	€899	€961	€1,023	€1,085	€1,147	€1,209
Longford	€72	€180	€252	€324	€396	€468	€540	€612	€684	€756	€828	€900	€972	€1,044	€1,116	€1,188	€1,260	€1,332	€1,404
Louth	€64	€159	€222	€286	€349	€413	€476	€540	€603	€667	€730	€794	€857	€921	€984	€1,048	€1,111	€1,175	€1,238
Mayo	€67	€166	€233	€299	€366	€432	€499	€565	€632	€698	€765	€831	€898	€964	€1,031	€1,097	€1,164	€1,230	€1,297
Meath	€63	€156	€219	€281	€344	€406	€469	€531	€594	€656	€719	€781	€844	€906	€969	€1,031	€1,094	€1,156	€1,219
Monaghan	€71	€176	€247	€317	€388	€458	€529	€599	€670	€740	€811	€881	€952	€1,022	€1,093	€1,163	€1,234	€1,304	€1,375
Offaly	€66	€165	€231	€297	€363	€429	€495	€561	€627	€693	€759	€825	€891	€957	€1,023	€1,089	€1,155	€1,221	€1,287
Roscommon	€69	€171	€240	€308	€377	€445	€514	€582	€651	€719	€788	€856	€925	€993	€1,062	€1,130	€1,199	€1,267	€1,336
Sligo	€63	€158	€221	€284	€347	€410	€473	€536	€599	€662	€725	€788	€851	€914	€977	€1,040	€1,103	€1,166	€1,229
South Dublin	€58	€144	€201	€259	€316	€374	€431	€489	€546	€604	€661	€719	€776	€834	€891	€949	€1,006	€1,064	€1,121
Tipperary	€65	€163	€228	€293	€358	€423	€488	€553	€618	€683	€748	€813	€878	€943	€1,008	€1,073	€1,138	€1,203	€1,268
Waterford	€60	€150	€210	€270	€330	€390	€450	€510	€570	€630	€690	€750	€810	€870	€930	€990	€1,050	€1,110	€1,170
Westmeath	€65	€161	€226	€290	€355	€419	€484	€548	€613	€677	€742	€806	€871	€935	€1,000	€1,064	€1,129	€1,193	€1,258
Wexford	€66	€165	€231	€297	€363	€429	€495	€561	€627	€693	€759	€825	€891	€957	€1,023	€1,089	€1,155	€1,221	€1,287
Wicklow	€60	€149	€208	€268	€327	€387	€446	€506	€565	€625	€684	€744	€803	€863	€922	€982	€1,041	€1,101	€1,160

Table 4.10 LPT charge per property in Scenario 2

Scenario 2– Some indications of spread of impacts

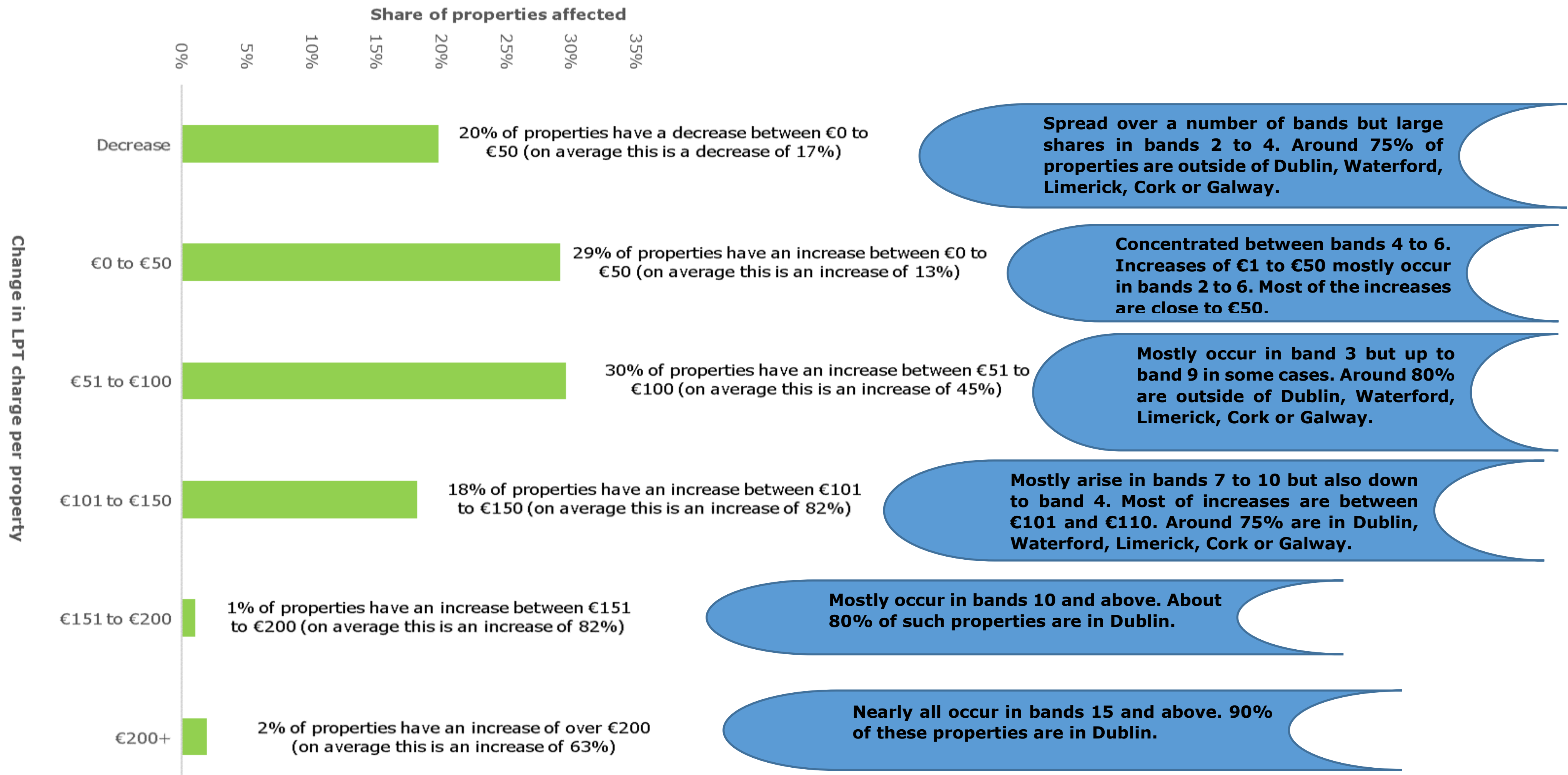

Figure 4.4 Scenario 2 Some indications spread of impacts

Local Authority	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8	Band 9	Band 10	Band 11	Band 12	Band 13	Band 14	Band 15	Band 16	Band 17	Band 18	Band 19
Carlow	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Cavan	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Clare	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Cork City	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Cork Co.	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Donegal	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Dublin City	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
DLR	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Fingal	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Galway City	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Galway Co.	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Kerry	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Kildare	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Kilkenny	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Laois	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Leitrim	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Limerick	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Longford	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Louth	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Mayo	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Meath	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Monaghan	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Offaly	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Roscommon	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Sligo	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
South Dublin	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Tipperary	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Waterford	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Westmeath	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Wexford	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229
Wicklow	€54	€136	€193	€250	€308	€367	€428	€489	€551	€614	€679	€744	€810	€877	€946	€1,015	€1,085	€1,156	€1,229

Table 4.11 LPT charge per property in Scenario 3

Scenario 3– Some indications of spread of impacts

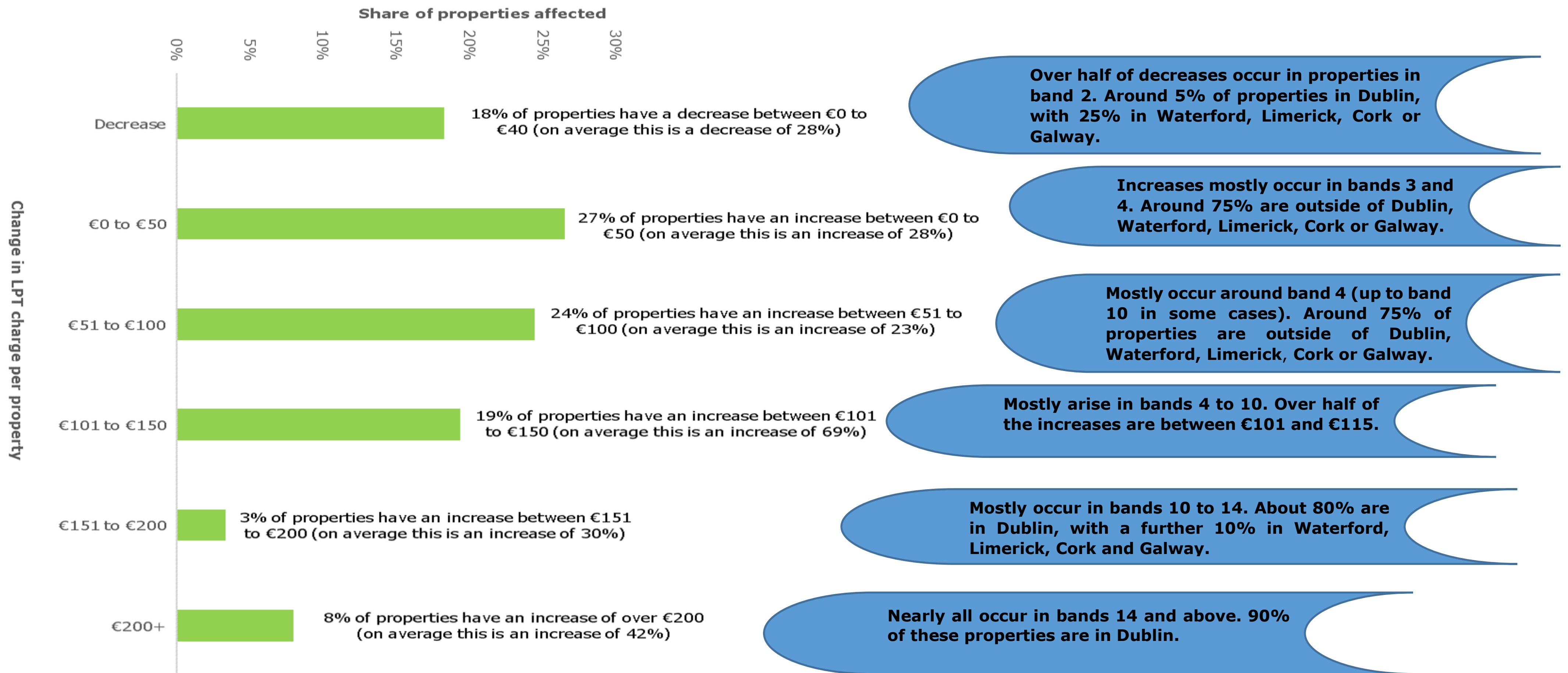

Figure 4.5 Scenario 3 – Some Indications of spread of impacts

SCENARIO 4 – A VARIATION ON SCENARIO 3

In order to provide further smoothing across the bands, a variation of Scenario 3 has been calculated. As in Scenario 3 above, Scenario 4 incrementally increases rates by valuation band, with an overall yield target of €500 million. However, all properties in the first valuation band pay €90 (in other words, the 0.18 per cent rate is held constant for those in the first band). This generates an additional €13 million, which when included in the €500 million target leads to greater reductions for rates in bands other than the first. The rationale for this variation is that there is a minimum cost for services provided by the local authorities. It also facilitates a greater smoothing out of the changes across the bands.

Scenario 4		
Local Authority	LPT Yield	LPT Rate **
Carlow	€3.7m	0.123%
Cavan	€4.1m	0.133%
Clare	€9.2m	0.122%
Cork City	€12.2m	0.116%
Cork Co.	€37.4m	0.115%
Donegal	€10.0m	0.132%
Dublin City	€106.7m	0.116%
DLR	€51.7m	0.118%
Fingal	€44.7m	0.114%
Galway City	€8.0m	0.114%
Galway Co.	€13.5m	0.120%
Kerry	€12.6m	0.119%
Kildare	€20.2m	0.112%
Kilkenny	€7.0m	0.118%
Laois	€4.7m	0.126%
Leitrim	€2.0m	0.140%
Limerick	€14.8m	0.120%
Longford	€2.1m	0.139%
Louth	€9.0m	0.120%
Mayo	€9.3m	0.126%
Meath	€16.0m	0.113%
Monaghan	€3.3m	0.126%
Offaly	€4.4m	0.124%
Roscommon	€3.7m	0.136%
Sligo	€5.2m	0.126%
South Dublin	€31.7m	0.111%
Tipperary	€10.9m	0.123%
Waterford	€9.6m	0.123%
Westmeath	€5.8m	0.123%
Wexford	€10.9m	0.121%
Wicklow	€16.6m	0.112%
All	€501m	0.127%*

*Table 4.12 Scenario 4 by local authority *weighted average, ** average weighted by properties in bands in each authority*

Local Authority	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8	Band 9	Band 10	Band 11	Band 12	Band 13	Band 14	Band 15	Band 16	Band 17	Band 18	Band 19
Carlow	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Cavan	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Clare	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Cork City	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Cork Co.	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Donegal	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Dublin City	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
DLR	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Fingal	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Galway City	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Galway Co.	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Kerry	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Kildare	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Kilkenny	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Laois	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Leitrim	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Limerick	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Longford	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Louth	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Mayo	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Meath	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Monaghan	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Offaly	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Roscommon	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Sligo	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
South Dublin	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Tipperary	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Waterford	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Westmeath	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Wexford	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199
Wicklow	€90	€133	€187	€243	€300	€358	€416	€476	€537	€599	€661	€725	€790	€856	€922	€990	€1,059	€1,129	€1,199

Table 4.13 Scenario 4 - incrementally increasing rates by valuation band, with an overall yield target of €500 million with a floor of €90 in band 1

Scenario 4 – Some indications of spread of impacts

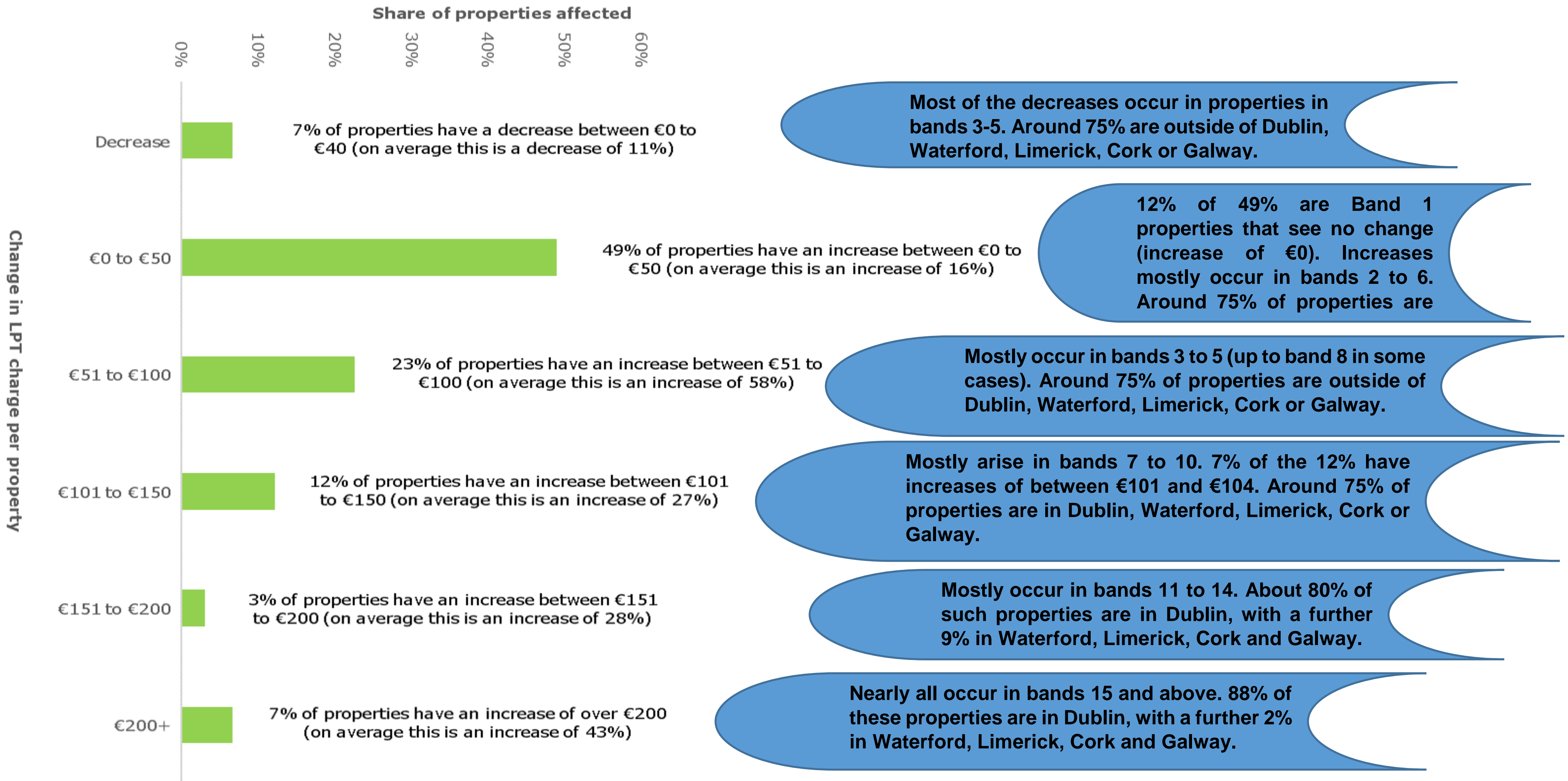

Figure 4.6 Scenario 4 Some indication of spread of impacts

SCENARIO 5 - BROADENING THE BANDS

Scenario 5 adopts a different approach. All valuation bands are widened by 80 per cent. Whilst the midpoint of each band increases correspondingly, the rate is reduced in order to leave the liability in each band unchanged. This results in the new structure as shown in table 4.14 below.

Valuation Band	Current					New				
	from	to	Midpoint	Rate	Charge	from	to	Midpoint	Rate	Charge
1	€1	€100,000	€50,000	0.18%	€90	€1	€180,000	€90,000	0.10%	€90
2	€100,001	€150,000	€125,000	0.18%	€225	€180,001	€270,000	€225,000	0.10%	€225
3	€150,001	€200,000	€175,000	0.18%	€315	€270,001	€360,000	€315,000	0.10%	€315
4	€200,001	€250,000	€225,000	0.18%	€405	€360,001	€450,000	€405,000	0.10%	€405
5	€250,001	€300,000	€275,000	0.18%	€495	€450,001	€540,000	€495,000	0.10%	€495
6	€300,001	€350,000	€325,000	0.18%	€585	€540,001	€630,000	€585,000	0.10%	€585
7	€350,001	€400,000	€375,000	0.18%	€675	€630,001	€720,000	€675,000	0.10%	€675
8	€400,001	€450,000	€425,000	0.18%	€765	€720,001	€810,000	€765,000	0.10%	€765
9	€450,001	€500,000	€475,000	0.18%	€855	€810,001	€900,000	€855,000	0.10%	€855
10	€500,001	€550,000	€525,000	0.18%	€945	€900,001	€990,000	€945,000	0.10%	€945
11	€550,001	€600,000	€575,000	0.18%	€1,035	€990,001	€1,080,000	€1,035,000	0.10%	€1,035
12	€600,001	€650,000	€625,000	0.18%	€1,125	€1,080,001	€1,170,000	€1,125,000	0.10%	€1,125
13	€650,001	€700,000	€675,000	0.18%	€1,215	€1,170,001	€1,260,000	€1,215,000	0.10%	€1,215
14	€700,001	€750,000	€725,000	0.18%	€1,305	€1,260,001	€1,350,000	€1,305,000	0.10%	€1,305
15	€750,001	€800,000	€775,000	0.18%	€1,395	€1,350,001	€1,440,000	€1,395,000	0.10%	€1,395
16	€800,001	€850,000	€825,000	0.18%	€1,485	€1,440,001	€1,530,000	€1,485,000	0.10%	€1,485
17	€850,001	€900,000	€875,000	0.18%	€1,575	€1,530,001	€1,620,000	€1,575,000	0.10%	€1,575
18	€900,001	€950,000	€925,000	0.18%	€1,665	€1,620,001	€1,710,000	€1,665,000	0.10%	€1,665
19	€950,001	€1,000,000	€975,000	0.18%	€1,755	€1,710,001	€1,800,000	€1,755,000	0.10%	€1,755
20	€1,000,000	+	na	0.25%	na	€1,800,000	+	na	0.25%	na

Table 4.14 Valuation bands under current and scenario 5 approach

Based on the dataset assembled from the Property Price Register, combined with CSO and Revenue data and Department of Finance forecasts, to assess the impact of property value changes between May 2013 and November 2019:

- 82.1% of properties remain in their corresponding band at the new thresholds;
- 17.5% increase by one band; and
- 0.4% increase by more than one band (the majority of these increase by two bands).

Band Change	All	Dublin	Rest of Country
No change	82.1%	57.7%	94.2%
Up 1 band	17.5%	41.1%	5.8%
Up 2+ bands	0.4%	1.2%	0%

Table 4.15 Impact of changes in bands under Scenario 5

The transition matrix on the following page shows in more detail the movement of properties from their band in 2013 to estimated band based on 2019 projected values.

		Valuation Band based on rebased November 2019 values																				
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
Valuation Band based on May 2013 values	1	**94%**	6%																			100%
	2		**89%**	11%																		100%
	3			**82%**	18%																	100%
	4				**77%**	23%																100%
	5					**70%**	30%															100%
	6						**62%**	38%														100%
	7							**52%**	48%													100%
	8								**42%**	58%												100%
	9									**34%**	66%											100%
	10										**25%**	75%										100%
	11											**16%**	79%	5%								100%
	12												**16%**	74%	10%							100%
	13													**15%**	69%	15%						100%
	14														**11%**	57%	32%					100%
	15															**11%**	60%	29%				100%
	16																**10%**	52%	38%			100%
	17																	**10%**	46%	44%		100%
	18																		**8%**	41%	51%	100%
	19																			**11%**	89%	100%
	20																				**100%**	100%

Table 4.16 Transition matrix of shares of properties moving valuation band under Scenario 5

Table 4.17 below shows projected yield under Scenario 5. Included in Scenario 5 are €12 million from local authority owned properties (all remaining in band 1 paying €90); an estimated €27 million from previously exempt properties; and an estimated €22 million from properties moving valuation band – for a total of €547 million. It should be noted that the estimates for previously exempt properties moving band are on highly provisional basis.

Local Authority	2018 Yield With LAF	2018 Yield Without LAF	November 2019 Scenario 5 (no LAF)
Carlow	€4.1m	€4.1m	€4.40m
Cavan	€4.6m	€4.6m	€4.95m
Clare	€10.3m	€10.3m	€10.83m
Cork City	€11.9m	€11.9m	€13.06m
Cork Co.	€41.5m	€41.5m	€43.59m
Donegal	€11.3m	€11.3m	€11.93m
Dublin City	€70.3m	€82.5m	€94.69m
DLR	€44.4m	€52.0m	€59.08m
Fingal	€34.7m	€38.7m	€45.19m
Galway City	€8.4m	€8.4m	€8.93m
Galway Co.	€14.8m	€14.8m	€15.61m
Kerry	€15.0m	€14.4m	€15.15m
Kildare	€21.9m	€21.9m	€23.80m
Kilkenny	€7.7m	€7.7m	€8.05m
Laois	€5.6m	€5.1m	€5.47m
Leitrim	€2.2m	€2.2m	€2.43m
Limerick	€17.2m	€16.1m	€16.93m
Longford	€2.4m	€2.3m	€2.46m
Louth	€9.8m	€9.8m	€10.48m
Mayo	€10.6m	€10.6m	€11.11m
Meath	€17.7m	€17.7m	€19.07m
Monaghan	€3.9m	€3.9m	€4.13m
Offaly	€5.1m	€5.1m	€5.33m
Roscommon	€4.1m	€4.1m	€4.39m
Sligo	€5.4m	€5.4m	€5.80m
South Dublin	€27.1m	€32.2m	€37.80m
Tipperary	€13.3m	€12.2m	€12.82m
Waterford	€10.1m	€9.9m	€10.48m
Westmeath	€6.5m	€6.5m	€6.90m
Wexford	€13.6m	€12.5m	€13.24m
Wicklow	€17.2m	€17.2m	€18.57m
All	€470m	€497m	€547m

Table 4.17 Projected yields by local authority under Scenario 5

Of the 17.5 percent of properties moving band, about a tenth move from band 1 to band 2 (therefore an increase of €135 in their LPT charge), the remainder move between higher bands and incur increases of €90 in their charge. The properties moving two bands (increases of €180) are nearly all at the higher bands and largely in Dublin. A small number will move into the new band 20 (€1.8 million plus) and incur the 0.25 percent rate.

In the dataset used for this analysis (as for other scenarios) property prices are projected to have increased by an average of around 88 percent from May 2013 to November 2019. Regional variations are applied, resulting in growth rates between 84 percent and 96 percent depending on the part of the country in which the property is located.

As all properties in the dataset increase by at least 84%, with 80% increases in the threshold modelled, no properties can move to a lower band. This reflects a restriction imposed by the modelling approach (itself derived from the available data). In reality, some properties will

have increased by less than 80% and therefore may move to a lower band (and also therefore pay less LPT).

Although all properties have increased by more than 80 percent in the model, not all move valuation band, rather the majority (82%) are unchanged. This reflects a combination of wider valuation bands (intervals of €90,000, rather than €50,000) and that many properties start some distance from the top threshold for their band. For example, consider properties at €101,000 and €140,000 (both band 2) with increases of 96% growing to €197,960 (remains in new band 2) and €274,400 (moved to new band 3).

Furthermore, in reality some properties will have increased by more than 96 percent over the period but such increases are not modelled. Greater such increases would raise the likelihood of properties moving a band or moving more than one band.

To give some indication of the variations in prices (compared to the overall averages quoted above), figure 4.7 below displays changes in values by Dublin postcodes from the CSO Residential Property Price Index.

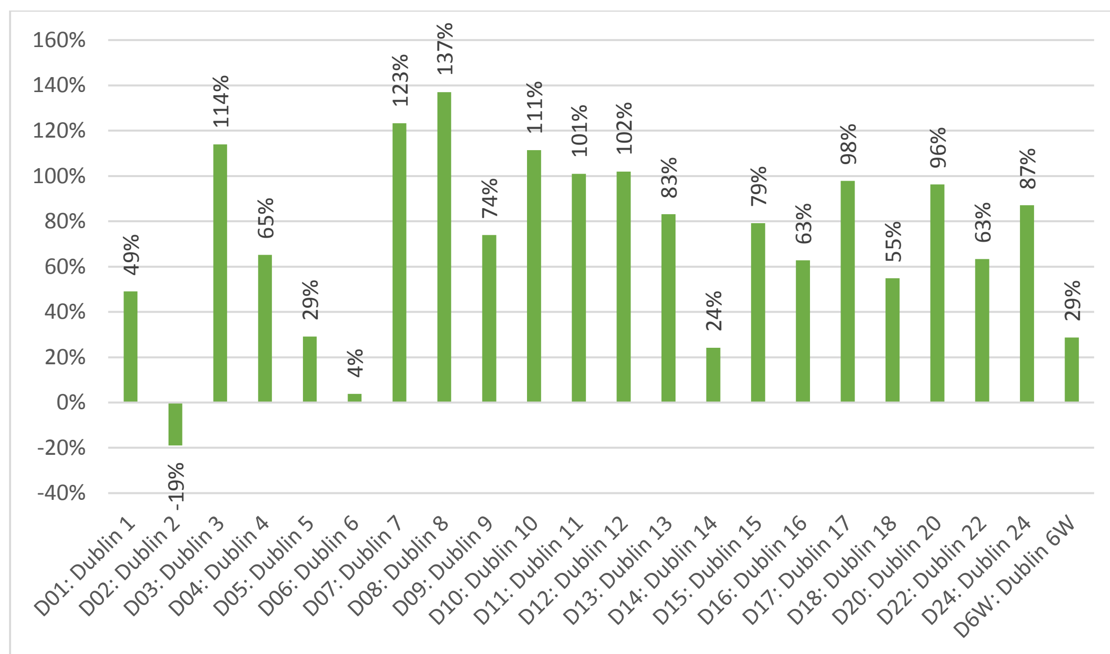

Figure 4.7 Median price changes between May 2013 and December 2018 based on Stamp Duty execution for all buyer types and all dwelling statuses

As noted previously in relation to earlier scenarios, while valuations on 1 November 2019 are not yet known (and all forecasts are subject to uncertainty), the analysis using estimated values shows the potential for various scenarios that combine valuation increases with rate reductions. These have been deployed to minimise the impact of valuation increases on LPT charges for property owners, albeit while the overall or average changes are small there are larger changes for some properties. It should be borne in mind, as noted in the text above, that the analysis to rebase property values to estimated November 2019 levels uses highly aggregated data. With the

available data, it is not possible to capture the full complexity of the property stock in Ireland and the price changes since 2013 but this analysis contained should be indicative of the main trends.

Scenario 5 – Some Indications of spread of impacts

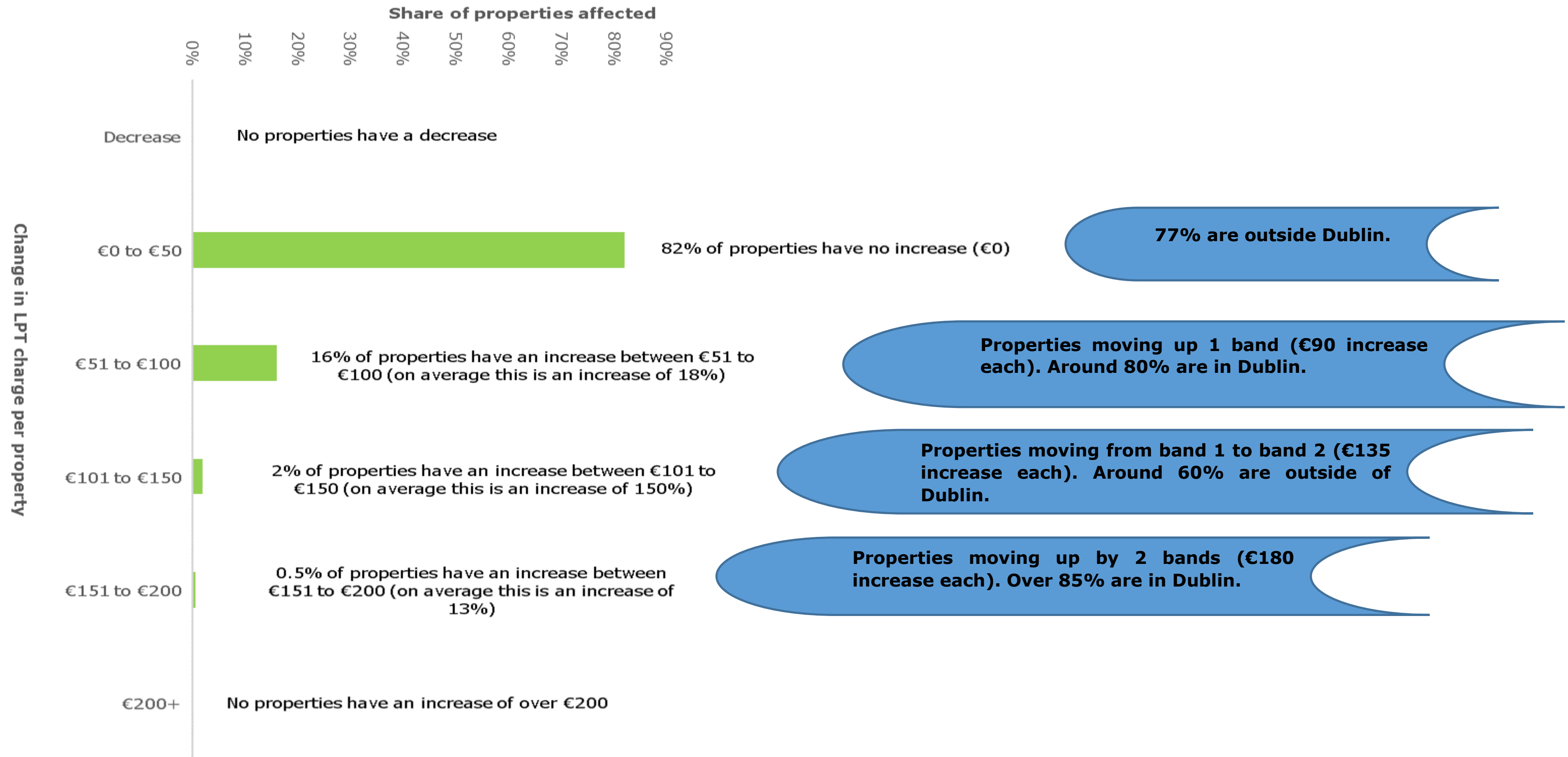

Figure 4.8 Scenario 5 Some indicator of spread of impacts

4.4 Distributional Impact Analysis

The wider impact of these proposed measures on household incomes can be assessed using the Economic and Social Research Institute's (ESRI) SWITCH (Simulating Welfare and Income Tax Changes) tax and benefit micro-simulation model. The distributional results also allow an assessment of how regressive or progressive the impact of the policy scenarios are expected to be for households. The SWITCH model is used to compare the impact which the proposed reform scenarios would have on household incomes relative to an indicative benchmark position where the property value increases but there is no change in the LPT rate charged[17]. This benchmark assumes that property values increase in line with the revaluation exercise outlined above, but that there is no change in LPT policy, so the standard rate of 0.18 per cent is assumed to apply.

The SWITCH model is based on the Survey on Income and Living Conditions (SILC), which is a representative sample of detailed income and welfare data collected by the Central Statistics Office (CSO). The analysis involves scaling up SILC data on income levels by forecast wage growth in 2019, using the ESRI's quarterly macroeconomic forecasts. In addition to this, indicative November 2019 house prices are estimated based on the Department of Finance forecasts for new builds – similar to the revaluation exercise discussed earlier in this chapter.

The benchmark comparator used here combines Budget 2019 policy measures with the existing LPT structure. Five separate reform scenarios are modelled, with the LPT structure recalibrated accordingly in each. Consistent with the scenario analysis in this chapter, both the benchmark and reform scenarios are modelled without LAF.

SWITCH is used to show the percentage change in equivalised disposable household income of different income deciles across the income distribution which would arise under each of these scenarios. It is important to bear in mind that the income deciles do not directly correspond to the valuation bands, e.g. incomes in the first decile are not necessarily linked to properties in the first valuation band. Impacts refer to income levels as of the revaluation date and reflect expected wage levels and house prices as of November 2019. Equivalisation is the process of adjusting household incomes to take account of differences in household size and composition. This helps to accurately compare households across the income distribution. Disposable income refers to income net of taxes and benefits. The results are reported below as the overall net impact per income decile. This analysis addresses the recommendations of the 2018 report on the LPT by the Budget Oversight Committee, that the distributional analysis be updated.

There are several limitations to this analysis which must be highlighted. While the whole sample of the SILC data may be taken as representative of the Irish population, the sample data for each local authority area may not be. For this reason the results presented for scenario 2 must be interpreted with caution since they set a unique Local Property Tax rate for each local authority.

[17] More information on the ESRI's SWITCH model is available at: https://www.esri.ie/projects/switch-model-databases-and-technical-development/

Should the sample population for a local authority deviate from the actual population in that local authority, the resulting distributional analysis may not be fully representative.

SCENARIO 1

The SWITCH analysis comparing scenario 1 to the benchmark as at November 2019 suggests a weakly progressive distributional impact whereby the lowest income deciles gain more from this reform than the highest. Specifically, the bottom two income deciles could be expected to gain 0.36 per cent and 0.34 per cent in their equivalised disposable income, while the top two deciles would experience a 0.27 per cent and 0.23 per cent increase respectively. In this scenario, the middle income deciles would experience gains in the range of 0.28 per cent to 0.32 per cent. While the bottom and top ends of the income distribution indicate a progressive pattern, the high gains of the middle income earners weakens the overall progressivity of this option.

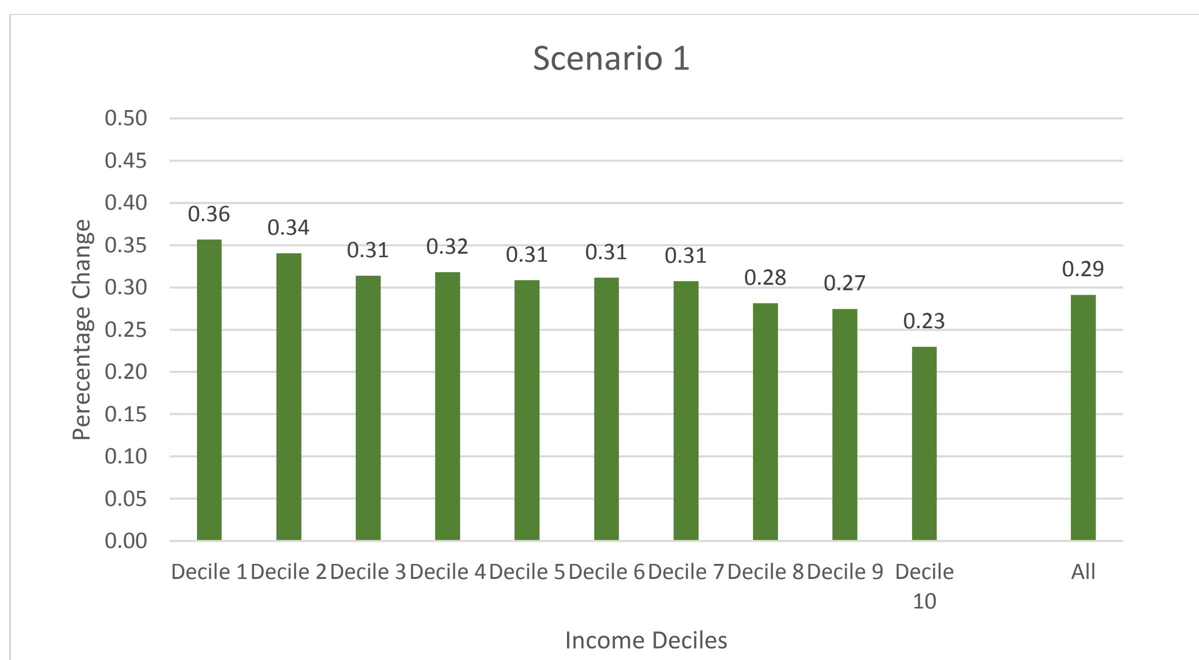

Figure 4.9 SWITCH model distributional analysis of the percentage change in disposable household income across deciles arising from LPT Scenario 1 in comparison to the benchmark scenario

SCENARIO 2

The SWITCH analysis shows a neither a progressive nor regressive impact on households. Under this scenario, households in the lowest two deciles see an increase of 0.31 per cent and 0.29 per cent respectively to their disposable incomes. The two top deciles see gains of 0.28 per cent and 0.26 per cent to their disposable incomes. Households in income deciles 7 register the largest gains to their disposable incomes at 0.32 per cent.

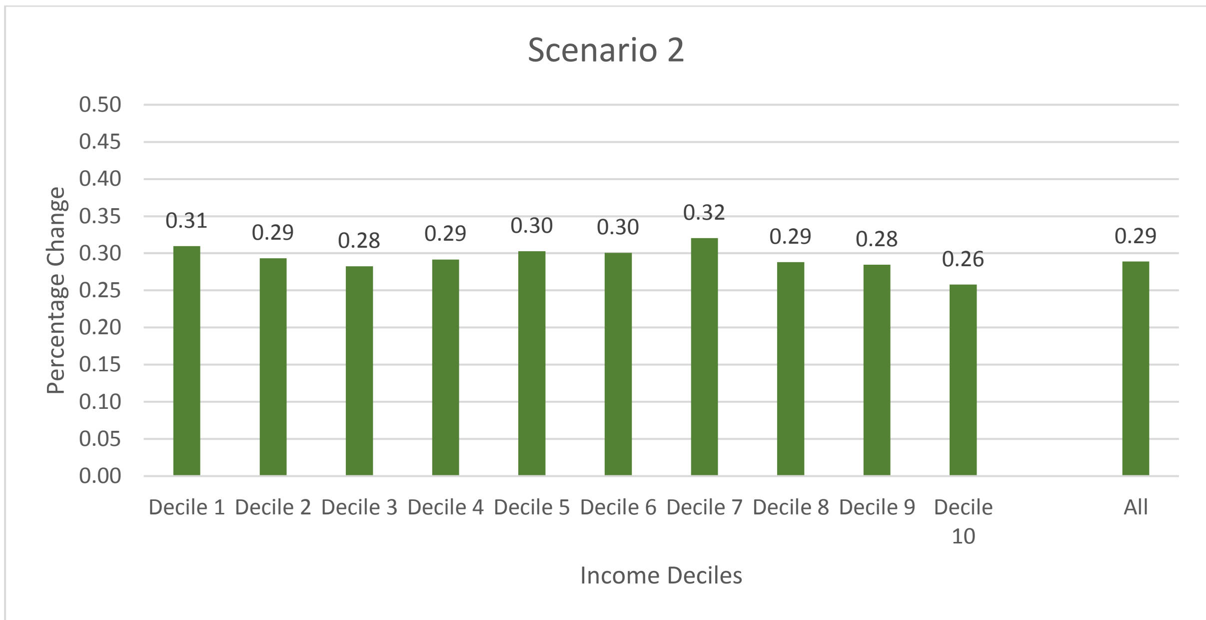

Figure 4.10 Switch model distributional analysis of the percentage change in equivalised disposable household income across deciles arising from LPT Scenario 2 in comparison to the benchmark scenario

SCENARIO 3

An analysis of scenario 3 reveals a relatively progressive impact on households, whereby those in the lowest income deciles can be expected to experience the largest increases in their disposable income compared to the gains registered for the highest income deciles. The first and second deciles would gain 0.36 per cent and 0.34 per cent in equivalised disposable income respectively, whereas the top two deciles would see an increase of 0.26 per cent and 0.21 per cent. Middle income deciles are expected to register an increase in the range of 0.31 per cent to 0.27 per cent. On the basis of this SWITCH analysis, this scenario can be expected to have a relatively progressive impact on households across the income distribution.

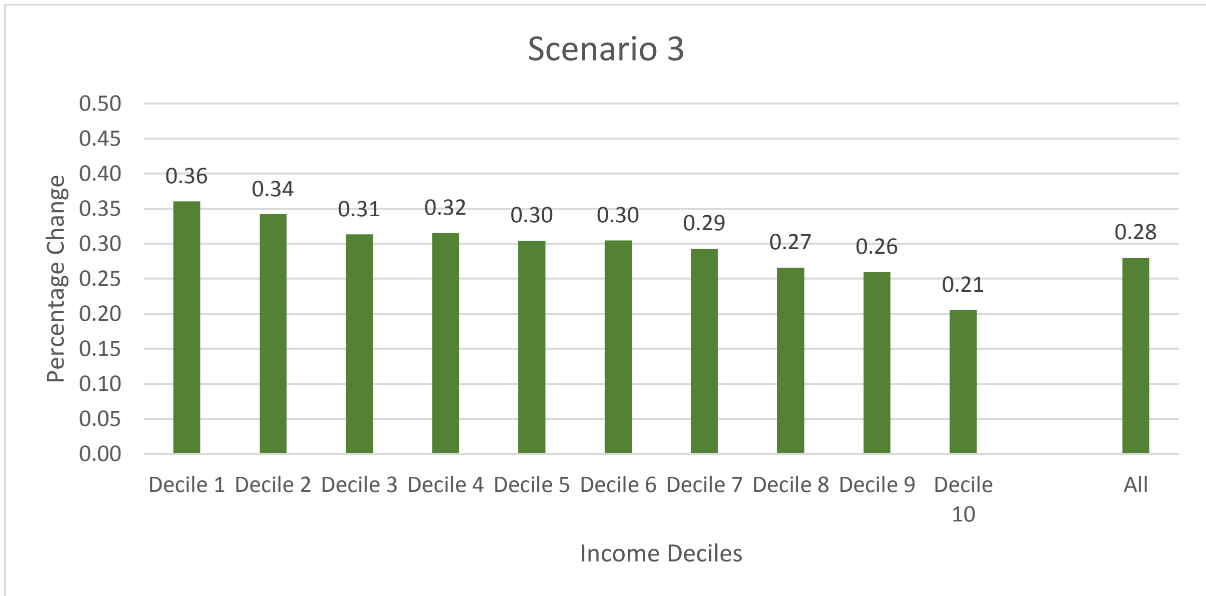

Figure 4.11 SWITCH model distributional analysis result for the percentage change in equivalised disposable household income across quintiles arising from LPT Scenario 3 in comparison to the benchmark scenario

SCENARIO 4

The distributional impact of scenario 4 across the various income deciles is broadly comparable to the results found for scenario 3. This implies that a minimum rate of 0.18 per cent applying to the first valuation band can be achieved without a regressive impact on households. Similar to the previous proposal, scenario 4 also achieves relatively progressive results across the income distribution.

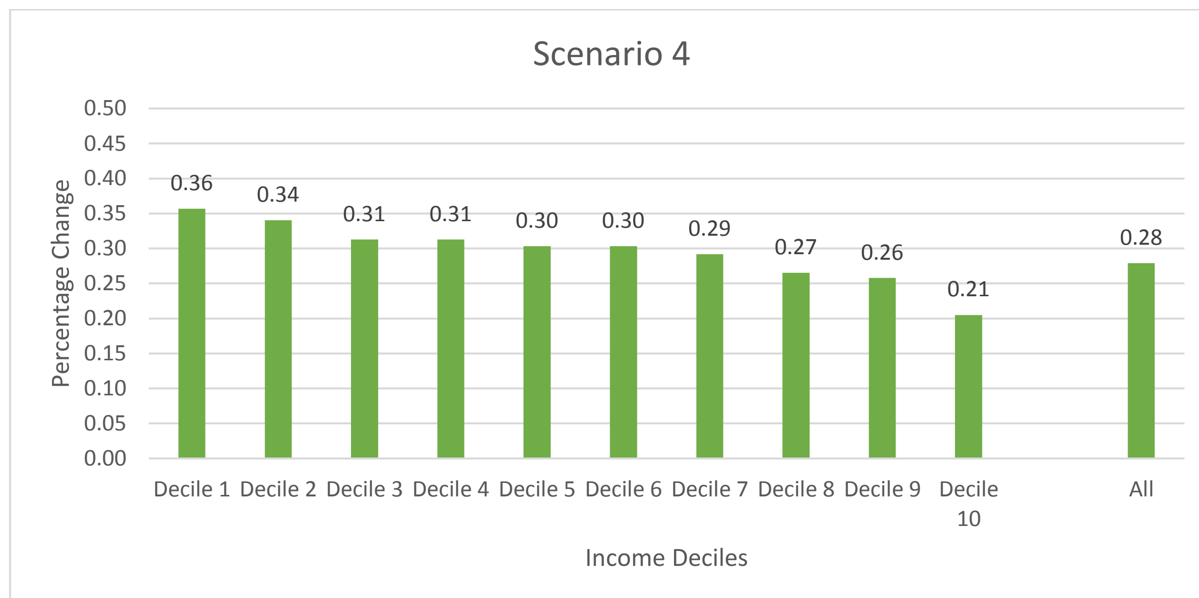

Figure 4.12 SWITCH model distributional analysis results of the percentage change in equivalised disposable household income across quintiles arising from LPT Scenario 4 in comparison to the benchmark scenario.

SCENARIO 5

Scenario 5 results in larger gains to households than the other 4 scenarios, with average increases of 0.40 per cent to households' equivalised disposable income as a result of the measures. There is a broadly progressive trend, with households in the first two deciles gaining the most in relative terms at 0.46 per cent and 0.43 per cent respectively, while households in the top three income deciles experience below average gains of 0.37 per cent.

Figure 4.13 SWITCH model distributional analysis results of the percentage change in equivalised disposal house income across quintiles arising from LPT Scenario 5 in comparison to the benchmark scenario

SUMMARY OF THE DISTRIBUTIONAL ANALYSIS

The impact which the policy scenarios considered can be expected to have on household income can be seen by conducting a distributional impact assessment. This impact has been modelled using the ESRI's SWITCH tax-benefit model. The results indicate that these policy proposals would result in overall gains across all income deciles in the range of 0.21 per cent to 0.46 per cent increases in equivalised household disposable income relative to a no policy change baseline where house prices are revalued but there is no change in LPT rate. Scenarios 3 and 4 show a relatively more progressive pattern than Scenario 1. Overall, a positive finding of this analysis is that the progressivity of Scenario 4 is not reduced relative to the estimated impact seen under scenario 3. Gains are generally higher in Scenario 5 than the other scenarios and this scenario also shows a broadly progressive trend.

4.5 Advantages and Disadvantages of the Scenarios

ADVANTAGES AND DISADVANTAGES OF EACH SCENARIO.

Table 4.18 overleaf provides a summary of the main advantages and disadvantages of each option in matrix form.

Scenario	Description	Advantages	Disadvantages
NPC	No policy change i.e. revaluations proceed on 1st November 2019 with no change to LPT rates or bands.	• Increased LPT yield to €729m. This does not include €21m from previously exempt properties (purchased by 'first-time buyers' in 2013 or trading stock of builders/developers). €729m would be reduced by about €35m if 2018 LAFs were applied.	• Significant increases in LPT liabilities particularly for urban dwellers.
1	A central LPT rate (0.114 per cent) applies to all properties such that the total yield following the valuation increases is brought back down to €500 million.	• Local authorities with greater shares of properties around bands 2 and 3 tend to show smaller increases or decreases. Properties in these cases move to higher valuation bands but this is cancelled out by reduced rates so the LPT average charge is lessened. • Weakly progressive distribution impact whereby the lowest income decile gain more from the reform than the highest (compared to the benchmark of no policy change)	• Local authorities with greater shares of properties in valuation band 1 in 2013 tend to show larger average increases. As band 1 is wider (€1 to 100,000), the step up in LPT charge is larger than a movement between higher bands (€50,000 intervals). This impacts more on rural local authorities • This scenario would involve a reduction in LPT liability applying to band 1.
2	Each local authority has a yield target equal to its expected yield under current LPT 2018 without LAF and the rate in each local authority is adjusted to meet these targets following valuation increases.	• Local authorities with greater shares of properties around bands 2 and 3 tend to show smaller increases or decreases. Properties in these cases move to higher valuation bands but this is cancelled out by reduced rates so the LPT average charge is lessened.	• Applies a different rate to each local authority area, which combined with potentially 31 different local variations (LAF), results in 31 different rates. (While this is a more complex structure than the current two-rate system, it is relatively simple when compared with scenario 3 – • Would involve a reduction in LPT liability applying to band 1. • Fixes LPT yields for local authority areas at historical values where the population of homes may have grown significantly leading to a loss of potential yield that could be used to meet the costs associated with greater population. • Moderately regressive impact on households whereby households in the lowest deciles gain relatively less than households in the upper deciles (compared to the benchmark).
3	A different LPT rate (ranging from 0.108 per cent to 0.126 per cent) is applied in each valuation band (increasing by 0.001 per cent in each band), set to collect the overall target of €500 million (no local authority variation or adjustments).	• Relatively progressive impact on households whereby those in the lowest income deciles can be expected to experience the largest increases in their disposable income compared to the highest income deciles (compared to benchmark).	• Scenario 3 applies a different rate to all 20 valuation bands, which in isolation could have potential, but which combined with potentially 31 different local variations (LAF) may result in 620 different rates. Depending on the extent to which local authorities' exercise LAF powers, this could be very challenging for Revenue to implement and for property owners to understand. • Would involve a reduction in LPT liability applying to band 1.
4	As in scenario 3, except that that all properties in first valuation band pay €90 (the current rate for that band) in effect putting a floor.	• Generates additional €13 m which when included in the €500 m target leads to greater reductions for rates other than the first band. • Ensures that no-one pays less than the current band 1 rate of €90. • Broadly progressive for the reasons outlined in scenario 3.	• Applies a different rate to all 20 valuation bands, which in isolation could have potential, but which combined with potentially 31 different local variations (LAF) may result in 620 different rates Depending on the extent to which local authorities' exercise LAF powers, this could be very challenging for Revenue to implement.
5	All valuation band thresholds are increased by 80%.	• Simple to communicate/ administer. • 82.1% of properties remain in their corresponding band at the new thresholds.	• 40% of people in Dublin move up one band – Resulting in €90 increase (except for the move from band 1 to band 2 where it is + €135). • In Band 7 (€630K to €720K) 48% move to the next band paying + €90. In Band 8 (€720K to €810k) this increases to 58%. • Regressive for band 2 where increase is large in proportion to property price and as compared to higher values with increases of just €90

Table 4.18 Summary of Advantages and Disadvantages of the scenarios

4.6 EXCHEQUER IMPACT OF SCENARIOS

Each of the different options present different funding requirements. Table 4.19 sets out DPER's estimate of the cost from an Exchequer perspective of the different scenarios. Under current arrangements, where 80 percent of LPT receipts are retained locally by local authorities, equalisation funding is required to ensure local authorities with insufficient LPT receipts meet their baseline funding requirement. This equalisation funding comes for the most part from the compulsory 20 percent contribution from all local authorities and is supplemented by additional funding from the Exchequer. As set out in table 4.19, of the €138 million required for equalisation funding in 2019, €41 million is provided by the Exchequer and €97 million through LPT receipts. The Exchequer impact under the five scenarios set out in the table does not vary significantly from the present position when 80% of receipts are retained locally. However, with a move to 100% retention, the Exchequer impact is more significant, ranging from €99 million to €121 million.

	2019 LPT	Scenario 1		Scenario 2		Scenario 3		Scenario 4		Scenario 5		No policy change	
	80% / 20%	80% / 20%	100%	80% / 20%	100%	80% / 20%	100%	80% / 20%	100%	80% / 20%	100%	80% / 20%	100%
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
LPT Yield	487	502	502	503	503	499	499	501	501	555	555	771	771
Baseline *	355	355	355	355	355	355	355	355	355	355	355	355	355
Shortfall in Baseline Funding	138	148	117	133	99	152	121	147	115	125	92	87	61
LPT 20 per cent towards Equalisation funding	97	100	0	101	0	100	0	100	0	111	0	154	0
Exchequer Impact	**41**	**48**	**117**	**32**	**99**	**52**	**121**	**47**	**115**	**14**	**92**	**-67**	**61**
Total LPT Funding	**528**	**549**	**618**	**535**	**601**	**551**	**620**	**548**	**616**	**569**	**647**	**704**	**832**

Assumes no change in baseline requirements

Table 4.19 Exchequer impact of scenarios (2019). Source: Dept. of PER

4.7 Conclusion

While valuations on 1 November 2019 are not yet known (and disaggregated forecasts are not available), the analysis in this chapter using estimated values shows illustrative scenarios combining valuation increases with rate reductions. These can be deployed to minimise the impact of valuation increases on LPT charges for property owners, albeit while the overall or average changes are small there are larger changes for some properties. It should be borne in mind, as noted in the text above, that the analysis to rebase property values to estimated November 2019 levels uses highly aggregated data. With the available data, it is not possible to capture the full complexity of the property stock in Ireland and the full extent of price changes since 2013. Rather this analysis is intended to give a broad indication of the main trends.

Chapter 5. Stakeholder Engagement and Consultation Process

5.1 Overview

The purpose of the consultation process was to provide stakeholders and interested parties with an opportunity to communicate their ideas and suggestions to the review of the LPT. Separately, the Parliamentary Budget Office (PBO) and the Oireachtas Budgetary Oversight Committee (BOC) have considered the future of the LPT and the Department of Finance and the Office of the Revenue Commissioners have appeared before the BOC at its request. Many of the issues raised in that forum have been considered in this report. Both the PBO and the BOC have published reports[18] on the LPT which are available on the Oireachtas website.

Seventeen submissions were received (listed at appendix A) in response to the consultation and the reports and recommendations of both the PBO and the BOC reports were also considered by the Review Group. A synthesis of the views expressed is provided in this chapter under the relevant headings.

5.2 Key Themes

THE BASIS FOR THE LOCAL PROPERTY TAX

Most submissions were supportive of retaining LPT on the basis that it broadens the tax base and is an important part of a user pays system. Responses included the comment that at just 1 per cent of GDP, LPT yield appears low when compared to the EU average of 1.6 per cent of GDP and rates of 3.2 per cent and 3.1 per cent of GDP in France and the UK respectively. In one submission, the respondent said that the present basis of market value is the fairest and most logical method. One submission highlighted the importance of maintaining a diverse range of Government revenue streams as it provides a key marker of the fiscal prudence that underpins long-term economic stability and success. In one submission, equity issues were raised in the context of the regional variations in property prices. The submission also raised concerns that taxpayers who invest to improve their property are punished with higher taxes due to higher market values. An argument was made for considering long term alternatives to the LPT and a number of respondents suggested alternative methods of calculating the tax which included the following:

[18] https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_on_budgetary_oversight/reports/2018/2018-03-23_report-local-property-tax-revaluation_en.pdf
https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-01-15_local-property-tax-issues-to-be-considered-with-the-revaluation-of-the-base_en.pdf,
https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-01-15_note-on-revaluation-of-the-local-property-tax-base_en.pdf

- Rebuild cost and market value
- Include a “carbon multiplier” where houses below average emissions pay a reduced rate
- LPT should be calculated area by area in a manner which links funds raised in the area with services in those areas
- LPT should be calculated on the square metre area of a property
- Site Value – The BOC recommended that this be re-examined.

While a number of submissions advanced these options, few provided details of how they would work in practice. In its review of options in 2012, the LPT Design Group referenced both the 2009 and the 1982 – 1985 Commissions on Taxation[19] which recommended the use of market value.

CONSIDERATION OF THE SITE VALUE TAX (SVT)

A total redesign of the basis of tax was outside the scope of the current review. However, as the site value basis was examined in 2012 at the design stage and again by the Budgetary Oversight Committee, it may be helpful to outline some pertinent observations in this regard.

- A review of international practice suggests that market value is more commonly applied as a basis than site value.
- The majority of the submissions made to the Design Group in 2012 and to the current review also favoured market value.
- The arguments for SVT are outweighed by the likely difficulties in ensuring acceptance by taxpayers, i.e., arriving at values that are 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.
- While the 2009 Commission on Taxation saw an economic rationale for land value tax, it concluded that “… it may not be a pragmatic approach to the restructuring of our property taxation system...” The Commission recommended in favour of market value of residential properties (housing unit and site) as the basis of assessment.

OTHER SUGGESTED METHODS OF VALUATION

The group also considered the suggestion that a carbon factor should be used to calculate LPT. One respondent suggested that a reduced LPT rate should be applied to residences with less than average emissions and a higher rate of LPT for properties with higher than average emissions. This was based on a rationale that it would encourage the installation of energy saving devices, e.g. attic insulation, double/triple glazing and thereby reduce energy consumption and carbon emissions.

Some submissions argued for LPT to be calculated on the basis of the size of the property. An argument was made that all residential properties in a geographical area, regardless of size or market value, should pay the same LPT as they enjoy the same level of public amenities.

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[19]https://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/LocalGovernment/Administration/FileDownLoad,31669,en.Pdf

In paragraph 46 of the BOC report, the committee considered whether LPT should be abolished and recommended that the option of abolishing LPT should be included within the scope of the Interdepartmental Working Group's Review.

One submission highlighted the importance of regularly reviewing all aspects of the LPT regime to ensure it continues to provide a stable and sustainable yield in the medium and long term.

The PBO suggested that the Department of Finance should explore how changes to the LPT system interact with the fiscal rules and report on this to the Houses of the Oireachtas. The scenario recommended in this report would form part of a package of budgetary and taxation measures that would seek to secure Ireland's adherence to the fiscal rules.

CONCLUSION WITH REGARD TO THE BASIS OF THE LPT

The Review Group considered all of the options presented for changing the basis of the tax. In terms of the BOC recommendation to consider abolishing the tax, the Review Group agreed that this was outside the scope of the current review. The Group noted however, that under the terms of the Stability and Growth Pact, discretionary revenue reduction may not be introduced unless matched by other revenue increases or expenditure reduction. Identifying new revenue streams is also outside the scope of the group's terms of reference.

In terms of the SVT and other suggestions, the Review Group accepted the rationale outlined in earlier reports and concluded that market value remained the best option as it was aligned with the guiding principles of transparency and equity.

REGULAR REVALUATION

As the tax was designed, revaluation of properties was scheduled to occur every three years. However, when the matter was reviewed in 2015, the Government decided to postpone the 1 November 2016 valuation date to 1 November, 2019. The majority of the submissions recommended that revaluation should not be postponed again as delayed revaluations can lead to large increases in LPT liabilities once a revaluation takes place. One submission suggested a price freeze from 2019 to 2020 while another opposed any option that would lead to large increases in LPT bills for households and recommended instead that any revaluation in November 2019 should be accompanied by substantial modification of the LPT rates. One submission pointed out that without revaluation in 2019, it would be challenging for owners of new and improved properties to estimate the value of their property in 2013 terms and this would become more difficult over time. It was argued that keeping valuations current is important to sustain public support for the property tax. Anomalies that arose from the failure to use up-to-date property valuations for the purposes of rates were cited as a significant contributory factor to the abolition of domestic rates on houses in 1978.

In its briefing document, the PBO noted that regular updating of valuations is important to maintain the integrity of the LPT system and that therefore the 2019 revaluation should proceed. The PBO said that if legislation is not introduced to further amend or replace the Finance (Local Property Tax) Act 2012, there will be a large increase in LPT liabilities for many taxpayers and a

commensurate increase in LPT yields because of increased property prices. The PBO acknowledged that the largest increase in LPT would be in areas that have seen the most significant property price increases, particularly Dublin and other urban areas. The BOC recommended that steps be taken to prevent substantial increases in LPT liabilities as a result of the revaluation of residential properties.

The PBO highlighted the risk of constitutional challenge if a further deferral was to cause taxable values to diverge significantly from market values in an inconsistent manner. This point was also made in a number of the submissions. The BOC was concerned that a second valuation freeze could give rise to expectations that revaluation would be deferred again in the future. This the committee argued may create a credible perception that a revaluation will never take place and leave the LPT at risk to constitutional challenge.

One respondent considered that revaluation is politically difficult and that the longer it is postponed the more difficult it becomes. The point was made that property prices can fall as well as rise and this also provided a rationale for regular revaluation. In relation to the frequency of the revaluation, a number of submissions supported a three or five year period.

The PBO briefing paper (2018) also recommended that "consideration should be given to introducing a mechanism for the LPT to automatically increase annually by a defined amount perhaps linked to a measure of inflation, population increase, local Government Expenditure" (PBO: 2018). This was reiterated in the BOC report (2018). Two submissions suggested that valuation for LPT purposes should be linked to the Consumer Price Index as articulated in Thornhill (2012) and one explained that this could remove some of the political challenges as the increase in property tax liability would be relatively low. However, it was acknowledged that in the longer term, relative improvements in the value of houses arising from the provision of new public amenities and house improvements would be ignored in such a scenario as would regional changes in relative house values. It would also present challenges as to how new houses built between revaluation periods should be brought into the LPT base.

A NATIONAL OR LOCAL RATE?

The PBO briefing paper recommended that "the overall amount of revenue to be raised by the LPT should be decided before any other reforms with respect to LPT are considered". The BOC endorsed this recommendation. The PBO also recommended that the Department of Finance, when estimating LPT revenues in 2020 and beyond, should reflect the current legislative position (i.e. no policy change).

The option of setting rates centrally for each local authority was considered in a number of the submissions received. There was some support for differentiated rates at local authority level in a manner that produces revenue aligned with the historical yield while avoiding significant increases for taxpayers. In one submission, an argument was made to have the main prevailing rate set by central government as this was the only way that all local property taxpayers can be satisfied that their burden will be equitable relative to the charge applying elsewhere in the country. One

respondent recommended that the Government should determine the target LPT yield as a percentage of GDP and as a proportion of overall tax yield.

The BOC considered an option for revaluation involving nationally adjusted rates in order to maintain the historic LPT yield. The PBO (2018) explained that if the Government chose to maintain the current LPT yield, there would still be a distributional impact. While average payments may be similar, properties that have increased in value ahead of the national average would see significant increases in their LPT charge. This would concentrate increases in Dublin and other urban areas and would reduce the charge due in areas with lower increases in property values.

An alternative approach would be to revalue but set a local rate of LPT. The PBO (2018) concluded that the central recommendation in the 2015 review that that LPT rates be set at individual local authority level still had merit and this was reiterated by the BOC. The PBO said that the option chosen with respect to how LPT rates are set should reflect desired distributional priorities in the context of the amount of revenue to be raised. One submission supported a central Government set rate rather than differentiated local authority rates.

The BOC endorsed option 3, “Revalue and adjust rates nationally to maintain the Local Property Tax” or option 4 “Revalue and adjust rates locally to maintain the yield” of the PBO report (2018). (Endorsement of the second option was not unanimous among committee members). The scenarios in Chapter 4 illustrates some examples under both of these approaches.

A related issue under this heading is whether consideration should be given to the span of the LPT valuation bands. Three submissions received were supportive of this as a potential change while one argued that the “General Needs Housing”[20] owned by Approved Housing Bodies should continue to be placed in Band 1 for LPT purposes. One submission considered that residential properties owned by subsidiaries of Approved Housing Bodies such as SPV structures should be also be placed in Band 1 as they are also providing social housing.

In terms of the LPT rate, some submissions argued that lowering the tax rate when property prices are rising would be a way of keeping the LPT liabilities low. In one submission it was argued that keeping valuations up to date does not necessarily imply a general increase in liabilities and that a reduction in the rate was the most appropriate way of preventing substantial across the board increases in liabilities. One submission contended that the LPT rate should be set to maintain the current yield while another suggested that any increase in LPT liabilities should be set at less than twenty percent.

DISTRIBUTION OF THE LPT- EQUALISATION OR LOCAL RETENTION.

Local authorities retain 80 per cent of the LPT raised in their area while the remaining 20 per cent is paid into an Equalisation Fund which is distributed to local authorities that are unable to raise adequate revenue locally through the LPT. One submission argued that the equalisation mechanism has damaged the link between the tax and the provision of local services. A number

[20] The term 'General Needs Housing' is used to describe housing for rent that is suitable for anyone over the age of 16 who does not require any help or support, including single people, couples or families.

of submissions recommended the retention by local authorities of 100 per cent of the LPT collected in their area. In particular, one submission highlighted the challenges in Dublin in relation to housing supply and related services while at the same time part of the LPT yield collected in Dublin is being transferred to other local authorities through the equalisation mechanism. It was suggested that authorities with weaker tax bases should receive supplementary Exchequer funding to meet any funding gaps so that business is not required to make up the shortfall through increased commercial rates.

One submission commented that the equalisation fund should not be used as a means of allowing local authorities to use the variation factor to reduce the LPT raised locally. The Review Group noted that under the current arrangements, if a local authority chooses to lower their LPT rate, they receive a proportionately lower amount of funding through the redistribution mechanism.

VARIATION MECHANISM

One submission considered that the power to adjust rates and to retain funds would help to ensure an element of local democratic autonomy and noted that Dublin and the surrounding areas are likely to contribute far more to the equalisation fund than other local authority areas. One submission expressed regret that the discretionary variation in LPT has been exercised up to the full 15 per cent by a number of local authorities as it can have an impact on the commercial rates charged to fill the resulting funding gap. The submission encourages the Government to promote a more balanced approach to revenue generation amongst local authorities. This is relevant to work being done in parallel by the Department of Housing, Planning and Local Government in relation to local authority baselines referenced earlier in Chapter 2.

EXEMPTIONS

The LPT legislation provides for a number of exemptions from the tax and a number of the submissions considered whether or not these should be maintained. One submission argued that in order to ensure that the tax base is sufficiently broad, consideration should be given as to the continued relevance of the current exemptions. Other submissions argued that the exemptions should not be renewed. The key points can be summarised under the following headings:

Remove the 2013 exemptions

Many respondents recommended removing the exemptions for properties built since 2013 and also for properties purchased in 2013. One submission recommended the abolition of the exemption for “ghost estates”. The PBO recommended that the LPT exemption for newly constructed properties built from 2013 onwards and for properties purchased in 2013 should end in 2019 as planned. The PBO added that new properties built post the 2019 revaluation should not receive an exemption and that the Revenue Commissioners should produce guidelines on how to value new properties sold in 2020 and beyond at 2019 prices.

The BOC also recommended the cessation of exemptions in relation to new and unused property as it believed the removal of these exemptions would make the system more equitable and would also broaden the tax base.

Social Housing Exemption

Properties provided by Approved Housing Bodies which are funded under the Capital Assistance Scheme for the purpose of special needs accommodation are eligible for an LPT exemption. One respondent pointed out that non-profit housing associations are registered charities that charge low rents based on the income of the tenants and that these rents do not fluctuate to reflect market rents. Based on this rationale, one submission recommended that the exemption for charities or public bodies that solely or primarily provide special needs accommodation should be retained. Another submission suggested that reliefs for properties occupied by persons with disabilities administered by Revenue under its care and management powers should be covered by amending legislation. The Review Group noted that this was done in the Finance (Local Property Tax) (Amendment) Act 2015.

Other Exemptions

Two submissions proposed that the current exemption in relation to properties affected by pyrite should be continued and extended. One argued that recommendation number eleven of Thornhill (2015) in relation to properties with pyritic damage should be extended to multi-use developments (as defined in section 1(1) of the Multi-Unit Developments Acts 2011) based on the same rationale as those properties which have already qualified for the exemption. One submission argued that the exemption for pyrite affected properties should apply only to properties which have a damage rating of 2 or 1 with progression.

In relation to continuing and extending the relief from LPT for those in multi-unit developments affected by pyrite, it was argued that this should be in cases where such construction defects were identified by a competent person.

A small number of submissions argued for exemptions for owners who were aged over 66. The Review Group noted that the tax expenditure to exempt this group would cost around €75 million a year based on 2018 figures.

Another submission recommended an exemption from LPT for student accommodation provided by the not-for-profit education sector. The proposal is to exempt any student accommodation provided by a relevant education body, i.e. school, college, university, institute of technology or any other education institution and the rationale outlined is that this cost has to be recouped from students. The submission argues that the institutional nature of such accommodation is not materially different to other institutional accommodation such as boarding schools which have an exemption from LPT. The submission also points out that the predecessor of the LPT, the Household Charge, provided a specific exemption for charities and bodies with charitable tax exemptions.

One submission suggested that homeowners in nursing homes should be allowed to keep their exemption as an incentive measure if they rent their property.

A number of submissions argued against the deductibility of LPT for landlords against income tax or corporation tax. Other submissions supported such a deduction and advanced a rationale that it was an expense on a business investment like any other. Also related to rental income, an argument was made in one submission that if there is no allowance for mortgage interest in the income tax code then it should be allowed against the value of the property in relation to LPT. The BOC referred to the fact that many people who live in managed estates or complexes where they are liable for management fees must also pay LPT and asked the Review Group to consider this issue.

There was some support for the rationale articulated in Thornhill (2015) that LPT is a tax on the amenity value of a residential property rather than a business cost.

The PBO concluded that all the current LPT exemptions not due to expire in 2019 should be reviewed to ensure they continue to have, and meet the objectives of, a legitimate public policy rationale and removed if they do not. The PBO briefing paper adds that any future exemptions need a very strong public policy rationale supported with a clear evidential basis that shows that the exemption will meet its goal.

A point was made that the relief provided under section 482 relief of the Tax Consolidation Act 1997 (relief for expenditure on significant buildings and gardens) applies to very few properties and one submission recommended that consideration should be given to extending this section to heritage properties of a certain age and architectural design in order to encourage preservation. It was also argued that an allowance against income tax should be allowed in respect of maintenance expenses for heritage properties.

DEFERRALS/WAIVERS.

The views expressed in submissions in relation to LPT deferral thresholds included relaxing the rule for deferrals, increasing deferral income thresholds and ensuring the adequacy of the deferral thresholds. Two respondents suggested removing the annual LPT deferral interest charge. Two respondents recommended a reduction in the deferral interest charge –from 4 percent to 3 percent and to 2 percent respectively. One respondent suggested a 10 per cent increase in the income thresholds for full and partial deferrals of LPT liability while another suggested increasing the threshold from €15,000 for a single person to €25,000 and from €25,000 for a couple to €40,000. A waiver was suggested for those earning less than €13,900 (excluding secondary supports) as it would target older people in receipt of the Contributory State pension.

One submission argued that consideration should be given to providing relief to those who had paid high rates of stamp duty in the period before the introduction of the LPT.

TRANSPARENCY

Two respondents suggested that there should be greater clarity on how the LPT is raised and spent. It was argued that demonstrating that LPT is being spent on appropriate services and amenities would help citizens link the relevance of the tax to the benefits accruing from it. One submission proposed that there should be greater clarity on the proportionate contribution made by the LPT to the budgets of local authorities.

LOCAL AUTHORITIES AND REVENUE

One submission supported recommendation number eight of Thornhill (2015) which is that local authorities should be more engaged in supporting the Office of the Revenue Commissioners in the LPT process.

5.2 Other Issues

RENAME THE LPT

One submission supported recommendation number ten of the Thornhill (2015) report, which is to re-designate the LPT as a Local Council Tax in order to emphasise that it is a tax raised to pay for local services. One respondent suggested that increases in the LPT should be used to fund a competitive “town growth fund”.

LOCAL AUTHORITY BUDGETING CYCLE

The PBO argue that the revaluation date should be moved to earlier in 2019 to support more effective Local authority budgetary planning. This point was also highlighted in one of the submissions.

5.3 Conclusion

This chapter provides an overview of a broad range of issues which emerged from the consultation and stakeholder engagement process and the different views advanced under the various headings. A full list of contributors to the consultation process is at appendix A. Recurring themes concerned the importance of the LPT as a source of funding for local authorities, and that owners of properties built since 2013 and properties purchased in 2013 should be included in the tax base at the next valuation date (unless they qualify for a different exemption). The submissions and reports highlighted concerns that, without a change to the current legislation, homeowners would be at risk of major increases in their LPT liabilities and that this would impact significantly on those experiencing large increases in their property valuation.

The Review Group considered the inputs to the consultation process carefully and these informed its deliberations and recommendations.

Chapter 6. Recommendations from Thornhill (2015) and other Considerations

6.1 Context

This chapter outlines and evaluates each of the outstanding recommendations in Thornhill (2015) and provides an update on relevant changes to the LPT in the interim. A list of the Thornhill (2015) recommendations is provided followed by a synthesis of the deliberations of the Review Group on each one, concluding with the updated recommendations. The work was guided by the desirability of achieving relative stability, both over the short and longer terms, in the LPT liabilities of those liable for the tax.

The Review Group agree with Thornhill (2015) that “relative stability” does not mean that tax liabilities for residential property owners or tax yields should be frozen or fixed (in real or nominal prices), as this would remove any flexibility to adjust tax regimes to take account of the prevailing economic environment or changed policy priorities. However, it is desirable that tax liabilities should not change significantly and unpredictably and without reference to broad economic conditions.

The following factors informed the deliberations of the Review Group:

- The operation of the current model and emerging issues;
- The economic context including the changes in residential property prices;
- The issues raised by stakeholders in the consultation process;
- The need to maintain a fair and sustainable funding source for local authorities;
- The scenarios outlined in Chapter 4 and the distributional analysis which illustrated how each of the prospective policy options would impact on taxpayers;
- The capacity of the local authorities to raise sufficient revenue to meet their requirements.

The Review Group noted that the current model is relatively simple and transparent and that these are critically important components of the successful implementation of the LPT. However, as residential property price growth has been uneven, and the capacity of each local authority to raise sufficient LPT to meet its baseline requirements also varies, retaining simplicity may be challenging in this context. The policy options available inevitably involve trade-offs.

6.2 Methodology and Assessment Criteria

The Thornhill (2015) recommendations were considered by reference to five evaluation criteria as follows:

- ***Transparency***: Particularly transparent assessment for taxpayers;
- ***Fairness:*** Taxpayers with liabilities for properties of comparable market values and in the same local authority areas should incur comparable liabilities. They also have a legitimate expectation of being able to project forward with reasonable confidence their future tax liabilities on these properties. Taxpayers with higher value properties in the same local authority area should pay more;
- ***Efficient administration and collection***: Entailing transparent and efficient collection and administration – both as regards compliance costs for taxpayers and costs incurred by the Revenue Commissioners;
- ***Stability***: Provides stability in projecting and meeting the revenue needs of local authorities; and
- ***Responsiveness:*** Over time, has regard to changing economic circumstances and policy requirements. In effect, a challenge would be to "future proof" the charging structure so that it was capable of relatively easy adjustment in the event of significant volatility in residential property prices.

The Review Group were cognisant of these criteria in the process of considering the various options.

6.3 Thornhill (2015) Recommendations

The thirteen recommendations are summarised as follows:

Recommendation 1: The exemption for residential properties purchased from builders/developers or unsold by them should not be renewed when the next revaluation takes place. Neither should the exemption for properties on unfinished housing estates and the exemption for 'first-time buyers'.

Recommendation 2: The existing deferral provisions should be continued and be reviewed and revised at frequent intervals in line with movements in the CPI so as to maintain their real value.

Recommendation 3: The period of relief for income-stressed owner-occupiers who have outstanding mortgages should be extended beyond the end of 2017.

Recommendation 4: For owner-occupiers over 80 years of age or those with stated certified long term illnesses and disabilities who are also living alone, it is recommended that consideration be given to raising the eligible income limit for deferrals to €20,000.

Recommendation 5: The Revenue 'estimate amount' be treated, instead, as a 'default' self-assessment for LPT purposes. This was based on the understanding that it would be made clear to taxpayers that they would have an obligation to submit a return form if the Revenue "estimate amount" did not fall into the same valuation band as the liable persons self-assessment of the value of the property.

Recommendation 6: In order to simplify the current Government accounting system that direct payment of LPT receipts should be made by Revenue to the Local Government Fund rather than the current more complicated system.

Recommendation 7: A revised system of assessing local property tax liabilities was proposed. A minimum yield which must be raised by each local authority would be set centrally by Government as part of the process for setting the national budget. The Department of Finance and Revenue, using the LPT tax base data and other relevant information, would estimate the property tax rates to be applied in each local authority area in order to raise this minimum yield. Local authorities on receipt of this information could adjust this rate upwards by a factor of up to 15 percent. It is envisaged that the minimum yield for LPT could be set with reference to the historic and current amounts raised in each local authority area so that property tax bills should remain at stable levels. Acceptance of this recommendation could be accompanied by a changeover to a five, rather than three, year valuation period. This would reduce the compliance requirements for tax payers and reduce administrative costs for Revenue. Consideration might be given as to weighing up the pros and cons of these two approaches.

Recommendation 8: Local authorities should be more engaged in supporting the Office of the Revenue Commissioners in the LPT process and also to provide the general public and individual households with programmatic and other useful information on how they spend the public funds available to them and the proportionate contribution made by the LPT.

Recommendation 9: Over the medium term, the Government should consider moving to a system whereby local authorities retain 100 percent of the LPT revenues raised in their areas. Authorities with weaker tax bases would consequently need to receive supplementary Exchequer funding.

Recommendation 10: In line with the retention of 100 percent of LPT revenues by individual local authorities, LPT should be re-designated as the Local Council Tax (LCT) to emphasise that it is a tax raised to pay for local council services.

Recommendation 11: Regarding properties damaged by pyrite, it was recommended that the exemption continue in place but that it be restricted to those properties that have been certified as having a damage rating of '2' or '1 with progression'; that pyrite damage continue to be proved by inspection and testing by a competent person in accordance with a standard published by the National Standards Authority of Ireland (NSAI); where liable persons elect not to incur the costs of testing they have the option of submitting by way of self-assessment a value to Revenue for the property which in their view reflects its current market value; where the Pyrite Resolution Board (PRB) is prepared to remediate a property without carrying out laboratory testing, Revenue accept

a confirmation of remediation from the PRB in lieu of the NSAI certificate: and, where a party such as a guarantee company or a builder/developer remediates a property or compensates the property owner in lieu of remediation, Revenue accept confirmation of this from the party in lieu of the NSAI certificate.

Recommendation 12: Reliefs for properties occupied by persons with disabilities. The changes then being administered by the Revenue under their care and management provisions should be covered by amending legislation, as, it is understood, is the Minister's intention. Additionally, with regard to the relief by way of reduced chargeable value, increase the threshold to the lesser of the increase in chargeable value or €50,000 which would ensure everyone who meets the qualifying conditions could benefit from the relief by way of reduced chargeable value up to a maximum reduction of €90 (one bandwidth). The relief would still only apply where the adaptations increase the chargeable value of the property.

Recommendation 13: LPT payments should not be allowed as a deduction to landlords against income or corporation tax.

6.4 2019 Assessment of the Thornhill (2015) Recommendations.

Recommendation 1. Exemption for residential properties purchased from builders/developers, properties on unfinished housing estates and properties purchased by 'first-time buyers'.

Thornhill (2015) pointed out that over 60 per cent of exempted properties were accounted for by properties purchased from builders/developers or unsold by them, properties situated in unfinished housing estates and properties purchased by 'first-time buyers' which properties comprised a not insignificant part of the tax base. He also expressed the view that tax exemptions are not costless, give rise to inequities and cause inefficiencies and distortions in the use of property. The recommendation in relation to these three types of exemption was that they not be renewed when the next revaluation takes place.

(i) Trading stock of builders/developers

The exemption for properties that constituted the unsold trading stock of builders/developers in May 2013, or such properties sold by them (while remaining unused) in the period 1 January 2013 to 31 October 2019, was intended to stimulate demand for housing at a time of very low demand when LPT was introduced. These properties were exempt for the purchaser until the end of 2016 [extended to end 2019 in the Finance (Local Property Tax) (Amendment) Act 2015].

(ii) Unfinished Estates

Section 10 of the Finance (Local Property Tax) Act 2012 (as amended) provides that the Minister for Housing, Planning and Local Government may prescribe a list of unfinished housing developments to which an exemption from the LPT applies. The exemption for residential properties situated in a specified unfinished housing estate (commonly called "ghost estates") applies to properties specified in the Finance (Local Property Tax) Regulations (S.I. No. 91 of 2013). A similar relief applied in respect of the Household Charge. Effectively, Thornhill (2015) recommends that those properties currently benefitting from the LPT waiver for unfinished developments would have that exemption withdrawn in the future.

The list of unfinished housing developments eligible for the exemption was compiled by local authorities utilising the categorisation employed for the purposes of the National Housing Survey 2012. The survey was carried out over the course of summer 2012 by the Department of the Environment, Community and Local Government in conjunction with local authorities and the Housing Agency. Only developments that were deemed by local authorities to be in a “seriously problematic condition”, regardless of whether a developer was on or off site, were included in the Finance (Local Property Tax) Regulations 2013 (S.I. 91 of 2013) applying to 421 developments, or approximately 5,100 households.

The Revenue Commissioners publish updated LPT statistics on a quarterly basis. There are around 48,000 claims for exemption from returned properties for 2018. The Unfinished Housing Estates waiver applies to approximately 3,300 of these claims or 6.8 per cent of total exemption claims. The Department of Housing, Planning and Local Government has published the 2017 Annual Progress Report on Unfinished Housing Developments. Among the findings of the survey are as follows:

- There is a 91 per cent reduction in the unfinished developments since 2010 from almost 3,000 to 256.
- 2017 saw the resolution of 165 developments.
- 74 per cent of local authority areas now contain fewer than 10 occupied unfinished developments. Four local authority areas have no occupied unfinished developments.
- A dramatic turnaround on the 2010 baseline survey is evident and the resolution of the final cohort of unfinished developments is in prospect.
- In total there are 159 occupied unfinished developments which will be the priority of Government and the local authorities. Of the 4,619 occupied dwellings contained in these developments only 15 per cent of these dwellings have been assessed as being impacted directly by the ‘unfinished’ element. Although this figure is relatively low, more focus will be given to this cohort and resolving these issues through targeted clearances or build-out as appropriate.

(iii) Properties purchased by 'first-time buyers'

This exemption was intended for properties purchased by 'first-time buyers' in the period 1 January 2013 to 31 December 2013 to coincide with the ending of mortgage interest relief for loans taken out to purchase residential properties. It applied to both new and used properties and also to self-builds. The exempted properties were to be occupied as the sole or main residence of the purchaser. These properties were exempt for the purchaser until the end of 2016 [extended to end 2019 in the Finance (Local Property Tax) (Amendment) Act 2015]. However, unlike the other LPT exemptions, this exemption was to cease if the property was sold or ceased to be used as the sold or main residence of the original purchaser.

Recommendation 1

(1) Trading stock of builders/developers and 'first-time buyers': Having regard to inter alia the views expressed in the submissions received, the views expressed in the Thornhill (2015) report, the report of the BOC, and the recovery of the residential property market, the Review Group determined that there was no rationale for the continuation of these exemptions.

(2) Unfinished Estates: The group noted the current demand level for residential property and the small number of 'ghost' estates remaining and concluded that there is no objective justification for continuation of this exemption and accordingly recommends that it be allowed to lapse.

Recommendation 2. Existing deferral provisions should be continued and be reviewed and revised at frequent intervals in line with movements in the CPI so as to maintain their real value.

As mentioned in Chapter 3, there are four separate categories of deferral of LPT available,

- Income Threshold,
- Personal Representative of a Deceased Person,
- Personal Insolvency, and
- Hardship Grounds

Thornhill (2012) noted that reliefs would be needed to deal with situations where there is a real and material inability to pay. The report recommended providing relief by way of deferrals as opposed to waivers on grounds of equity and efficiency. Deferrals involve deferring the charge to be collected until financial circumstances improve or ultimately at the point of transfer of the property. The deferral facility provides options to as many people as possible in the lower deciles of household incomes.

The BOC report on LPT revaluation recommends that the Department of Finance should request that the Revenue Commissioners and ESRI carry out analysis on the impact of potential increases in LPT liabilities on people with low incomes to determine if the tax is regressive or progressive in nature and the effect that this may have on the level of deferrals. To address these comments, the Department of Finance completed a distributional impact analysis and this is included for each of the scenarios presented in Chapter 4. The distributional analysis is focussed on the progressivity of the changes proposed under the five scenarios in comparison to the baseline policy of no policy change and a revaluation occurring in 2019.

The Group noted that the original thresholds recommended by the 2012 Thornhill Group of €15,000 for a single person and €25,000 for a couple, were designed in order to enable most households in the bottom four deciles to have the option of deferral. This was based on work by the ESRI for the Thornhill (2012) and relied on income data from the 2010 SILC survey. The threshold for a couple is a single person's threshold multiplied by 1.66. (€15,000*1.66=€24,900). Thornhill (2015) recommended that the thresholds be indexed to the CPI so as to maintain their real value.

For a variety of mostly externally determined reasons, the CPI (and HICP) has been subdued since the start of 2013, rising by less than 0.2 percent to the end of 2017, with an aggregate increase of about 0.8 percent expected by the end of 2018. By contrast, compensation per employee, a national accounts based measure of per employee wage growth increased by 6 percent by end 2017 and is expected to have increased by 8 percent by the end of this year.

Table 6.1 below shows the trend over recent years and forecasts for most measures to 2021.

Growth	2013	2014	2015	2016	2017	2018	2019	2020	2021
HICP	0.5	0.3	0	-0.2	0.3	0.7[f]	1.5[f]	1.7[f]	2.9[f]
Compensation per employee	-0.4	0.5	2.5	2.3	.2	2.4[f]	3.0[f]	3.3[f]	3.1[f]
Consumer Price Index (CPI)	0.5	0.2	-0.3	0	0.3	0.6[f*]	0.9[f*]		
Maximum personal rate Jobseekers Allowance	€188	€188	€188	€188	€193	€198	€203		

[F] Reflects forecast

Estimated by the Central Bank of Ireland. (Department of Finance does not produce CPI forecasts).

Table 6.1 Movement in HICP, Compensation per Employee, CPI and Jobseekers allowance 2013-2021

GROWTH IN THRESHOLDS

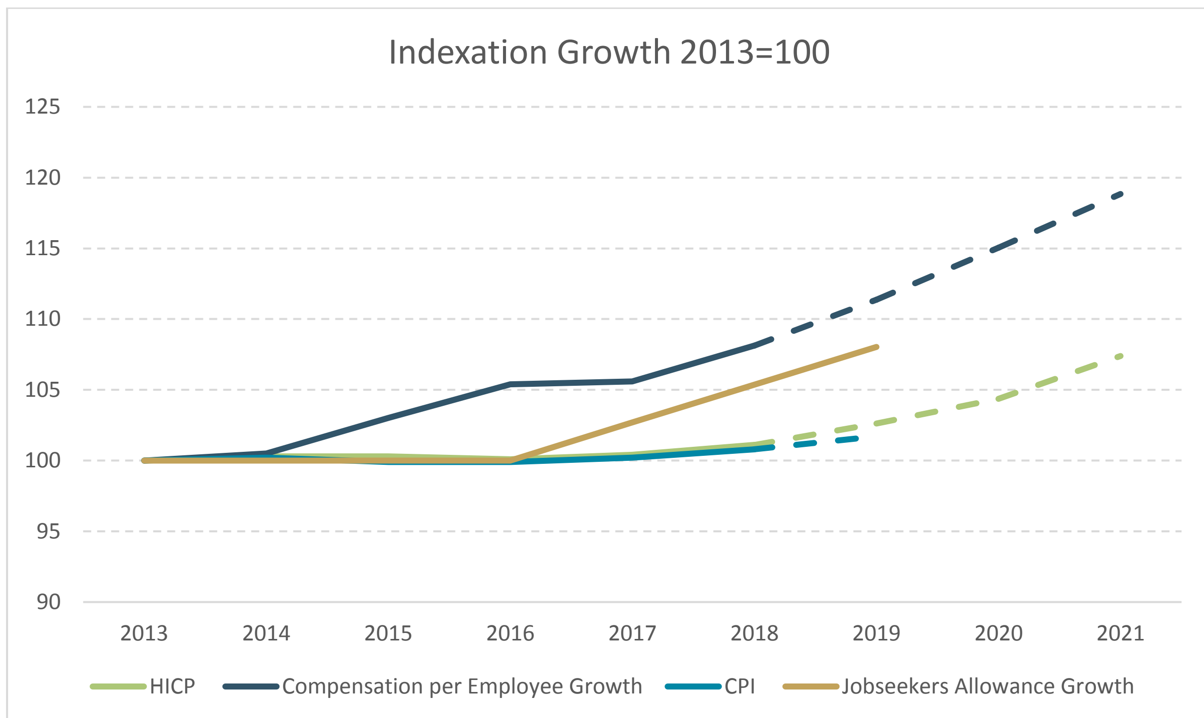

Figure 6.1 Indexation Growth 2013=100

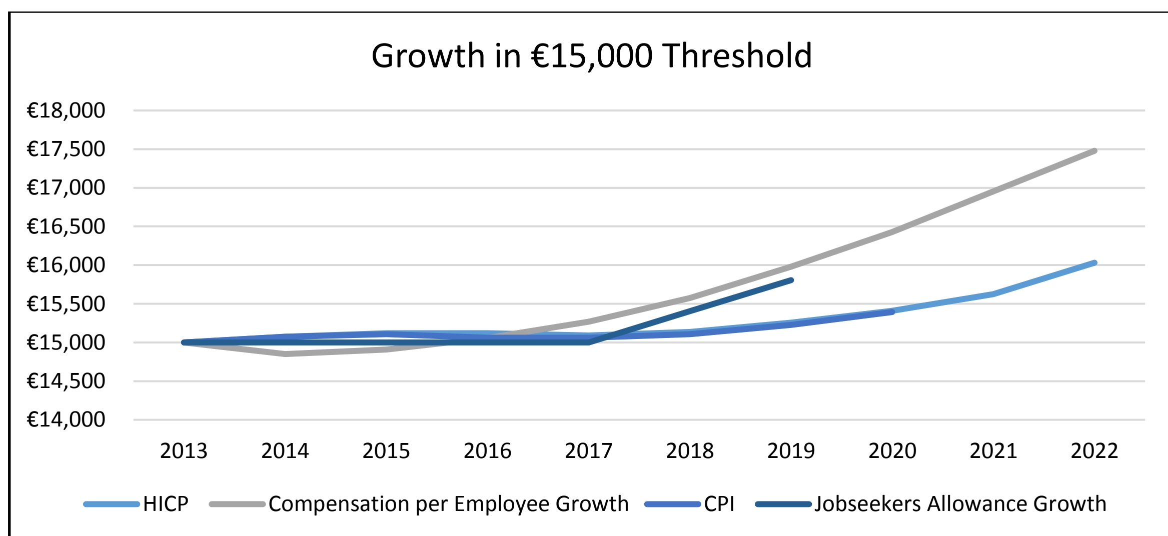

Figure 6.2 Growth in €15,000 Threshold

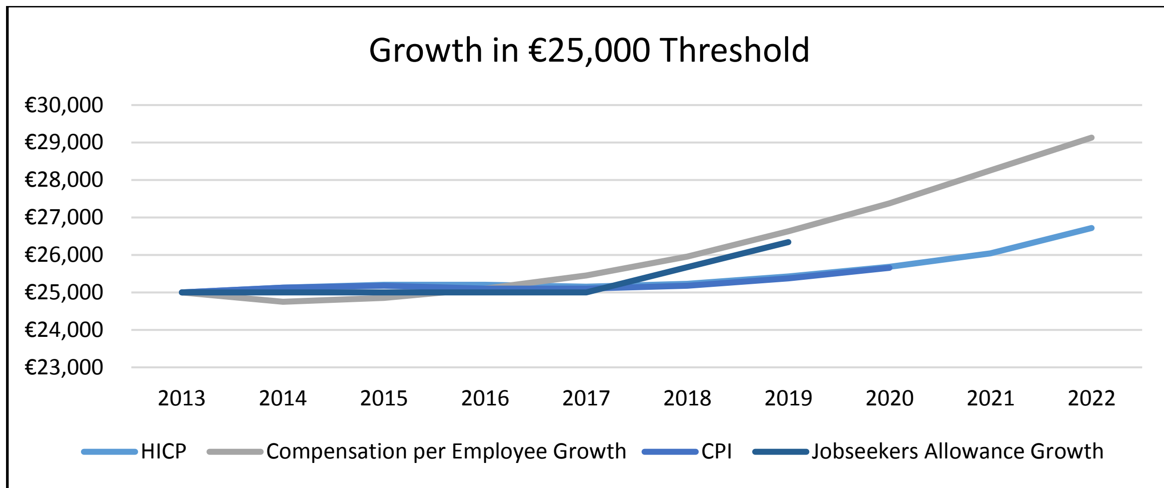

Figure 6.3 Growth in €25,000 Threshold

Re-indexing the €15,000 deferral threshold to the forecast growth in the CPI up to the end of 2019, would result in a new threshold of €15,256. Indexing this deferral threshold to wage growth, HICP and growth in the jobseekers allowance payment would result in thresholds of €16,706, €15,393 and, €16,205 respectively. Similarly re-indexing the €25,000 threshold to CPI up to end 2019 would result in a new threshold of €25,472. Indexing the €25,000 threshold to wage growth, HICP and growth in the jobseekers allowance payment would result in thresholds of €27,842, €25,655 and €27,008 respectively.

Neither CPI nor wage growth are perfect measures against which to index a low-income threshold. The CPI is a broad based measure of consumer price inflation, but is not necessarily representative of the basket of goods and services consumed by lower income households which would be weighted more towards 'necessities'. Similarly, average wage growth would not necessarily reflect income developments for less well-off households.

While a CPI-based indexation of the threshold would maintain the level of the threshold in 'real' terms over time, if incomes were to grow at a faster pace than inflation, which would normally be the case, the proportion of households eligible for a deferral would decline. On the other hand, a deferral threshold indexed to average wage growth would lead to an increasing proportion of household becoming eligible, if average wages grew at a faster pace than incomes of less well-off households.

In considering each option, the Review Group noted that as CPI measures changes in the prices of a basket of goods for the average household, it may not reflect fully the changes for those on lower incomes. The Review Group also noted that the rationale for using fixed incomes paid by the State in Thornhill (2012) was that it would ensure that someone relying on social welfare payments who met the threshold would continue to do so.

Revenue estimates that the cost of increasing the €15,000 threshold to €18,000 (with comparable increases for related thresholds) could be up to €23 million per annum. However, this assumes that all eligible owners opt for deferral, which is unlikely based on past experience with current

deferral thresholds (around 15% of eligible cases opt for deferral suggesting a possible cost of €4m were similar uptake levels to continue with increased thresholds).

The Review Group recommended that the thresholds should be increased to €18,000 for an individual and €30,000 for a couple from the next valuation date.

Interest Rate

Currently, interest at a rate of 4 per cent per annum is charged on all amounts of LPT that are deferred. This rate of interest is substantially below the standard rate applied by Revenue of 8 per cent. Any deferred amount, including interest, will be a charge on the property and will have to be paid to Revenue on the sale/transfer of the property. The issue was raised as part of the consultation process where a reduction in the interest rate was suggested. The Review Group agreed that the interest rate on deferrals should remain at 4 per cent in view of the concession the deferral option represents.

Recommendation 2

(1) The Review Group agreed that the income thresholds for LPT deferrals be reviewed regularly and that the thresholds should increase to €18,000 for an individual and €30000 for a couple,

(2) The Review Group agreed that the interest rate on deferrals should remain at 4 per cent in view of the concession the deferral option represents.

Recommendation 3. The period of relief for income-stressed owner-occupiers who have outstanding mortgages should be extended beyond the end of 2017.

Thornhill (2015) had highlighted concerns in relation to income stressed owner-occupiers with outstanding mortgages. For such owner-occupiers, the income thresholds for LPT deferral may be increased by 80 per cent of the estimated annual mortgage interest payments for the year in which the LPT liability date falls[21]. The increased income thresholds are based on mortgage interest payments actually made.

Thornhill (2012) recommended that eligibility for voluntary deferrals in respect of their principal private residence be provided to owner occupiers living in mortgaged properties where the gross income of the owner occupier less 80 per cent of mortgage interest payments in respect of their principal private residence is below €15,000 per annum (single) and €25,000 (joint owners and

[21] Section 133 of the Finance (Local Property Tax Act) 2012 as amended refers

couples). In order to ensure that this provision was targeted on income stressed owner occupiers who purchased houses during the housing boom, the report recommended that this relief would apply until end 2017 to cases where the mortgage was taken out between 1 January 2004 and end December 2008.

Revenue estimates that the cost of extending the deferral for income-stressed owner-occupiers with outstanding mortgages would be €0.5 m per year. This is calculated on the basis of both full and partial deferrals, using the 2017 data.

The review group noted that the proposed phasing out of income tax mortgage interest relief (MIR) has been underway since 2009 and that in Budget 2018 it was provided that MIR would be continued on a reducing basis for a further 3 years to allow the remaining relief holders a period of adjustment in which to adapt to the winding down of the relief. The Review Group further noted that the Minister for Finance had agreed that the LPT deferral relief be extended for one year i.e., in respect of 2019 liabilities and that legislation has been enacted in that regard[22].

> **Recommendation 3**
>
> **The Group noted that the extension of this deferral relief was enacted and would apply for the year 2019.**
> **The Review Group recommended that as the number of LPT liable persons qualifying for the mortgage interest deferral would reduce over time as the mortgages involved matured, and that the LPT revenue deferred would taper accordingly, the deferrals option on the current basis should be retained.**

Recommendation 4. For owner-occupiers over 80 years of age or those with stated certified long term illnesses and disabilities who are also living alone, that consideration be given to raising the eligible income limit for deferrals to €20,000.

As noted earlier, the current income thresholds for full deferral are €15,000 for a single person and €25,000 for a couple, while the thresholds for partial deferral are €25,000 for a single person or €35,000 for a couple. The Group considered that if the income thresholds for deferral are increased as recommended above in recommendations two and three, this would be of benefit to people covered by Thornhill's recommendation number four. Moreover, the Group considered that issues of hardship are more effectively addressed through the social welfare code. Revenue has insufficient data to cost such a measure but it is considered to be modest.

[22] Section 37 of the Home Building Finance Act 2018

Recommendation 4

The Review Group considered that issues of hardship are best addressed through the social welfare code rather than through further tax reliefs. The Group also considered that implementation of this relief would not be consistent with the principles underlying the LPT; i.e. as broad a base as possible with a minimum number of exemptions or deferrals. On this basis, the group did not recommend the implementation of this recommendation but noted that some people in this category may be eligible to benefit from recommendations two and three.

Recommendation 5. The Revenue 'estimate amount' be treated, instead, as a 'default' self-assessment for LPT purposes. Taxpayers would have an obligation to submit a return form if the Revenue "estimate amount" did not fall into the same valuation band as the liable persons self-assessment of the value of the property.

Thornhill (2015) recommended that the Revenue 'estimate amount' be treated, instead, as a 'default' self-assessment for LPT purposes. This approach was recommended on the understanding that it would be made clear to taxpayers that they would have an obligation to submit a return form if the Revenue "estimate amount" did not fall into the same valuation band as the liable persons self-assessment of the value of the property. The rationale for this change was that it would help to reduce the administrative burden on individual taxpayers and streamline LPT compliance procedures.

The Review Group noted that the requirement to issue documentation such as returns and guidance material and to process it when completed and returned when LPT was introduced was a significant logistical task for Revenue. It was considered that there was scope to reduce the administrative burden involved in this process in relation to the next LPT valuation date were liable persons not required to submit a return in situations where their valuation coincided with the Revenue 'estimate amount'. However, Revenue now considers that the scope for reducing the administrative burden is not as wide as originally envisaged and that, on balance, the advantages of retaining the original process would outweigh any disadvantages. For this reason, this recommendation is no longer being advocated.

Recommendation 5

This recommendation is no longer being advocated

Recommendation 6. In order to simplify the current Government accounting system that direct payment of LPT receipts should be made by Revenue to the Local Government Fund.

Thornhill (2015) recommended in order to simplify the current Government accounting system that direct payment of LPT receipts should be made by Revenue to the Local Government Fund rather than the existing more complicated system. Thornhill (2015) considered that the procedure then in place was an inefficient arrangement and recommended that LPT receipts be paid directly by the Revenue into the LGF and that Motor Tax receipts be transferred to the Exchequer from the LGF.

This recommendation has been implemented in section 54 of the Water Services Act 2017 which provides for the Minister for Finance to pay into the Local Government Fund the local property tax collected during the financial years 2014 to 2017. Commencing with the year 2018, the Revenue Commissioners are required to pay directly into the Local Government Fund an amount equivalent to the local property tax received by them, including any interest or penalties.

Recommendation 6 has been implemented in section 54 of the Water Services Act 2017 which provides that from 2018, the Revenue Commissioners are required to pay directly into the Local Government Fund an amount equivalent to the local property tax received by them, including any interest or penalties.

Recommendation 7. Revised system of Setting LPT Rates, Variation factor, Valuation Date and Budget Alignment

Recommendation 7 is the central recommendation in Thornhill (2015) and comprises a number of elements. Thornhill (2015) recommended a new system for determining LPT liabilities, with a possible interim deferral of the next valuation date until November 2018 or November 2019. In order to provide policy clarity and stability, and to avoid risks of legal challenges arising from the deferral of the valuation dates, Thornhill (2015) recommended that the legislative changes establishing the new system and providing for the deferral of the valuation date from November 2016 be made concurrently.

This central recommendation included three key elements: a revised system of assessing LPT liabilities, a change in the valuation period and a potential deferral in the timeline for the revaluation. Each element is discussed below and followed by a summary of the issues raised and the recommendations of the Review Group.

Revised system of assessing LPT liabilities

- A minimum yield which must be raised by each local authority would be set centrally by Government as part of the process for setting the national budget.
- Revenue and the Department of Finance would estimate the property tax rates to be applied in each local authority area in order to raise this minimum yield.
- Local authorities, on receipt of this information, could adjust this rate upwards by a factor of up to 15 per cent. It is envisaged that the minimum yield for LPT would be set at a level equal to the current amount raised by local authorities so that property tax bills should remain at current levels.
- To facilitate the development and implementation of new processes and to align these processes with arrangements for the settlement of local authority budgets, it may be necessary to defer the next LPT revaluation from November 2016 to November 2018 or 2019.

The Review Group explored this option and in Chapter 4, Scenario 2 provides estimated liabilities for the twenty bands in the 31 local authorities on this basis for a target yield of €500 million. Scenario 2 is discussed in detail in Chapter 4.

Valuation Period

Thornhill (2015) advocated that to facilitate a change to the model of calculation, consideration should be given to a five, rather than three-year valuation period. Dr. Thornhill argued that this would reduce the compliance requirements for taxpayers and reduce administrative costs for Revenue. However, he noted that a five-year cycle could also raise concerns among the public about "valuation shocks" as the new valuation dates approach. He suggested that consideration might be given as to weighing up the pros and cons of these two approaches.

The valuation date is the date on which the market value of a residential property is to be established. It was originally envisaged that 1 May 2013 would be the valuation date for the period 1 July 2013 to 31 December 2016 (i.e. three and a half years) and that 1 November would be the valuation date for each succeeding three-year period, starting with 1 November 2016 for the period 2017 to 2019. However, the 1 May 2013 valuation date was extended by the Finance (Local Property Tax) (Amendment) Act 2015 for an additional three years. As things stand, the next valuation date will be 1 November 2019 so that the duration of the valuation period has become six and a half years.

The main objective in not requiring properties to be valued annually was to provide a measure of certainty for liable persons being taxed on the same property value for a number of years and to reduce their compliance costs. Having submitted their self-declared value to Revenue, liable persons do not need to submit a further return to Revenue during a valuation period unless they want to change their payment method or claim a deferral or exemption.

The counterpart to reduced compliance costs for taxpayers is reduced administration costs for Revenue because of the lower number of returns to be issued and processed and the reduced need for customer contacts.

A feature of the current system is the emphasis on the periodic valuation date and the properties that fall to be charged to LPT on that date. A property that is built after a valuation date does not become liable for LPT until the following valuation date. Thus, a property that was completed in August 2013 will not become liable to LPT until 2020 based on a 1 November 2019 valuation date. Similarly, a property that was exempt on 1 May 2013 will continue to be exempt until 2020, regardless of whether or not the qualifying conditions for the particular exemption continue to be met. This feature obviously has a negative impact on the LPT yield for the Exchequer.

What is the appropriate duration of the valuation period?

Thornhill (2012) recommended that the LPT be levied on the market value of properties with the value being self-declared by liable persons. However, the report did not discuss the appropriate frequency of valuation. Ultimately, it was decided to adopt a standard three year valuation period, albeit with the initial period lasting for three and a half years to take account of the mid-year commencement during 2013. The question arising is whether it would be more appropriate to have a longer valuation period.

A benefit of a shorter valuation period is the minimisation of the impact which volatility in property values (and in LPT liabilities) exerts from one valuation date to another. This is illustrated by the deferral of the first valuation date to 1 November 2019 and the impact on expected valuations in areas where property values have been increasing steadily over the valuation period. A longer valuation period could (depending on property price dynamics) entail greater volatility in revenue but could have benefits for taxpayers and Revenue in terms of reduced compliance and administration costs.

In relation to the treatment of new properties built during a valuation period, the degree of acceptability of a reduced LPT yield and the perceived inequity vis-à-vis those property owners who were required to value their properties on the valuation date is related to the length of the period between valuation dates: the shorter the period, the more acceptable the reduced yield and the inequity in view of the relative proximity of the next valuation date and the rectification of the situation. The fact that such properties continue to escape the LPT charge in the context of the current extended 6 ½ -year valuation period now appears anomalous. The longer this situation persists, the more inequitable it becomes vis-à-vis those property owners paying LPT from the beginning.

Whether or not the valuation period should be extended depends on whether the benefits of a shorter period outweigh the disadvantages associated with a longer period, and vice versa. Devising a method of bringing newly built properties within the LPT charge regardless of their completion date would overcome a major disadvantage. However, while Thornhill (2015) referred only to the possibility of a five-year valuation period, the current Review Group suggest that an

extended four-year valuation period would achieve a reasonable balance between minimising volatility in the property market and reducing compliance and administration costs. As discussed below it may also facilitate bringing new properties into the LPT charge during a valuation period.

Exempt Properties

A property that is exempt on the valuation date continues to be exempt until the following valuation date regardless of whether or not the qualifying conditions for the particular exemption continue to be met. Where the qualifying conditions cease to be met during a valuation period, LPT could start to be charged based on the property's value at the preceding valuation date.

While not one of the Thornhill (2015) recommendations, the situation whereby properties built after a valuation date remain outside the charge to LPT until the following valuation date appears increasingly anomalous and inequitable. The current situation is due to be rectified on 1 November 2019 and it is not desirable that the same situation should recur during the next valuation period in relation to properties built after that date. A method should be devised therefore to bring such properties within the charge to LPT on the first liability date following their completion.

While establishing such a date might present difficulties, such properties could possibly be valued at the date of their completion. However, it is considered that this treatment would still be inequitable in that new properties would be taxed on a different value basis than older properties. It would also introduce unnecessary complexity into the administration of LPT through having a multiplicity of different valuation dates instead of the current single valuation date. A more equitable and transparent approach would be to require the retrospective valuation of new properties as if they had existed on the preceding valuation date. This would be facilitated by the continued availability of the Revenue valuation guidance published in the lead up to the revaluation of properties in existence at the time. An important additional valuation tool that can be used to gauge the value of comparable properties is the publicly available Property Price Register. This register contains the date of sale, selling price and address of all residential properties purchased in Ireland since 1 January 2010. Property owners could also avail of the services of estate agents to retrospectively value their property at the appropriate date. The effectiveness of such treatment would depend on having a reasonably short valuation period and the regular revaluation of properties.

Timelines for the LAF notifications

Thornhill (2015) acknowledged that the technical work involved in developing and putting in place the processes entailed in his central recommendation should not be done in a compressed time scale. The report acknowledged the necessity to align the new processes with the arrangements for the settlement of local authority budgets and the development and testing of the methodology for updating the value of the property tax bases in each local authority area. For this reason Thornhill noted that it might be necessary to delay the next revaluation from November 2016 to November 2018 or November 2019.

The Department of Housing, Planning and Local Government pointed to the new budgetary process put in place in 2014 for local authorities by the Minister for the Environment, Community and Local Government. This included the moving of the date of the local authority budget meeting forward to November requiring local authority budgets to be formally adopted by 31 December in line with EU requirements. Prior to this, local authority budget meetings typically took place in December/January.

In the course of this review the DHPLG referred to concerns expressed by local authorities, which it shared, in relation to the timing of the decision on the variation of the LPT rates which is required to be sent to Revenue on or before 30 September in the year in which the relevant liability date falls. This concern centred on the necessity to make the decision on LPT variation in isolation from other budgetary decisions. DHLPG considers that this results in a fragmented, drawn-out budgetary process in local authorities with the Members required to make decisions regarding the future income of the local authority informed by the general estimates of the budgetary impacts and that specific budgetary information would obviously be preferable. The link between the LPT decision and its consequences was weakened by the gap in timing. This echoed concerns raised by Thornhill (2015), the Budget Oversight Committee and others in relation to the alignment of the various processes.

It was noted that that the original rationale for the variation decision to be communicated to Revenue by end September was to facilitate its work in terms of calculating the revised LPT liabilities of individual property owners in advance of the 1 November liability date, notifying property owners of their liability, processing the different payment arrangements requested by property owners and putting these in place for the beginning of the following year. However, Revenue considers that there is scope in a non-valuation year to move the notification date for the LAF decisions out to the middle of October from 30 September. While recognising the real difficulties faced by local authorities with an early LAF notification date, Revenue considers that it is not in a position to offer more flexibility than mid-October if the payment arrangements for the LPT are to be implemented on time. However, such flexibility would not be possible in a revaluation year and, indeed, the current 30 September deadline appears unworkable from Revenue's perspective. In preparation for the next valuation date of 1 November 2019 and return filing date of 7 November 2019, it is expected that the printing and mailing of returns to property owners will have to be done over most of September and into the first 10 days of October. This 'bulk issue' constitutes a very extensive body of work for Revenue. Any local authority rate variations will have to be communicated to property owners as part of the LPT return so that they are aware of their final liability when considering their payment or deferral options. Revenue considers that an earlier LAF notification date no later than 31 August will therefore be necessary in 2019.

Recommendation 7 and related issues.

The Group recommends:

(1) That consideration be given to applying a 4-year valuation period instead of the current 3-year period.
(2) Where the qualifying conditions for exemption cease to be met during a valuation period, LPT should start to be charged based on the property's value at the preceding valuation date.
(3) Properties built after the 1 November 2019 valuation date should be retrospectively valued as if they had existed on the preceding valuation date.

The Review Group agreed that the Local Adjustment Factor (LAF) notification date to the Revenue Commissioners would occur in mid-October except in the year that property valuations fall due for revaluation. In that instance the LAF notification date is no later than 31 August to facilitate Revenue's administration of the required notification procedure.

Recommendation 8: Local authorities should be more engaged in supporting the Office of the Revenue Commissioners in the LPT process and also to provide the general public and individual households with programmatic and other useful information on how they spend the public funds available to them and the proportionate contribution made by the LPT.

Thornhill (2015) recommended that the local authorities be more engaged in supporting the Office of the Revenue Commissioners and also that they provide the general public and individual households with programmatic and other useful information on how they spend the public funds available to them and the proportionate contribution made by the LPT. The Group noted that in tandem with the introduction of a revised budgetary process for local authorities in recent years, which encompasses new municipal district budgetary plans, this recommendation has been implemented to a significant degree. Local authorities publish detailed information on their budgets, income raising and expenditure decisions, as well as on longer term capital investment decisions.

Recommendation 8

The Review Group recommends that the Departments of Housing, Planning and Local Government, Finance and the Revenue Commissioners liaise to implement this recommendation.

Recommendation 9: Over the medium term, the Government should consider moving to a system whereby local authorities retain 100 per cent of the LPT revenues raised in their areas. Authorities with weaker tax bases would consequently need to receive supplementary Exchequer funding.

This recommendation refers to the model of 100 per cent retention outlined in Chapter 3. Thornhill (2015) recommended that, over the medium term, the Government should consider moving to a system whereby local authorities retain 100 per cent of the LPT revenues raised in their areas. It was argued that it is important that where there is significant variation in tax rates between different areas taxpayers should have the assurance that taxes raised in their areas are spent locally. Authorities with weaker tax bases would receive supplementary Exchequer funding as needed. The rationale articulated was that the retention of 100 per cent of LPT in each local authority area would enhance local accountability and strengthen local democracy.

While the group agreed that 100 per cent retention could help to strengthen local democracy by ensuring that the LPT that is raised locally is spent locally, it was noted that this change would require a restructuring of the local authority funding model. Based on current valuations for 2019, the total LPT related funding to be provided to all 31 local authorities notwithstanding the effect of local variation decisions is estimated to be €528m. This comprises of gross LPT receipts of €487 million, less the overall impact of the LAF for 2019, (- €25 million) giving a net figure of €462 million. The Exchequer funding of €41 million required to meet the shortfall in the equalisation fund brings the total LPT related funding for 2019 to €503 million. It is estimated that if there was 100 per cent retention of LPT across all local authorities, the total LPT related funding required would be €592 million, comprising LPT receipts of €487 million and increased Exchequer funding of €105 million (an increase of over 150 per cent).

The move to 100 per cent retention would pre-commit fiscal space of an amount equivalent to that required to fill the gap for authorities who cannot meet their baseline funding requirements. This would have to be funded from an increase in other taxes or a reduction in expenditure elsewhere. As the Exchequer impact is outside the scope of the LPT review, it was agreed by the Group that DPER and DHPLG could work bilaterally on options to mitigate the impact on the Exchequer of the proposed 100% retention in the context of the Estimates process.

The Review Group recommends 100 per cent retention of LPT by local authorities and that the Local Adjustment Factor (LAF) should be limited to upward only adjustments of LPT rates which

was also a recommendation of Thornhill (2012). If the downward LAF is retained, then the broad target of €500 million in the scenarios outlined would need to increase significantly (between 10 and 15 per cent at least) in order to offset the impact of local authorities' flexibility in this regard. If both downward LAF and local retention is maintained for all local authorities, this would compound the challenge of reaching the target. As shown in tables 2.1 and 2.2, some local authorities apply a downward LAF even when they do not meet the baseline. If there is no disincentive to applying a downward LAF and the Exchequer is required to fill the funding gap, it presents risks for the Exchequer that do no currently exist. It also weakens governance in terms of accountability.

The Review Group recommends that the LPT rate/s set centrally should operate as the minimum rate/s to be charged by authorities, with the Exchequer committed to bridging the funding gap only for authorities that cannot meet baseline funding requirements through the minimum rate. If a local authority chooses to increase the rate it should have the benefit of the additional funds raised e.g. to supplement programmes funded by the Exchequer or from other income sources, in line with local priorities. This approach would further enhance local accountability and strengthen local democracy.

> **Recommendation 9**
>
> **(1) The Group recommends that 100 per cent retention should be introduced. In this event, DPER and DHPLG will work bilaterally on options to mitigate the impact on the Exchequer of the proposed 100% retention in the context of the Estimates process.**
> **(2) The Group recommend that the LAF should be limited to upward only variation.**

Recommendation 10: In line with the retention of 100 percent of LPT revenues by individual local authorities, LPT should be re-designated as the Local Council Tax (LCT) to emphasise that it is a tax raised to pay for local council services.

The Review Group noted that from its inception LPT has been aimed at the generation of funding for the provision of local services. Although unpopular on its introduction, the concept of a tax on residential property has gained acceptance in the period since the LPT was introduced. Implementation of recommendation eight above would help to solidify the position of the tax. The Review Group did not consider that there was a strong case for changing the name of the tax and felt that changing its title could dilute the view of the LPT as a recurrent wealth tax.

Recommendation 10

The Review Group considered that recommendation 10 should not be advanced for further consideration at this time.

Recommendation 11: regarding properties damaged by pyrite, that the exemption continue in place but it be restricted to those properties that have been certified as having a damage rating of '2' or '1 with progression'; that pyrite damage continue to be proved by inspection and testing by a competent person in accordance with a standard published by the National Standards Authority of Ireland (NSAI); where liable persons elect not to incur the costs of testing they have the option of submitting by way of self-assessment a value to Revenue for the property which in their view reflects its current market value; where the Pyrite Resolution Board (PRB) is prepared to remediate a property without carrying out laboratory testing, Revenue accept a confirmation of remediation from the PRB in lieu of the NSAI certificate: and, where a party such as a guarantee company or a builder/developer remediates a property or compensates the property owner in lieu of remediation, Revenue accept confirmation of this from the party in lieu of the NSAI certificate.

The qualifying criteria in respect of exemption from LPT for properties with 'significant pyrite damage' were modified by the Finance (Local Property Tax) (Amendment) Act 2015. While, generally, pyrite damage must continue to be proved by inspection and testing by a competent person in accordance with a standard published by the National Standards Authority of Ireland (NSAI), some alternative 'evidence' to the NSAI certificate of the required level of pyrite damage would be accepted by Revenue. Thus, where the PRB is prepared to remediate a property without carrying out laboratory testing, Revenue accepts a confirmation of remediation from the PRB in lieu of the NSAI certificate. In addition, where a party such as a guarantee company or a builder/developer remediates a property or compensates the property owner in lieu of remediation, Revenue accept confirmation of this from the party in lieu of the NSAI certificate.

The relaxation of the certification requirement was one of the recommendations made by Thornhill (2015).

Recommendation 11

The Review Group noted the implementation of this recommendation in the 2015 amending legislation.

Recommendation 12: reliefs for properties occupied by persons with disabilities - The changes then being administered by Revenue under their care and management provisions should be covered by amending legislation, as, it is understood, is the Minister's intention; Additionally, with regard to the relief by way of reduced chargeable value, increase the threshold to the lesser of the increase in chargeable value or €50,000 which would ensure everyone who meets the qualifying conditions could benefit from the relief by way of reduced chargeable value up to a maximum reduction of €90 (one bandwidth). The relief would still only apply where the adaptations increase the chargeable value of the property.

This recommendation referred to measures that were being administered by Revenue under its care and management provisions and recommended that they should be covered by amending legislation.

Recommendation twelve was in fact implemented in the Finance (Local Property Tax) Act 2015 which provides for two different types of LPT relief:

A reduction in the chargeable value of a property that has been adapted to make it more suitable for occupation by a person with a disability where the adaptation work has resulted in an increase in the chargeable value of the property to the extent that it moves into a higher valuation band, or, in the case of properties valued at over €1m, where the adaptation work has resulted in any increase in the chargeable value. Where the increase in chargeable value is not sufficient to move a property into a higher valuation band, a reduction of €90 (one band width) is nevertheless allowed.

A full exemption from the charge to LPT for properties that have been constructed or acquired because of their suitability for occupation by individuals who are permanently and totally incapacitated to such an extent that they are unable to maintain themselves by earning a living and whose condition is so severe that it dictates the type of property that they can live in. The exemption also applies to properties that have been adapted to make them suitable for occupation by such individuals.

> **Recommendation 12**
>
> **The Review Group noted the implementation of this recommendation in the 2015 amending legislation.**

Recommendation 13: LPT payments should not be allowed as a deduction to landlords against income or corporation tax.

Recommendation 13 refers to the consideration that LPT should be allowed as a deduction against income or corporation tax. This issue has been considered in a number of studies over recent years; e.g., the Thornhill reports of 2012 and 2015 and the 2017 Report of the Working Group on the Tax and Fiscal treatment of rental accommodation providers. It was also raised in submissions to the consultation process. In its Briefing Paper 2 of 2018, the PBO states that LPT payments should not be allowed as a deduction against income or corporation tax.

Thornhill (2012) recommended that the LPT paid in respect of a rented property should be deductible from gross rents in computing taxable income, in a similar manner to commercial rates on the basis that it was an expense of the transaction under which rents are received. However, in 2015, Dr Thornhill altered his stance on this issue stating that deductibility did not rest easily with the concept of the LPT as a tax on the amenity value of residential properties rather than as a business cost. Owners and tenants of rental properties both derive value from the amenity value of these properties (the owner in the form of the rent and the tenant from living in the property).

The Report of the Working Group on the Tax and Fiscal Treatment of Rental Accommodation Providers of September 2017 [23] considered whether landlords should be allowed to deduct LPT from their rental income as an expense in calculating taxable profits for the purposes of income tax. That report noted that this measure would cost €28 million. The Review Group agreed that such a measure would create a different treatment of LPT between landlords and owner-occupiers, who cannot claim a deduction for LPT.

While the introduction of this measure would not be expected to impact the LPT yield, income tax and corporation tax receipts would be affected. Therefore the effect would impact the Exchequer and not the Local Government Fund.

Revenue figures indicate that there are approximately 255,569 properties where the LPT return was filed in May 2013 and where liable persons indicated that the property was not their principal private residence (this includes holiday homes). The LPT declared in respect of these properties was €54 million.

Previous estimates by Revenue were that the cost of allowing 100 per cent LPT to be deducted as an expense by landlords would be €9.5 million in year 1 and €19 million in a full year.

In a related matter, one submission suggested that management fees should be allowable against LPT on the basis that management companies provide services such as refuse collection and some amenities maintenance. The Review Group noted that as LPT funds a broad range of services and many householders also incur these expenses, there was no case for deductibility of such management fees.

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[23] http://www.budget.gov.ie/Budgets/2018/Documents/Report_of_the_Working_Group_on_the_Tax_and_Fiscal_Treatment_of_Landlords.pdf

Recommendation 13

The Review Group was in agreement with the Thornhill (2015) recommendation and the rationale which underpinned it. It noted that LPT is a relatively small expense and therefore is unlikely to make a significant difference to the position of any individual landlord in cash terms and so may not be regarded by landlords as a sufficient measure to encourage them to stay in or enter the rental market. The measure would also have a deadweight cost in respect of landlords who do not intend to leave the rental market and would create a more favourable position for landlords of property compared to owner-occupiers, as owner-occupiers cannot claim a tax deduction for LPT.

References

	Publications
1	Report of the Interdepartmental Group on the Design of a Property tax 2012
2	Thornhill ,D Review of the Local Property Tax (LPT) 2015
3	Arnold, J, M. Heady, C., Johansson, A, Schwellnus , Varatia, L., Tax Policy for Economic Recovery and Growth *The Economic Journal*, Vol. 121, pp. F59-80. 2011
4	BLÖCHLIGER, H. et al., 2015. "The Stabilisation Properties of Immovable Property Taxation: Evidence from OECD Countries", OECD Economics Department Working Papers, No. 1237, Paris: OECD Publishing. 2015
5	ECB Publication used in the quote "below but close to 2 percent"
6	Review of the taxation and fiscal treatment of landlords 2018
7	CSO statistical publications: 2018
8	Revenue datasets: 2018
9	National Income and Expenditure account 2018
10	Stability Programme Update 2018
11	Dept. Finance publications used in the creation of the figures in Chapter 2
12	Dept. Finance HICP and compensation per employee projection for 2018-21

Appendices

Appendix A Submissions Received

	From
1	**Donal de Buitléir**
2	**Chambers Ireland**
3	**Dublin Chamber**
4	**Irish Council for Social Housing**
5	**John O'Connor – Member of the Public**
6	**Consultative Committee of Accountancy Bodies – Ireland**
7	**Apartment Owners Network**
8	**Trinity College Dublin**
9	**Irish Tax Institute**
10	**Joe Conti – Member of the Public**
11	**Fianna Fáil**
12	**Dublin City Council**
13	**Age Action**
14	**Raymond Donohoe – Member of the Public**
15	**John Fingleton – Member of the Public**
16	**Denise Costello – Member of the Public**
17	**Frank Smyth – Member of the Public**

Appendix B Local Authorities Funding Model

Overview

The system of funding local government in Ireland is a complex one, as local authorities derive their income from a range of sources including commercial rates, charges for goods and services provided, LPT and grants from various government departments and state agencies for both Current and Capital purposes.

As stated in chapter 2, LPT was introduced in 2013 to provide a stable and sustainable funding base for local authorities. LPT has yielded over €2.2 billion for local authorities since its introduction, with the annual LPT allocation currently standing at close to €0.5 billion this year, which supplements other local authority income. In overall terms, LPT broadens the tax base and reduces the level of central funding required by local government, freeing up resources for expenditure in other areas.

LPT is an essential source of funding for local authorities, accounting for approximately 9 per cent of current income. In addition, some 20 per cent of the overall LPT allocation supports Housing and Roads services in certain local authorities, replacing the need for exchequer funding for some of these services. It provides appropriate levels of financial support to individual local authorities allowing them to sustain their continued efforts to achieve balanced budgets and helps fund important local services such as parks, libraries, leisure amenities, fire and emergency services, maintenance and cleaning of streets and street lighting- all of which benefit citizens directly.

Central government sources provided €2.66 billion of funding to local authorities in 2017, of which 20 per cent came from LPT. From 2014 - 2017, the Local Government Fund's income sources were a combination of LPT, Motor Tax and an Exchequer contribution. From 2018, as provided for by the Water Services Act 2017, Motor Tax now accrues directly to the Exchequer and is no longer an income source for the Local Government Fund. This was recommended in paragraph 4.28 of the Thornhill report. Figure A1 below describes the flow of central government funding that came into effect in 2018.

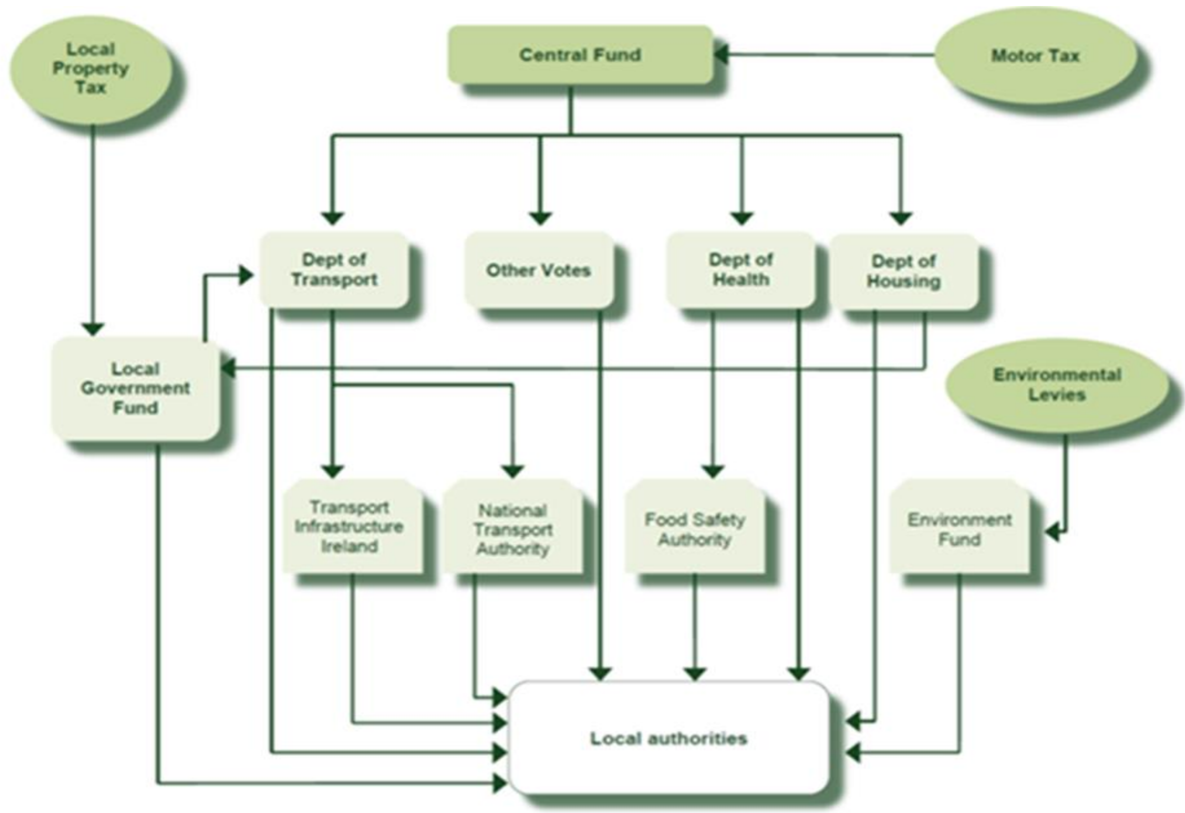


Figure A.1 LPT Funding and the Central Fund

Appendix C How Equalisation Works in Practice

Take the example of a County Council where the estimated LPT yield is €10m and the LPT Baseline is €14m. In the first instance, the authority retains €8m of the LPT amount locally, representing 80 per cent of the estimated yield. The remaining €2m representing 20 per cent of the yield is used as a contribution towards equalisation funding. As the LPT Baseline for this authority is €14m, the council's allocation is topped up with €6m equalisation funding to bring it up to the minimum funding level (baseline).

If the *LPT Baseline* for this council was lower, it would not require as much equalisation funding to reach the minimum level. If the LPT amount collected and retained locally was higher, there would be a reduced equalisation funding requirement. Accordingly, the amount of equalisation funding required, if any, is dependent on:

(i) The local authority's LPT Baseline, and
(ii) The amount of LPT retained locally.

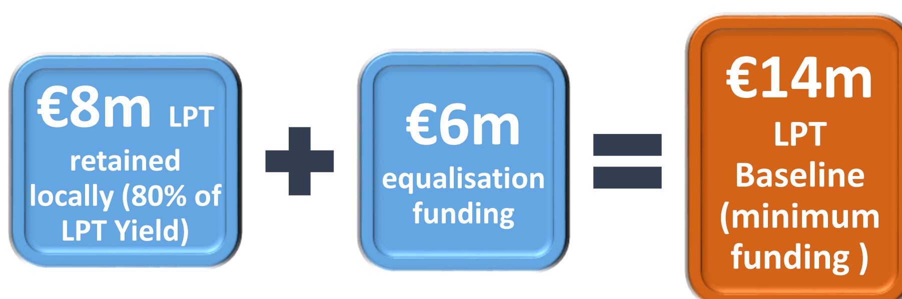


Figure A.2. Equalisation in Practice

LPT variation decisions 2018

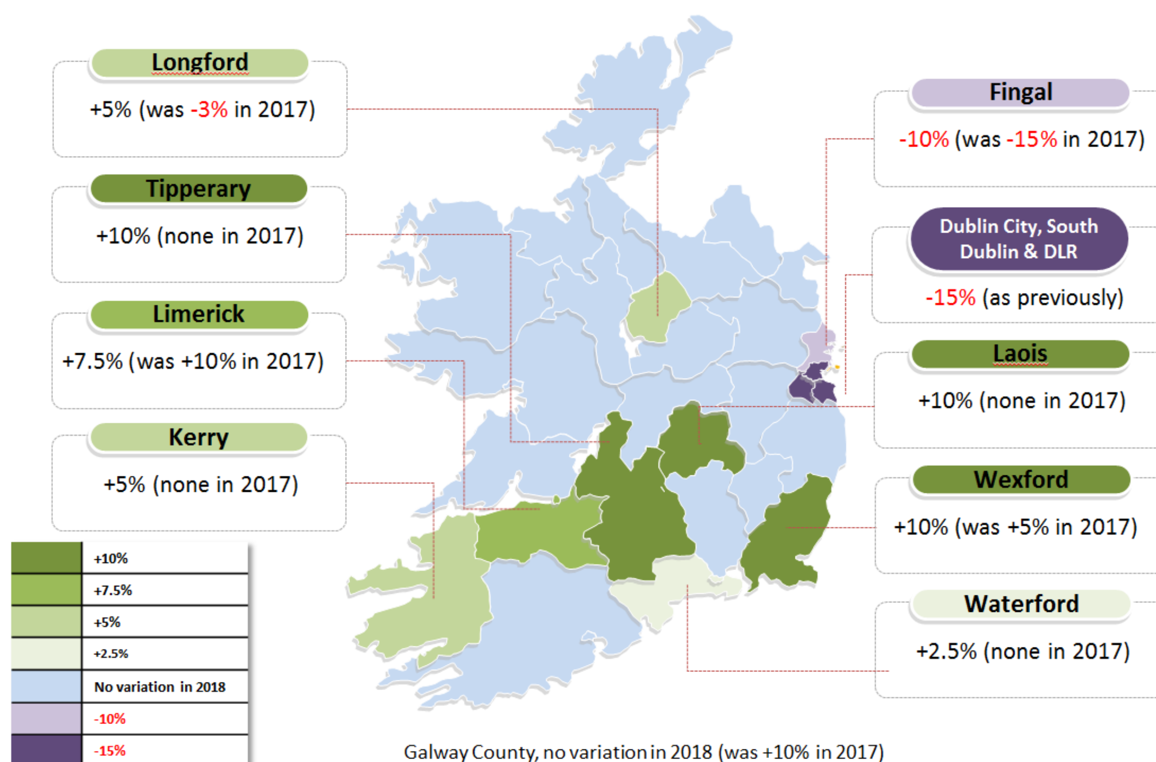


Figure A.3 LPT variation decisions 2018

ACCOUNTABILITY FOR THE LPT

The LPT is collected by the Revenue Commissioners (see chapter 3) and is transferred to the Local Government Fund which comes under the responsibility of the Minister for Housing, Planning, & Local Government. The funds are ultimately redistributed to local authorities in accordance with Government policies on funding allocations.

As the LPT is collected by the Revenue Commissioners, the Minister for Finance and Public Expenditure and Reform is accountable to the Oireachtas in relation to collections issues. This includes all of the design issues and comprises, the valuation date, bands, the rate of tax and the implementation issues.

LPT proceeds collected by the Revenue Commissioners are subsequently transferred to the Local Government Fund, which comes under the responsibility of the Minister for Housing, Planning and Local Government. The funds are ultimately redistributed to local authorities in accordance with Government policies on funding allocations.

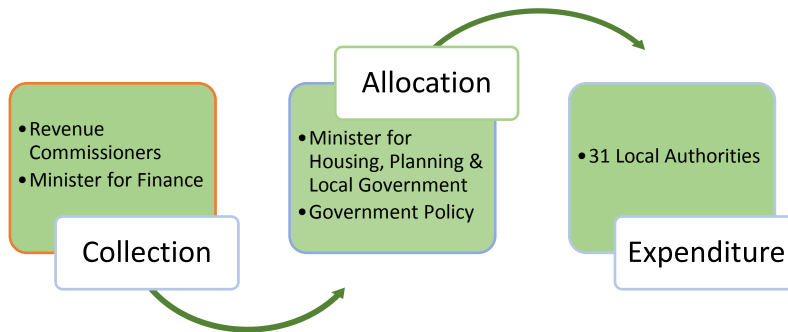
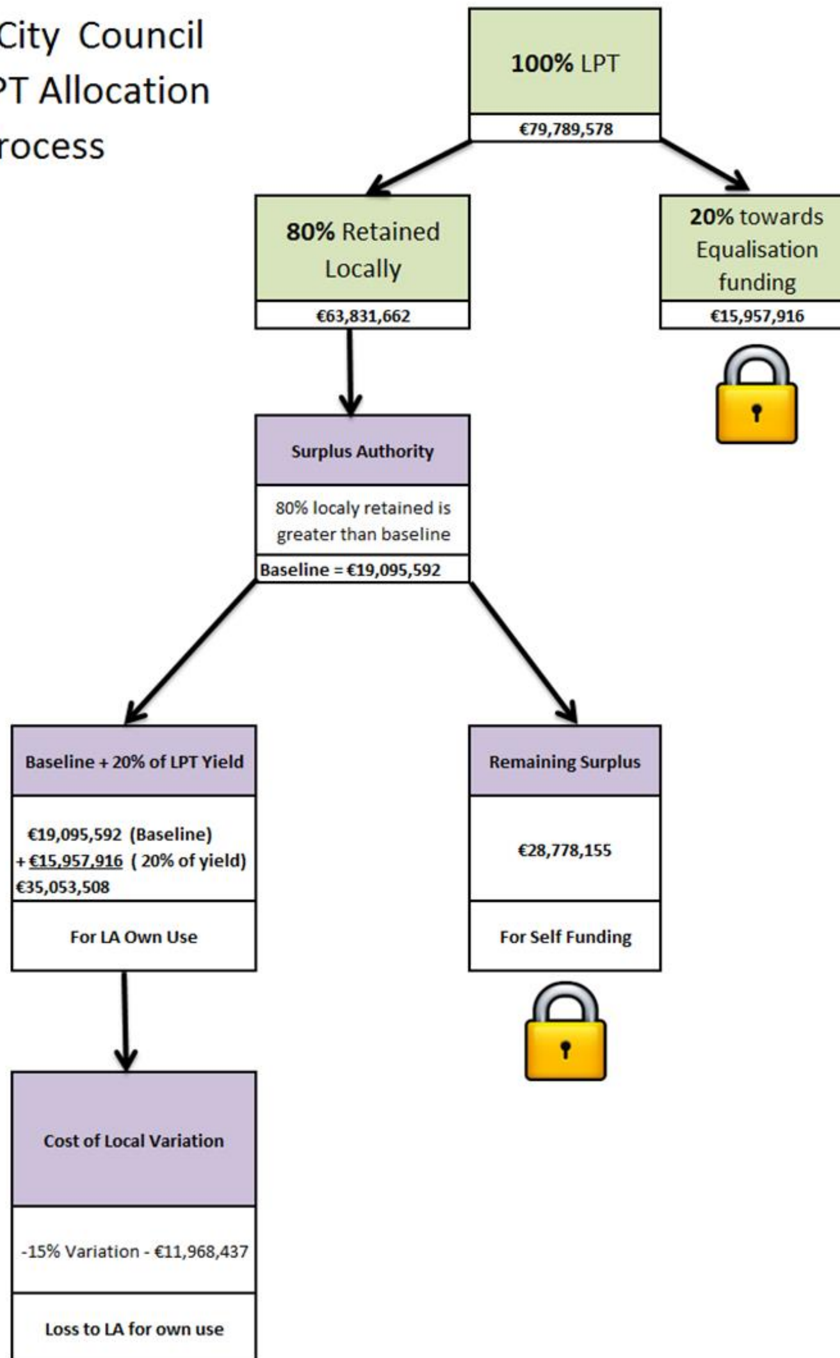


Figure A.4 LPT Collection,
Allocation and Expenditure Model.

Local Authorities receive a substantial part of their annual funding from a range of central government departments and agencies. LPT has yielded over €2.2 billion for Local Authorities since its introduction in 2013 so it remains an important source of funding. The annual LPT allocation supplements local authority income from commercial rates, from the provision of goods and services and from Government grants.

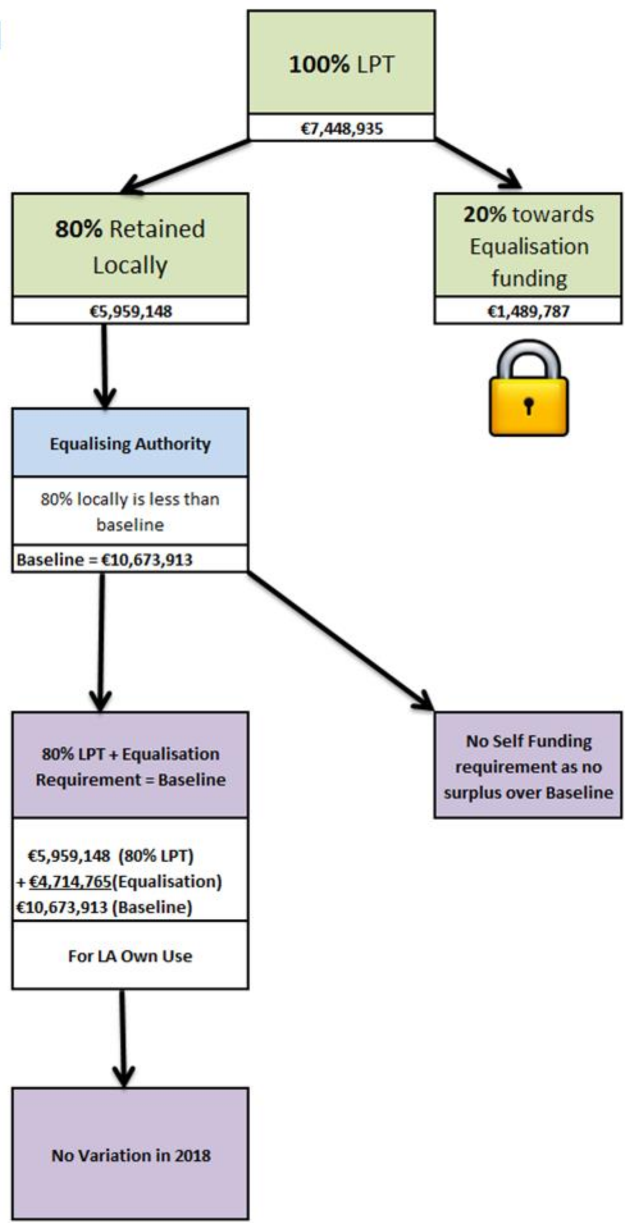
Example of a Local Authority with a Self-Funding Element



Final Allocation = €51,863,226 (of which €28,778,155 relates to self funding and €23,085,071 for own use)

Example of a Local Authority without a Self-Funding Element

Kilkenny County Council
2018 LPT Allocation
Process



Final Allocation = €10,673,913 for own use

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