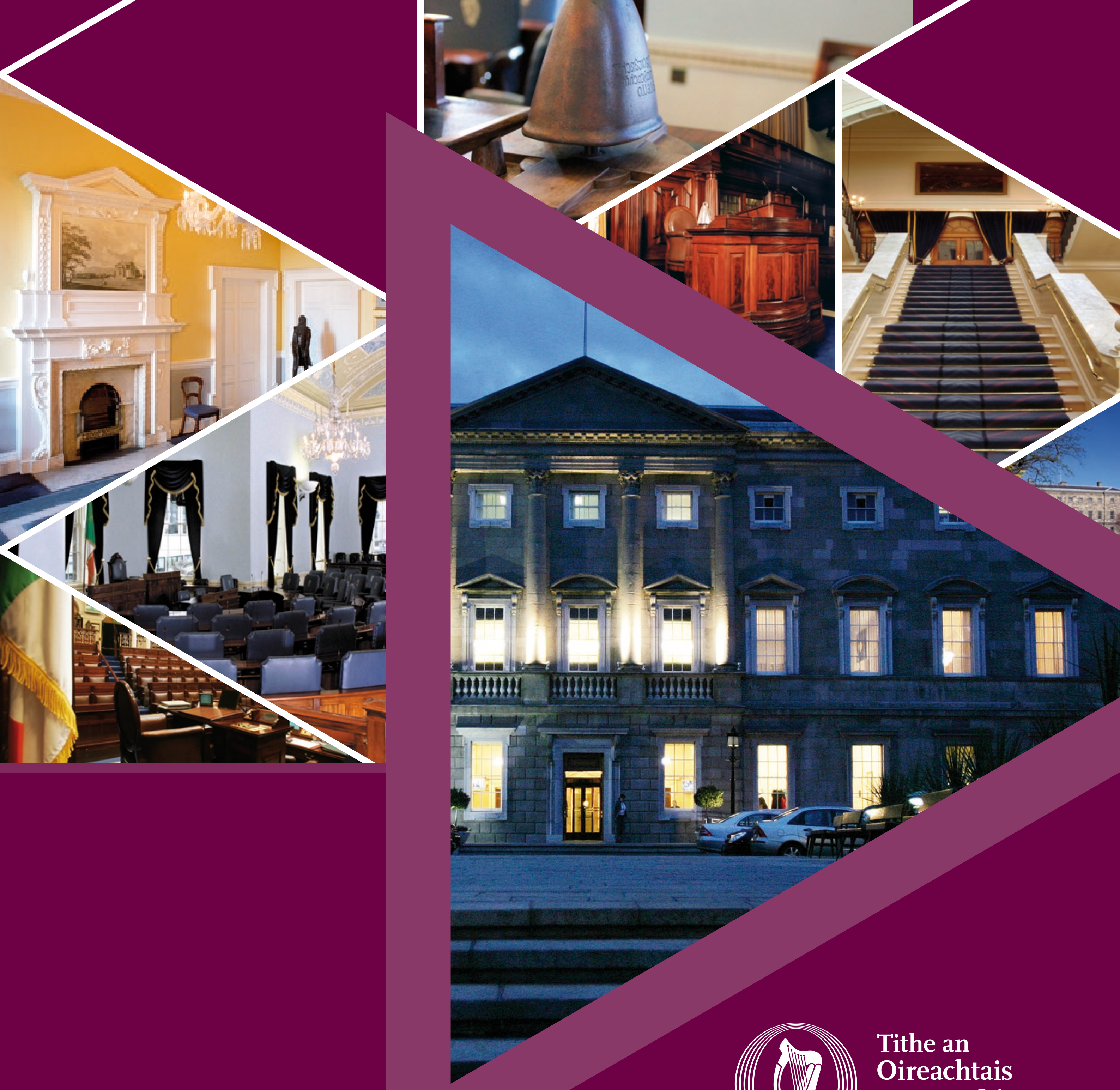

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Parliamentary Budget Office

Local Property Tax: Issues to be considered with the revaluation of the base

Briefing Paper 2 of 2018

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Local Property Tax: Issues to be considered with the revaluation of the base

Executive summary

The aim of this Parliamentary Budget Office Briefing Paper is to aid members in their consideration of the impact of:

- the revaluation of residential property for Local Property Tax purposes, and
- the issues and options for reform that could be considered.

The Local Property Tax (LPT) has been in operation since 2013. It was introduced by the Finance *(Local Property Tax) Act 2012*. The Act introduced a tax on residential property based on their valuations in May 2013. The Act also provided for the revaluation of these taxable properties. The revaluation was to be based on the valuation of residential property in November 2016. The *Finance (Local Property Tax) (Amendment) Act 2015* postponed the revaluation from November 2016 to November 2019. Provision has been made for exemptions for certain properties from the LPT and for deferrals of payment of the LPT in circumstances where a taxpayer experiences difficulty in paying it.

The Government has indicated that it intends to avoid a sharp increase in LPT liabilities when the revaluation takes place but has not yet detailed how this is to be achieved.

The Department of Housing, Planning and Local Government expect the LPT to yield €485.6 million in 2018. Local Authorities retain 80% of the LPT expected yield to be raised in their Local Authority area. The remaining 20% is paid into an Equalisation Fund, which is used to support Local Authorities that do not have a sufficient revenue base to meet their funding needs. The LPT forms 9% of total revenue for Local Authorities and is an important source of discretionary revenue for them.

Thornhill Review

The *Review of the Local Property Tax* (Thornhill Review) was commissioned by the Minister for Finance in 2015 to consider the operation of the Local Property Tax and the impact of property price developments on LPT liabilities in light of the revaluation required by the *Finance (Local Property Tax) Act 2012*. The report considered the operation of the LPT and a wide range of options for the future of the LPT.

The Review's recommendations on pyrite-affected residential properties and reliefs for properties occupied by persons with disabilities were adopted by the *Finance (Local Property Tax) (Amendment) Act 2015*. The Review recommended that the revaluation date be postponed to allow the system to be reformed in line with its other recommendations. The revaluation date was postponed in 2015 but no further progress has been made on reforms to the LPT.

Overview of Economic Theory

Taxes on property are considered economically to be among the least harmful taxes, particularly land value taxes. Imposing taxes distorts the market outcome and imposes a gap (or wedge) between the price a buyer pays and the price a seller receives. As the supply of land is, in general, considered fixed, sellers cannot change the amount supplied in response to the price they receive. Thus, taxes on property are less distortionary than taxes on labour and goods/services i.e. situations where supplier behaviour can change.

Horizontal equity is the principle that tax payers in similar situations should pay similar amounts of tax. *Vertical equity* requires those who are better off to pay more than those who are poorer. In general, the current structure of the LPT meets both these criteria though there can be issues where owners of property with high values have low incomes. Equity and distributional issues should be considered when making changes to the LPT system and the principles of vertical and horizontal equity acknowledged. Most of the benefits of limiting increases in LPT will accrue to those taxpayers who own properties that have most significantly increased in value. The opportunity costs of limiting these increases should also be considered.

Issues and policy options in regard to revaluation

The three major issues for policy makers with respect to revaluation are (a) the amount of revenue to be raised, (b) the valuation base, and (c) the distributional effect of the revaluation between areas and households. The PBO in examining the revaluation did not consider reforms to the tax base (i.e. moving from a valuation based system to one based on an alternative methodology).

There are four main options with respect to revaluation. These are:

A. No policy change – i.e. the 2019 revaluation goes ahead as planned.

This will take place 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. This will be largest in areas that have seen the largest property price increases, particularly Dublin and other urban areas. The Thornhill Review expressed concern that sharp changes in LPT charges could damage the legitimacy of the LPT with the public.

B. Freeze valuations at 2013 levels.

This would require further deferring the revaluation of properties. It would give rise to horizontal inequity, as properties that were of similar value may have changed since 2013 and perpetuates any issues with regards to fairness currently embedded in the current system. The Thornhill Review expressed concern that a further freeze in valuation would give rise to the expectation that any future revaluations would also be postponed. Precedent suggests that if the taxable values diverge significantly from market values in an inconsistent manner that constitutional issues could arise.

C. Revalue and adjust rates nationally to maintain overall yield

This option would proceed with the revaluation but lower the rate applied nationally. This would lower the total yield compared to Option A. Government could maintain the yield at its current level or increase it. If Government chooses to maintain the LPT's current yield, there will still be a distributional impact. The average payment will be similar but properties that have increased in value ahead of the national average will see increases in their LPT charge. This would concentrate increases in Dublin and other urban areas but would reduce the LPT liability due in areas with lower increases in property values.

D. Revalue and adjust rates locally to maintain overall yield

This option would proceed with the revaluation but set the rate for each Local Authority area individually.
If Government wished, it could set LPT rates in a way that would maintain the total LPT yield and each Local Authority area's contribution towards the total yield. The distributional impact would be similar to Option C, although within Local Authority areas rather than nationally i.e. within a Local Authority area the average LPT liability would not change but there would still be those who pay more and those who would pay less. The Thornhill Review recommended that this approach be adopted.

Other Issues

Revenue to be raised by Local Property Tax

All the options considered can be modified to increase or decrease the overall yield of the LPT. While the LPT valuation base is broadly fixed for a number of years, the LPT rate can be modified. It may be worthwhile introducing a provision for an automatic increase in LPT rates based on criteria such as inflation or an increase in population. The Commercial Rates revaluation may be a useful precedent, as Local Authorities are not permitted to increase the Commercial Rates yield (beyond certain pre-defined limits) in the year of a revaluation.

Conclusion:

- 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 regular updating of valuations is needed to maintain the integrity of the LPT system and ensure that future decisions on LPT policies are based on up-to-date valuations thus the 2019 revaluation should proceed.
- The option chosen with respect to how LPT rates are set should reflect desired distributional priorities given the amount of revenue to be raised.
- The Thornhill Review's recommendation to set individual rates for Local Authorities still has merit.
- Consideration should be given to introducing a mechanism for the LPT rate to automatically increase annually by a defined amount perhaps linked to a measure of inflation, population increase, Local Government expenditure increase, etc.

Revaluation date

The LPT revaluation date currently occurs after the point in the Local Authority budget cycle when Local Authorities must decide their LPT rate. This means that Local Authorities will, in 2019, be setting budgets and LPT rates in the absence of the new valuation bases. This does not support sound budgetary planning among Local Authorities.

Conclusion: The PBO recommends that consideration be given to moving the revaluation date to earlier in 2019 to support better budgetary planning among Local Authorities.

Exempt Properties

In general, it is not best practice to introduce exemptions to a tax. They reduce the tax base, increase the tax burden on other taxpayers, reduce the efficiency of the tax and can introduce inequities into the system undermining it. Any such exemptions should be reviewed regularly.

Conclusion:

- All the current LPT exemptions not due to expire in 2019 should be reviewed to ensure they still meet a legitimate public policy rationale and removed if not.
- Any future exemptions need a very strong public policy rationale backed up with a clear evidential basis that shows that the exemption will meet its goal.

- The PBO suggests that the LPT exemption for newly constructed properties built from 2013 onwards, as well as, for those properties purchased in 2013 should be allowed to end in 2019 as planned.
- In addition, new properties built post the 2019 revaluation should not receive an exemption. The Revenue Commissioners should produce guidelines on how to value new properties sold in 2020 and beyond at 2019 prices.

Impact of increased yield on Local Authorities' budgets

A significant increase in the yield of the LPT will result in fewer Local Authorities needing to access the Equalisation Fund, more local authorities having additional discretionary funds available and increased self-funding of roads and housing services by Local Authorities that reach their surplus funding cap. This could potentially lower the support required by Local Authorities from the Exchequer and the funds freed up can be used for services elsewhere.

Conclusion: The Thornhill Review recommendation 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 areas" still has merit.

Local Property Tax and fiscal space 2020 onwards

The current treatment of the LPT with respect to budgetary projections is not in line with best budgetary practice. Estimates of future LPT revenue do not reflect the current legislative situation. These estimates should include forecasts of increased revenue from revalued property until measures (if any) are introduced to reduce the LPT's yield.

Conclusion:

- The Department of Finance, when projecting LPT revenues in 2020 and beyond, should reflect the current legislative position.
- 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.

Robustness

Any system put in place to control the volatility of LPT liabilities should also consider the impact of falls in property prices alongside the impact of increases.

Conclusion: Consideration should be given to a system that does not leave Local Authorities overly reliant on LPT for funding and which insulates Local Authority budgets against volatility in property values. However, this system should be responsive enough to ensure that the LPT paid accurately reflects the value of the property in question.

Introduction

The Local Property Tax (LPT) has been in operation since 2013. It was introduced by the Finance *(Local Property Tax) Act 2012*. The Act introduced a tax on residential property based on the valuation of residential property in May 2013. The Act also provided for the revaluation of the properties to be taxed. The revaluation was to be based on the valuation of residential property in November 2016. The *Finance (Local Property Tax) (Amendment) Act 2015* postponed the revaluation from November 2016 to November 2019. Provision has been made for exemptions for certain properties from the LPT and for deferrals of payment of the LPT in circumstances where a taxpayer experiences difficulty in paying it.

The aim of this Parliamentary Budget Office Briefing Paper is to aid members in their consideration of the impact of this upcoming revaluation and the issues and options for reform that have been proposed.

This paper:

- Briefly outlines the current Local Property Tax system
- Briefly examines some of the economic issues that need to be considered with respect to revaluation.
- Subsequently examines the main policy options with respect to the revaluation.
- Finally considers some other issues and policy options with respect to Local Property Tax.

Context

The Local Property Tax was introduced in 2013 as a replacement for the Household Charge and the Non-Principal Private Residence charge. These were flat charges levied on owners of residential properties. The Household Charge was introduced as interim revenue raising measures prior to the establishment of the Local Property Tax. The general form of the Local Property Tax was proposed by an inter-departmental group established by the Minster for Environment, Community and Local Government to consider the design of a property tax. This Group published a report which established the framework of the LPT.[1] This group's terms of reference with respect to the design of the LPT can be seen in Box 1. These can be considered the overarching principles behind the structure of the tax. Some of these terms of reference are no longer relevant and the context in which others are considered may now be different; however, they provide a useful framework for considering changes to the structure or aims of the LPT.

Box 1: TERMS OF REFERENCE FOR THE INTER-DEPARTMENTAL GROUP ON PROPERTY TAX

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

The property tax is to:

- Meet the immediate financial requirements of the EU/IMF programme;
- Provide a stable funding base for the Local Authority sector in the medium and longer terms; incorporating an appropriate element of Local Authority responsibility subject to any national parameters;
- Be collected centrally by the most cost efficient and effective means;
- Facilitate easy and/or phased payments by households;
- Be easily determined (e.g. on a self assessment basis), and having regard to the information currently available (or to be made available to households through registration for the household charge) on residential property and/or house ownership details;
- Ensure the maximum degree of fairness between and across both urban and rural areas.

The structure for the tax that was put into operation was broadly in line with the Group's recommendations. Residential properties are taxed on their self assessed value as of 1 May 2013. Property owners are asked to estimate which of 20 valuation bands their property falls into and are taxed at 0.18% of the midpoint of this band. Properties with a value of over €1 million are taxed €1,800 plus 0.25% of the value over €1 million (see Appendix 1 for further details). The Revenue Commissioners have provided online tools to assist taxpayers calculate these values.

1 Inter-Departmental Group on Property Tax (2012) *Report of the Inter-Departmental Group – Design of a local property tax.*

The 2012 Act provided for properties to be revalued on 1 November every 3 years, with 2016 being the first year a revaluation would take place. The LPT payment in 2017 was to be based on these new values. However, in 2015, in light of the Thornhill Review (see below), it was decided to postpone the revaluation date to 1 November 2019.

Local Authorities have had the capacity to vary LPT rates by +/-15% since 2015 to either raise additional funds or reduce the LPT liability in their Local Authority area. Local Authorities must indicate to the Revenue Commissioners by 30 September each year by how much they intend to vary the rate. See Appendix 2 for details of Local Authority variations of the LPT rate from 2015 to 2018. As time has progressed fewer Local Authorities have introduced or maintained LPT rate cuts.

Exemptions

There are currently a number of grounds on which properties may be exempted from the tax. These grounds are:

- Properties purchased in 2013 and in use as a sole or main residence until the end of 2019;*
- New and previously unused properties purchased from a builder or developer between 1 January 2013 and 31 October 2019 until the end of 2019;*
- Residential properties constructed and owned by a builder or developer that have remained unsold;
- Certain properties in unfinished housing estates;[2]
- Properties certified as having a significant level of pyrite damage;[3]
- Residential properties owned by a charity or public body and used to provide accommodation for people with particular needs;
- Registered nursing homes;
- Properties vacated due to illness;
- Property purchased, built or adapted to make it suitable for occupation by a permanently and totally incapacitated individual as their sole or main residence. A partial relief of one band is available for properties adapted for occupation by disabled people that are not permanently and totally incapacitated.

It should be noted that the exemptions ending in 2019 (indicted by a * above) were originally to end in 2016; however, with the postponement of the revaluation these exemptions were also extended.

There were approximately 48,000 claims for exemption in 2017. It is estimated that these exemptions cost €12.5 million in 2017. A break down by exemption type can be found in Appendix 3.

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2 *The Act states that the Minister for the Housing, Planning and Local Government shall prescribe a list of developments which the Minister is satisfied are incomplete to a substantial extent. The Act provides guidelines as to what circumstances indicate a development is incomplete to a substantial extent.*

3 *This applies if a certificate confirming pyrite damage has been issued for the property or the property has been included in the pyrite remediation scheme. Properties being remediated with a claim made and settled under structural warranty insurance, structural warranty guarantee or another form of insurance or the builder has remediated the property or compensated the owner of the property may also be exempted if they can demonstrate pyritic damage to the Revenue Commissioners. Properties exempted on these grounds are exempted from the LPT for 6 consecutive liability dates.*

Deferrals

There are also a number of grounds where a property owner may be allowed defer or partially defer the payment of the tax. Deferred payment remains as a charge on the property and interest is charged at a reduced amount of 4% per annum on the deferred amount. A deferral can be applied for if:

- The property owner's income falls below a certain threshold;
- The property owner has entered into a Debt Settlement Arrangement or a Personal Insolvency Arrangement;
- The property owner experiences an unexpected and unavoidable significant financial loss and applies for a deferral on hardship grounds.

There is also provision for the temporary extension of a deferral for the inheritor of a property if a property owner in receipt of a deferral dies.

There were approximately 62,000 claims for deferral in 2017. It is estimated that €10.5 million in LPT liabilities were deferred in 2017. A break down by deferral type can be found in Appendix 3.

Revenue raised

The Local Property Tax has been a stable source of funding for Local Authorities. Although there was some volatility in the returns in the LPT's initial years, this has fallen substantially and stabilised. Table 1 shows the amount of revenue expected to be raised each year by the LPT and the amount collected by the Revenue Commissioners. The overall Revenue figures for LPT receipts also include Household Charge arrears, deferrals and non-compliant property owners (see Appendix 4). These are not included in Revenue statistics of LPT collected in Table 1 below.

Table 1: Revenue raised by the LPT 2013-2018

Department of Housing, Planning and Local Government Allocations				Revenue Statistics
	Total LPT Estimated Yield (€ million)	Local Variations of LPT (€ million)	Estimated Net LPT Yield	LPT Collected (€ million)
2013				258
2014				504
2015	500	-43.6	456.4	431
2016	473.5	-36	437.5	442.8
2017	483.7	-26.5	457.2	448
2018	485.6	-23.2	462.4	

Source: Department of Housing, Planning and Local Government LPT Allocations 2015-2018 and Revenue LPT Statistics 2013-2017.

Local Authority funding

The Local Property Tax replaced the General Purpose Grant (GPG) provided to Local Authorities by the Exchequer from the Local Government Fund. The level of funding provided by the GPG has been retained as a baseline which establishes each Local Authority's minimum level of funding. Each Local Authority retains 80% of the funds raised by the LPT in their Local Authority area. The remaining 20% is paid into a national Equalisation Fund which ensures that no Local Authority receives less than its baseline. Box 2 shows examples of how LPT allocations to Local Authorities work.

Box 2: EXAMPLES OF CALCULATING LPT DISTRIBUTION TO LOCAL AUTHORITIES

The process of distributing LPT funds to Local Authorities is best understood through worked examples. The exact process taken depends on whether the Local Authority has reached its baseline. This box will provide two examples; one of a Local Authority with a LPT yield under the baseline and another which surpasses the baseline. The data in these examples is from the Department of Housing, Planning and Local Government's (DHPLG) *LPT allocations for 2018*.

LPT Yield under baseline: Kerry County Council

In 2018, the Kerry Local Authority area is forecast to yield €14 Million in LPT. The Local Authority retains 80% of this and contributes 20% to the national Equalisation Fund.

		€ million	
A	Total Yield	14	
B	20% towards Equalisation Fund	2.8	A * 20%
C	80% LPT Retained Locally	11.3	A – B

The funds retained locally are then compared to a funding "baseline" set by the DHPLG as the minimum requirements for that Local Authority. If they are below this baseline the Local Authority is entitled to additional funding from the Equalisation Fund to bring them to the baseline.

		€ million	
C	LPT Retained Locally	11.3	A – B
D	Baseline	13.8	
E	Surplus/Deficit in LPT funding of baseline	-2.5	C – D
F	Distribution from Equalisation Fund	2.5	E

The total discretionary funding available to the Local Authority is determined by summing the LPT retained locally and the distribution of equalisation funding (which will equal the baseline) and any variation the Local Authority chose to make.

Box 2: EXAMPLES OF CALCULATING LPT DISTRIBUTION TO LOCAL AUTHORITIES continued

		€ million	
C	LPT Retained Locally	11.3	A – B
F	Distribution of Equalisation Funding	2.5	E
I	Total Discretionary Funds before variation	13.8	C + F = D
J	+5% local variation	0.7	
	Total Discretionary Funds	14.5	I + J

LPT Yield over baseline: Fingal County Council

In 2018, the Fingal Local Authority area is forecast to yield €38.2 Million in LPT. The Local Authority retains 80% of this and contributes 20% to the national Equalisation Fund.

		€ million	
A	Total Yield	38.2	
B	20% towards Equalisation Fund	7.6	A * 20%
C	80% LPT Retained Locally	30.6	A – B

The funds retained locally are then compared to a funding “baseline” set by the Department of Housing, Planning and Local Government as the minimum requirements for that Local Authority. Funds over this baseline are considered to be the Local Authority’s surplus.

		€ million	
C	LPT Retained Locally	30.6	A – B
D	Baseline	3.7	
E	Surplus/Deficit in LPT funding of baseline	26.9	C – D
F	Distribution from Equalisation Fund	0	

This surplus is used in two ways. The Local Authority retains an amount equal to 20% of the total LPT yield in their Local Authority area for their own discretionary use. The remainder of the surplus is used to replace Exchequer funding for Roads and Housing spending.

		€ million	
E	Surplus in LPT funding of baseline	26.9	C – D
G	Surplus for discretionary use (20% of total yield)	7.6	A * 20%
H	Self-funding of Roads and Housing services	19.2	E – G

Box 2: EXAMPLES OF CALCULATING LPT DISTRIBUTION TO LOCAL AUTHORITIES continued

The total discretionary funding available to the Local Authority is determined by summing the baseline and the surplus retained for discretionary use and any variation the Local Authority chose to make.

		€ million	
D	Baseline	3.7	
G	Surplus for discretionary use (20% of total yield)	7.6	A * 20%
I	Total Discretionary Funds before variation	11.3	D + G
J	-10% local variation	-3.8	
	Total Discretionary Funds	7.5	H – I

Funds raised by the LPT over a Local Authority's baseline are used in two ways. The Local Authority may use any surplus of up to 20% of the total expected LPT yield for its own purposes (discretionary funds) including cutting the LPT rate in their area. Funds over this 20% threshold are used to replace central Government funding for Roads and/or Housing Services, reducing the burden on the Exchequer and freeing resources to be deployed elsewhere. The Department of Housing, Planning and Local Government (DHPLG) forecast that this will amount to approximately €109 million in 2018.[4]

Nationally, the Local Property Tax raises €130 million more than the Local Authorities' collective baseline.[5] However, this surplus is unevenly distributed and heavily concentrated in certain Local Authorities (mainly the Dublin Local Authorities and Cork County). Local Authorities reporting a surplus have a collective surplus of approximately €63 million for additional discretionary spending or LPT reductions. However, in the 2018 Budget allocations the amount needed from the Equalisation Fund to meet the baseline allocation is approximately €40 million less than the Fund's revenue from the LPT. The difference has to be made up through Exchequer funding.

The Local Property Tax is a relatively small component of Local Authority funding. In the 2017 budget allocation it was approximately 9% of Local Authorities' total revenue income. However, it is an important funding stream for Local Authorities as it is discretionary rather than tied to the provision of goods and services or through the delivery of programmes determined by central Government and funded through Exchequer grants or subsidies. It is an important tool for preserving the freedom of action of Local Authorities and strengthens local democracy by allowing Local Authorities to determine their own priorities and programmes in response to the needs of the local electorate.

4 *Department of Housing, Planning and Local Government (2017) 2018 Local Property Tax (LPT) Allocations to Local Authorities.*

5 *The source of all figures in this paragraph is Department of Housing, Planning and Local Government (2017) 2018 Local Property Tax (LPT) Allocations to Local Authorities.*

Current Government Policy

The Taoiseach has stated that "there has been a very significant increase in property values, particularly in the greater Dublin area, but I certainly don't envisage, nor do I want to see, a sudden dramatic hike in property tax so we will be working hard to avoid that."[6]

The Minister for Finance has stated in respect to the revaluation process and reforms to LPT that "the Government will be make its position clear so that households will know well advance what its plans are for LPT. In that regard I consider it very important that the principle that formed a central part of the terms of reference for the 2015 [Thornhill] Review, i.e. achieving relative stability in LPT payments of liable persons both over the short and longer terms, will inform our consideration of this matter."[7]

Recent media reports suggest the Government is considering grouping Local Authorities into bands with different LPT rates depending on the band. There is no information on what criteria would be used to group individual Local Authorities or how rates would be set.[8]

Box 3: COMMERCIAL RATES REVALUATION

Commercial property rates are a significant source of funds for Local Authorities. Before the commencement of the current process of revaluation of commercial property started by the Valuation Act 2001, the majority of Valuation Lists had not been comprehensively updated since they were created in the mid-nineteenth century. The Valuation Office has been updating Valuation Lists on a Local Authority by Local Authority basis. As the Valuation Lists have not been revalued for such a long time, these valuations have seen large increases in their rateable value.

These revaluations have not resulted in large increases in revenue for Local Authorities where revaluations have taken place. The *Valuation Act 2001* states that the amount collected in the revaluation year cannot be more than the previous year, adjusted for inflation and increases in the number of properties. This requires Local Authorities to lower the rate charged to compensate for the higher valuation i.e. Fingal County Council lowered rates from 68.64 times the rateable value of a commercial property to 0.14 times the rateable value of a commercial property.

This keeps the overall yield and the average rates bill effectively the same. However, it does not mean all rates-payers will be liable for the same amount. Commercial property owners whose properties' have increased relatively less in value will pay less, while commercial properties that have increased relatively more in value will incur higher rates post revaluation.

6 *Irish Times (2017) Taoiseach rules out sharp increase in property tax, 26/09/2017.*

7 *Parliamentary Question Reply No. 17 of 30 November 2017 https://beta.oireachtas.ie/en/debates/question/2017-11-30/17/.*

8 *Irish Independent (2017) Property Tax Overhaul could be fairer on hard-hit Dubliners, 07/01/2018.*

Thornhill Review

A review of the Local Property Tax[9] was commissioned by the Minister for Finance in 2015 to consider the operation of the Local Property Tax and the impact of property price developments on LPT liabilities in light of the revaluation required by the *Finance (Local Property Tax) Act 2012* on 1 November 2016. The report considered the operation of the LPT including the structure of the LPT, the number of properties covered, compliance rates and the yield of the tax. The report also considered a number of options for the future of the LPT. Some of these are explored below in the context of the expected revaluation in 2019.

The report (the 'Thornhill Review') made a number of recommendations relating to the LPT's deferrals and exemptions, the treatment of receipts, the administration of the tax and the form it should take. These are summarised in Box 3.

The Review's recommendations on pyrite and reliefs for properties occupied by persons with disabilities were adopted by the *Finance (Local Property Tax) (Amendment) Act 2015*. The review recommended that the revaluation date be postponed to allow the system to be reformed in line with the report's recommendations. The revaluation date was postponed by the 2015 Act but no further progress has been made on reforms to the LPT.

Box 4: THORNHILL REVIEW RECOMMENDATIONS

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: It is recommended that the Revenue 'estimate amount' be treated, instead, as a 'default' self-assessment for LPT purposes. This approach is 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.

9 *Thornhill, Don (2015) Review of the Local Property Tax (LPT).*

Box 4: THORNHILL REVIEW RECOMMENDATIONS continued

Recommendation 6: It is 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 current more complicated system.

Recommendation 7:* A revised system of assessing Local Property Tax liabilities is 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. To achieve this it may be necessary to delay the next revaluation from November 2016 to November 2018 or November 2019. Any legislative changes to defer the valuation date should be accompanied by the legislative changes necessary to reform the system as outlined above. (See Thornhill Review for more details).

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 is recommended 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'. The Review also outlined a process it recommended be continued with respect to the confirmation of pyrite damage.

Recommendation 12:* The review recommended that issues with the partial relief for properties adapted for people with disabilities be resolved and that the relief be put on a legislative basis.

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

* *The recommendations with a * have been edited for brevity.*

Overview of economic theory

Efficiency

Taxes on property are considered economically to be among the least harmful taxes, particularly land value taxes.[10] This is because they are considered one of the most economically efficient taxes. Imposing taxes distorts the market outcome and imposes a gap (or wedge) between the price a buyer pays and the price a seller receives. However, as the supply of land is, in general, considered fixed, the distortion is less than with other goods where suppliers change the amount supplied in response to the price they receive. If taxes are on labour (such as income taxes) or goods/services (such as the VRT on motor vehicles) the individuals affected will change their behaviour and the demand and/or supply of the good or labour will change. In contrast, as the supply of land is fixed, any fall in demand for land caused by the imposition of taxes will not result in a supply response. Thus taxes on property are less distortionary than taxes on labour and goods/services.

The Local Property Tax is effectively a combined tax on land value and the value of improvements on the land (i.e. the residential building). Economically, a tax on the value of improvements to land is considered a poor tax as it disincentivises the choice to make improvements to land and affects behaviour. However, it was not felt to be practicable to isolate the land value of properties during the implementation of the LPT. The 2009 Commission on Taxation concluded that “while seeing the economic rationale for land value tax…” that “it may not be a pragmatic approach to the restructuring of our property tax system”.[11]

Equity and distribution

When discussing public policy interventions, including tax policy, equity is an important consternation.

Horizontal equity is the principle that tax payers in similar situations should pay similar amounts of tax. *Vertical equity* requires that those who are better off pay more than those that are poorer. In general, the current structure of the LPT meets both these criteria. Properties are taxed on their value and properties of similar value attract the same LPT liability. Properties which are more valuable are liable for a higher charge. Furthermore, the value of properties over €1 million is taxed at a higher rate than properties of a lower value. This is a progressive structure that applies a relatively higher liability to the better off.

One issue when applying property tax is that consideration must be given to whether applying a charge to an asset which may not produce an income is equitable. Owning a property with a high value does not mean the owner currently has an income capable of paying the LPT liability due on the property. This may make it unsustainable for some people to continue to occupy their home.

10 *Slack, Enid, and Richard M. Bird (2014) “The political economy of property tax reform”, p. 3 OECD Working Papers on Fiscal Federalism 18 (2014): 0_1.*

11 *Commission on Taxation (2009) Commission on Taxation Report 2009 pp. 171-173, Government Publications Sales Office.*

While this has the potential to impose significant human costs and hardship, it can be argued that there is a benefit to imposing a cost to holding assets in areas where demand is extremely high (i.e. with high prices), as selling properties to avoid high LPT charges increases supply. In addition, there is a deferral process available for people on low incomes.

The total amount of revenue to be raised determines the burden of the LPT on the population. The valuation of property determines the distribution of burden of the LPT i.e. what share each individual pays. Revaluation changes this distribution as the relative price of property changes over time i.e. different types of properties can increase or decrease in value at different rates in different areas. However, the overall burden is determined by the total amount of revenue policy makers wish to raise.

Revaluation does not necessarily mean higher overall average LPT payments, as seen with the Commercial Rate revaluation (see Box 3 above). Stated Government policy is to limit any increase in LPT liabilities after the revaluation in 2019. However, care must be taken to balance the need to avoid a significant increase in property owners' LPT liabilities with the opportunity cost of the revenue foregone. If LPT yield is not increased, this will mean that spending cannot be increased or other more distortionary taxes cannot be reduced. For example, in the context of Local Authority funding, the additional yield could be used to increase Local Authority housing.

The distributional impact of limiting the increase in yield should be considered. The benefits of limiting the increase in yield will accrue most to those taxpayers who own the properties that have most significantly increased in value. The opportunity cost in either government expenditure on services or other tax cuts foregone will fall on those who would have used the services foregone or non-property owners who otherwise would have had lower taxes respectively. The benefits of these foregone services or tax cuts would accrue to both property owners and non-property owners. However, reductions in the potential LPT yield will only accrue to property owners.

Other reasons for property taxes

There are other economic arguments why taxes on property are important and considered useful.[12] These include:

- They are difficult to evade.
- They can raise substantial revenue.
- The tax base is usually relatively stable and thus is not necessarily linked to the economic cycle like many other taxes.
- They are usually linked to the local services provided in the area the property is located within.
- They can recoup some of the private gains from public spending on local amenities (e.g. public parks) as these private gains are reflected in the value of the property.

12 *Slack, Enid, and Richard M. Bird (2014) "The political economy of property tax reform", p. 3 OECD Working Papers on Fiscal Federalism 18 (2014): 0_1.*

Policy Options with respect to revaluation

This section discusses the main policy options with respect to *revaluation*. The next sub-section discusses some other issues to be considered in tandem with the revaluation.

It is worth noting that the first major choice when making decisions around property taxes is the amount of revenue to be raised. The next choice is the base i.e. the range of properties to be taxed (accounting for exempt properties). Assuming the tax is based on property values, then once a valuation process is chosen and values established, the final choice is how the tax is to be distributed based on the valuations. Once these choices are made the rate at which the individual properties are taxed is a given – i.e. it is determined by the previous choices.

Thus when examining the revaluation process the following issues need to be considered:

- The revenue to be raised.
- The valuation base i.e. the amount of properties included in the base.
- The distributional effect of the revaluation – this includes both the effect between different areas and the effect on individual households.

The Thornhill Review considered nine options and evaluated them under various criteria. The PBO considers that there are four main options with respect to revaluation (see box for a discussion of other options considered by the Thornhill Review). These are:

A. No policy change – i.e. the 2019 revaluation goes ahead as planned.
B. Freeze Valuations at 2013 levels.
C. Revalue and adjust rates nationally to maintain LPT yield.
D. Revalue and adjust rates locally to maintain LPT yield.

Below each of these options are examined under the heads of revenue raised and distribution. The discussion of the tax base i.e. those properties exempt from the LPT is covered later. The PBO in examining the revaluation did not consider major reforms to the tax base (i.e. moving from a valuation based system to one based on an alternative methodology).

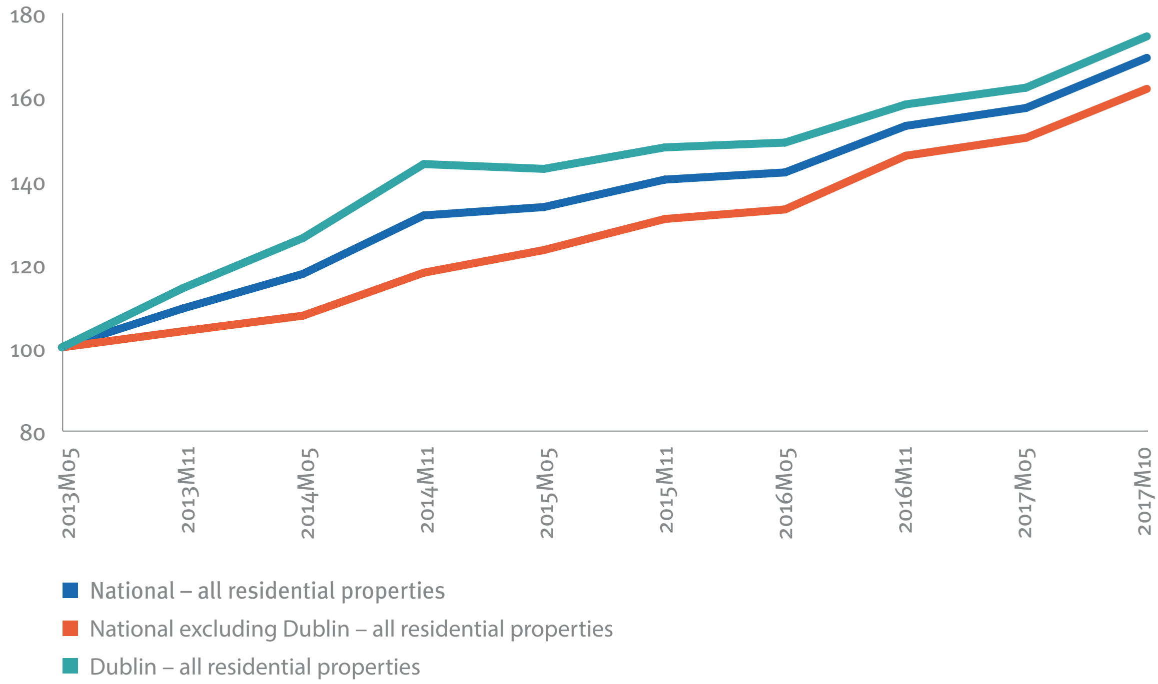
Option A: No policy change – i.e. the 2019 revaluation goes ahead as planned

This option will take place if legislation is not introduced to further amend or replace the *Finance (Local Property Tax) Act 2012*. This will require liable property owners to revalue their property to current market values on 1 November 2019 and to be taxed on these values from 2020.

Revenue

Under this option there would be a significant increase in LPT liabilities for a significant number of property owners nationwide. Since the introduction of the LPT in May 2013, residential property values have risen considerably; albeit with significant variation nationwide. Therefore, there is the potential for the LPT's yield to see a substantial rise when properties are revalued in 2019.

Figure 1: Residential Property Price Index May 2013-Oct 2017



Source: CSO Residential Property Price Index, May 2013=100.

Between May 2013 and October 2017 residential property prices had increased by 69% nationally; 74% in Dublin and 62% outside of Dublin. Recent forecasts of property prices suggest residential property prices will continue to increase significantly in 2018, for example the MyHome.ie *Property Report* recently estimated prices will rise by 8% in 2018.[13]

If the LPT rate (i.e. the 0.18% rate below €1,000,000 and 0.25% above €1,000,000) is unchanged this will mean a substantial increase in revenue. However, as discussed above the level of the LPT revenue is a policy choice – the rate can be adjusted to raise the amount of revenue required once the valuations are known.

Distributional

Given the scale of the past residential property price increases and potential future increases it is extremely likely that there will significant upwards movement between valuations bands for most properties if the revaluation is completed in 2019. It is likely that most properties valued below €250,000 will move up at least one band if not two bands. Properties valued above €250,000 in 2013 could be expected to move at least two bands and, in many cases, more. Thus most residential property owners will pay more.

Given that Dublin property prices have increased faster than in other areas and that the values are on average higher than in other areas, the increase in revenue will disproportionally come from Dublin property owners.

13 MyHome.ie (2018) *MyHome.ie Property Report Q4 2017.*

The Thornhill Review expressed concern that if there was a large increase in LPT yield without reference to broader economic circumstances and Local Authority funding needs the legitimacy of the LPT could be damaged.[14]

The Thornhill Review did not recommend this approach as it raised the prospect of large increases in liability as a result of property price increases which could be perceived as unfair. An illustrative example of the potential impact of this option can be found in Table 2 for a property assumed to move from the €200,001-€250,000 band to the €350,001-€400,000. This would lead to an 85.7% increase in the LPT due on the property or €270 per annum.

Other considerations with this option

An increase in overall LPT revenue will increase the discretionary funding available to many Local Authorities, in particular the Dublin Local Authorities. However, due to the way the baseline is calculated much of this additional revenue in surplus counties will accrue to the self-funding of Housing and Road Services meaning a lower transfer from the Exchequer for these services. The amount of additional discretionary funds available for Local Authorities is difficult to calculate. However, for local Authorities where the 80% of the LPT retained revenue still does not meet the baseline there will be no effect on their overall income. (See the next section for a more detailed discussion of what an increase LPT yield would mean for Local Authorities budgets.)

Table 2: Example of impact of revaluation (No policy change scenario)

Year	Property Value Band	Liable Value	LPT rate (applied at midpoint of bands)	LPT Charge
2013-2019	€200,001-€250,000	€225,000	0.18%	€315
2020	€350,001-€400,000	€375,000	0.18%	€585

Option B: Freeze valuations at 2013 levels

This option involves further deferring the revaluation of properties.

Revenue impacts

As the valuation base would be unchanged there would be no additional revenue from this option.

Distributional impacts

As the valuation base does not change, the current distribution of LPT liabilities will remain the same. However, this does not mean there are no distributional impacts of the policy. Issues of horizontal and vertical equity may arise if developments to the housing stock since 2013 are not recognised. The further from the original valuation date the greater the potential divergences will be. It also locks in the current distribution and any unfairness (perceived or otherwise) in the current system is perpetuated.

14 *Thornhill, Don (2015) Review of the Local Property Tax, pp. 34.*

An illustrative example of the potential impact of this option for a property in the €200,001-€250,000 band can be found in Table 3.

Table 3: Example of impact of freezing valuations

Year	Property Value Band	Liable Value	LPT rate (applied at midpoint of bands)	LPT Charge
2013-2019	€200,001-€250,000	€225,000	0.18%	€315
2020	€200,001-€250,000	€225,000	0.18%	€315

Other considerations with this option

The maximum yield from LPT would be frozen for Local Authorities. It would also become increasingly difficult to keep comparable valuations between new properties (when they become liable) and those valued in 2013.

The Thornhill Review also identified the risk that if the revaluation was deferred again it would become an expectation that the revaluation would be deferred further. As this would be the second time the revaluation was deferred it would become very credible to believe that a revaluation would never take place.

If this situation does arise the LPT becomes open to constitutional challenge. The Supreme Court upheld the complaint of a group of farmers from County Wexford *(Brennan V Attorney General)*[15] that agricultural rates (a form of property tax) imposed by s.11 of the *Local Government Act 1946* based on an 1852 system of valuation comprised an unjust attack on their property rights, contrary to Article 40.3.2 of the Constitution. It was obvious that there was a lack of uniformity and inconsistencies in the valuation system used for rates and the Court concluded that these anomalies were unjust and effectively abolished the then system of agricultural rates. No replacement system was introduced and agricultural rates are no longer collected.

Option C: Revalue and adjust rates nationally to maintain LPT yield

This option would continue with the revaluation as in outlined in option A but would lower the rate from 0.18% to either eliminate or mitigate the impact of increases in the value of properties. The new rate could be chosen in order to maintain the overall level of revenue yield from LPT.

Revenue impacts

As the LPT rate would be adjusted to account for the change in the valuation base there would be no additional revenue from this option.

15 *Brennan V Attorney General; [1983] ILRM 449(HC), [1984] ILRM (SC).*

Distributional impacts

Due to the uneven nature of the increase in property values, any change in the national LPT rate will have a wide range of impacts in the amount individual properties are liable for. The effect of this option will be to keep the average LPT liability the same[16] but in general properties with above average increases in prices will pay higher LPT (than currently) and those with below average increase will have a lower liability. This can be seen to be fair – those who benefit most from property price rises pay more (vertical equity).

An illustrative example of the potential impact of this option can be found in Table 4 for a property assumed to move from the €200,001-€250,000 band to a higher band. Assuming the average property price rise was 70%, this would mean that the LPT rate would need to fall to approximately 0.105% in order to maintain the level of LPT revenue. However, depending on the actual increase for the individual property the LPT liability could fall or rise.

Table 4: Example of maintaining overall revenue and adjusting rates

Year	Property Value Band	Liable Value	LPT rate (applied at midpoint of bands)	LPT Charge
2013-2019	€200,001-€250,000	€225,000	0.18%	€315
2020	€250,001-€300,000	€275,000	0.105%	€288.75
2020	€300,001-€350,000	€325,000	0.105%	€341.50
2020	€350,001-€400,000	€375,000	0.105%	€393.75

However, as this is done on a national basis the overall burden of LPT will skew to areas with higher than average property price rises. Thus, properties in Dublin and certain other urban areas will attract a higher burden, with properties in rural locations attracting lower LPT than currently. This could undermine the tax if it is perceived that it is disproportionally a Dublin/urban tax.

Other considerations with this option

The Thornhill Review identifies this option as satisfying most of the chosen evaluation criteria, although the report raises the concern that the impact will not be felt equally nationally.

In addition, this option would reduce revenue in many counties with lower than average property price growth potentially meaning a need to increase the Equalisation Fund and make such counties even more dependent on the Equalisation Fund.

This option does not allow revenue from the LPT to grow.

16 *The average rate would likely change a little as the banded system used to value properties for LPT purposes means that it will be more difficult to set a rate to maintain an average than a system based on individual property values.*

Option D: Revalue and adjust rates locally to maintain LPT yield

The option would continue with the revaluation as in option A and C above with the rates set by central Government individually for each Local Authority rather than on a national basis. A variation of this could be to group Local Authorities with similar characteristics into a small number of bands and set different LPT rates for these bands rather than individually for Local Authorities.

The new rates could be chosen in order to maintain the overall level of revenue from LPT and maintaining the current distribution of the revenue share across Local Authorities.

Revenue impacts

As the LPT rate would be adjusted to account for the change in the valuation base there would be no additional revenue from this option.

Distributional impacts

This option would mean that *within* a Local Authority area (or within all Local Authorities in a band) the current average LPT liability would remain unchanged. However, within the Local Authority area if property prices grew at different rates there would be redistribution of the burden. However, this redistribution would be less than if a national rate (option C) is chosen as it is likely that within a Local Authority area the dispersion of property price growth will be smaller than nationally.

The table for option C above applies in this case as well – however, the rate will be chosen so that the revenue in the individual Local Authority will remain unchanged. This will mean 31 different LPT rates or fewer if a banding system is used. It will also lock in the current LPT burden distribution between Local Authority areas or band.

Other considerations with this option

This option satisfies the criteria set down by the Thornhill Review, and it was the recommended option. Thornhill also recommended that the Local Authorities should be allowed to keep all the LPT revenue collected in their area and be allowed to increase the LPT rate by 15% (but not decrease it).

Due to the uneven nature of property price levels across Local Authority areas, differing LPT rates would have the effect of creating different incentives for the construction or purchase of residential properties. Buyers will face different LPT liabilities for properties of the same value depending on location. At the margins of Local Authority boundaries this may cause some issues e.g. builders preferring to build on one side of a boundary than another, as while the sale price is the same, the LPT liability would be less, making the properties more attractive to buyers.

Consideration could also be given to changing the distribution of the revenue share across Local Authorities from that of the 2013 valuation. Local Authorities which are felt to be paying an unfairly high proportion of the total LPT yield could have their LPT liability reduced and the liability of other Local Authorities increased to compensate.

Box 5: OTHER OPTIONS CONSIDERED IN THE THORNHILL REVIEW

The Thornhill Review examined nine potential options for the future of the Local Property Tax. Four of these are considered in greater detail elsewhere in this paper. The five options below were rejected by Thornhill as either impractical, ineffective or contrary to the best practice with respect to the Local Property Tax. The options and the reasons they were not considered fit for purpose are discussed below.

1. Midpoint of 2013 and 2019 as taxable value

This option would require taxpayers to revalue their properties in 2019 but to use the average value of the 2013 and 2019 estimations. This would moderate the impact of changes in the value of properties as the value used to estimate LPT liabilities would be midway between the 2013 and 2019 values. This would reduce the transparency of the tax as an arbitrary approach would have to be developed to account for properties built since 2013 with the possibility of unfairness arising from this solution. It would also not accurately reflect changes in relative value since 2013. It is also a complex solution which would impose a heavier administrative burden on taxpayers and the Revenue Commissioners.

2. Stagger valuation adjustments

This option would have taxpayers estimate the value of their properties in 2019 but change their LPT liability on a phased basis between 2019 and the next revaluation date, currently 1 November 2022. Under this proposal, properties would not become liable for their full 2019 value until 2022. This is fundamentally the same as the above option, with the lower initial payments balanced by the higher payments in subsequent years. It would be more complex and the same issues of fairness and transparency would arise when valuing properties built since 2013 as it would be difficult to assign these new properties a 2013 value. Equity considerations would arise if new properties were liable at the full 2019 payment upfront or if their payments were staggered upwards from zero unlike comparable properties built before 2013.

3. Wider bands

This option would be to widen the valuation bands for the 2019 revaluation. This would have the potential to lower the liability for properties as they are less likely to move between bands. However, those that do move between bands will be more severely impacted. This would introduce a severe step effect as moving from one band to the next would increase the liable value of the property by €100,000 (an increase in LPT charge of €180). This severe step effect would make enforcement more difficult as it would increase the incentive for taxpayers to understate their properties value. It could also increase some properties liabilities more than a revaluation under the current system. For example, under the current system, a property in the €250,001 to €300,000 band that increased in value to the next band would increase its LPT liability from €495 to €585. Under this option the property would be liable for LPT of €630 (if the rate and rules remained the same).[17]

17 *Assuming bands of €0 to €100,000, €100,001 to 200,000, etc. and the mid-point of the bands is still used.*

Box 5: OTHER OPTIONS CONSIDERED IN THE THORNHILL REVIEW continued

4. Revalue but legislatively limit band movements

This option would revalue properties in 2019 but limit the number of bands a property could move in one valuation period. This option was rejected by the Thornhill Review as it introduces significant issues of transparency and efficiency and could, over time, see large divergences between values of properties for LPT purposes and their real value. This would be crystallised by the sharp increases property owners may be liable for if they moved from a property on which their LPT increases had been capped to one where the full LPT was owed.

5. Allow relief for mortgages

This option would provide some level of relief to taxpayers based on the size of their mortgage on their property. It would have issues of fairness as it would favour owners of mortgaged properties and have unfortunate public policy implications of incentivising heavily mortgaged properties. It would also lower the yield to Local Authorities and add to the complexity of the LPT's administration.

Other issues and options with regards to Local Property Tax

Revenue to be raised by Local Property Tax

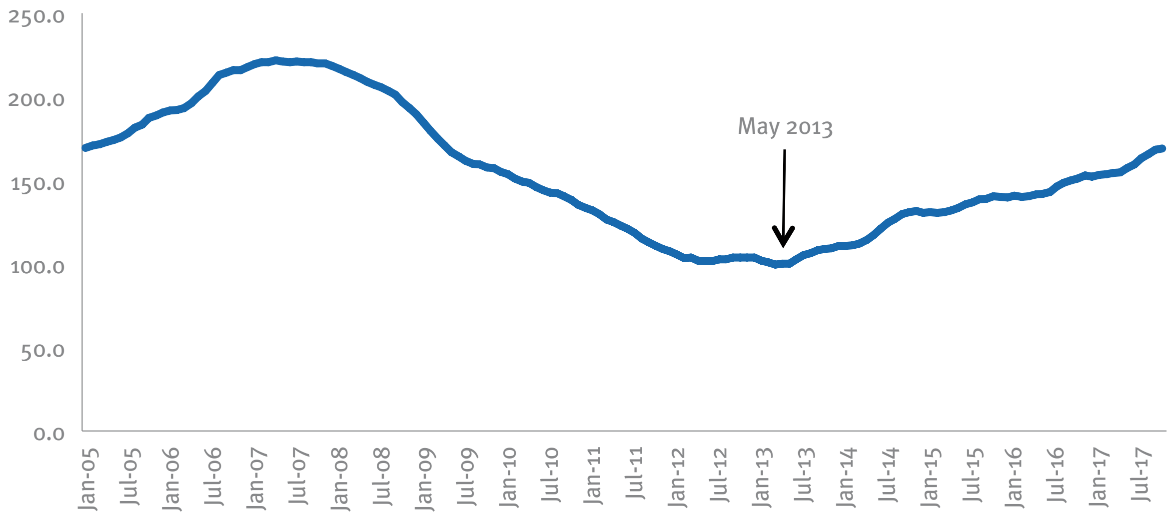
The options considered above with respect to the revaluation are extremes in respect of the amount of revenue to be raised i.e. Option A means most of the property price increases will be reflected in increased LPT liabilities, whereas Options B, C and D effectively mean no increase in revenue. All of these options can be modified to increase or decrease revenue by changing the LPT rate – the revenue to be raised is a policy choice and should be determined before other matters are decided.

In general the property tax valuation base is fixed for a number of years. This means that outside of the revaluations, annual increases in LPT revenue can only come from two methods – increase the LPT rate or additional properties being added to the base (i.e. new construction). This may mean that the revenue from property tax may not be adequate to cover increasing expenditure demands if modifying the rate is difficult.

Figure 2 below shows the CSO's Residential Property Price Index between 2005 and 2017 rebased to May 2013. As can be seen the current LPT valuation date (May 2013) was near the recent nadir of house prices. A revaluation date in 2019, if current trends continue, may be close to the previous peak price level. Both these dates are arbitrary and at very different points in the cycle. The recent increases in residential property values may be a reversion to the mean rather than an unsustainable increase and 2013 values could be considered unsustainably low. This highlights the importance of regular revaluations to provide an accurate estimate of the LPT's tax base.

However, this does need to be an issue if the overall level of revenue collected after a revaluation does not change dramatically i.e. the LPT rate is adjusted as well. Revaluations should be about updating the relative burden of the LPT and are needed to maintain the integrity of the system i.e. to ensure horizontal and vertical equity as relative property prices change between valuation periods.

Figure 2: Residential Property Price Index 2005-2017



Source: CSO Residential Property Price Index (Rebased May 2013 = 100).

It may be worth considering introducing a mechanism for the LPT rate (currently 0.18%) to automatically increase annually by a defined amount linked to a measure of inflation, population increase, Local Government expenditure increase, etc. This would allow revenue to increase in line with expenditure demands albeit still allowing individual Local Authorities discretion to vary rates.

Revaluations could then follow the precedent set by the Commercial Rates revaluation which limits a Local Authority's revenue in the year of a revaluation. Revaluations would have the effect that the effective average amount paid would remain the same but the distribution of LPT (i.e. who pays) would reflect the relative difference in property price changes between valuation dates. Properties with above average price increases pay more, those with property prices increases under the average pay less, and properties which increase in line with the average pay the same. Revaluations could be seen *by the public* as a redistributive measure rather than a revenue measure.

Conclusion

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 regular updating of valuations is needed to maintain the integrity of the LPT system and ensure that future decisions on LPT policies are based on up-to-date valuations thus the 2019 revaluation should proceed.

The option chosen with respect to how LPT rates are set should reflect desired distributional priorities given the amount of revenue to be raised.

The Thornhill Review's recommendation to set individual rates for Local Authorities still has merit.

Consideration should be given to introducing a mechanism for the LPT rate to automatically increase annually by a defined amount perhaps linked to a measure of inflation, population increase, Local Government expenditure increase, etc.

Revaluation date

The current date for the revaluation does not support budgeting best practice for Local Authorities. Local Authorities must decide if they wish to vary the rate of LPT by 30 September of the preceding year and must have submitted a preliminary budget to the DHPLG by the same date. The revaluation date currently in the legislation is 1 November 2019. This requires local authorities in 2019 (and at subsequent revaluation dates) to choose the level of the LPT rate and set their preliminary budgets before knowing the valuation base and introduces a degree of uncertainty into the potential level of the revenue to be raised.

Conclusion

The PBO recommends that consideration be given to moving the revaluation date to earlier in 2019 to support sound budgetary planning among Local Authorities.

Exempt properties

In general, it is not best practice to introduce exemptions to a tax. They reduce the tax base, increase the tax burden on other taxpayers, reduce the efficiency of the tax and can introduce inequities into the system undermining it. Any such exemptions should be reviewed regularly. Removing or limiting exemptions is in line with the European Council Country Specific Recommendation for Ireland in 2017 to broaden the tax base and remove tax expenditures. Deferrals are a better method to address issues with low income households who may have difficulties with LPT payments.

The Act currently exempts properties bought by first time buyers as their sole or main residence in 2013 and all new properties bought between 2013 and the 1 November 2019. These exemptions are currently set to expire in 2019.

These exemptions should be allowed to expire as the current position is materially inequitable. These exemptions are not targeted at buyers on lower incomes or with particular characteristics. The particular circumstances that created the exemptions and their extension no longer apply and the main determinant of eligibility is when the property was purchased. This is an arbitrary criteria which, at best, no longer fulfils any defined public policy goal and creates distortionary incentives which mitigate against a liquid property market. This relief should not be continued in its current form. In addition, new properties built post-2019 should not receive an exemption. The Revenue Commissioners should produce guidelines on how to value new properties sold in 2020 and beyond at 2019 prices.

Conclusion

All the current LPT exemptions not due to expire in 2019 should be reviewed to ensure they still meet a legitimate public policy rationale and removed if not.

Any future exemptions need a very strong public policy rationale backed up with a clear evidential basis that shows that the exemption will meet its goal.

The PBO suggests that the LPT exemption for newly constructed properties built from 2013 onwards, as well as, for those properties purchased in 2013 should be allowed to end in 2019 as planned.

In addition, new properties built post the 2019 revaluation should not receive an exemption. The Revenue Commissioners should produce guidelines on how to value new properties sold in 2020 and beyond at 2019 prices.

Impact of increased yield on Local Authorities budgets

As mentioned in the PBO's Post-Budget Commentary,[18] from 2018, LPT receipts will go directly into the Local Government Fund and are distributed to Local Authorities. This distribution is based on their baseline, the 20% equalisation funding, the own-use surplus (if any) and any local adjustment factor.

An increase in overall LPT revenue will increase the discretionary funding available to many Local Authorities. Currently, 10 Local Authorities exceed their LPT baseline funding allocation from the 80% of the LPT retained locally. A substantial increase in the LPT yield would mean more Local Authorities would exceed the baseline (assuming it was unchanged) and would have own-use funds.[19] For these councils and the councils who currently surpass their funding baselines[20] there would be additional own-use funds which they could use on local services and/or to decrease the LPT rate by up to 15%. For Local Authorities where the increase in yield does not allow the 80% LPT revenue retained locally to surpass their baseline there will be no additional funding.

There would also be a significant decrease in the exchequer funding required towards roads and housing in Local Authorities where the baseline is surpassed by a sufficient margin. This would improve the financial position of the Exchequer and allow spending in other areas.

As the minimum baseline of Local Authority funding is determined independently by DHPLG, it is possible that there could be a surplus in the Equalisation Fund if the yield increased. More Local Authorities would, with additional LPT revenue, meet their funding baseline and the Fund would have significantly more revenue. It is not clear what these excess funds would be used for. The equalisation payments to relevant Local Authority areas could be increased or the proportion of funding required for the Equalisation Fund could be reduced.

18 *Parliamentary Budget Office (2017) Post-Budget 2018 Commentary for the Committee on Budgetary Oversight.*

19 *A uniform 70% increase in yield would mean six additional Local Authorities (Wexford, Louth, Limerick City and County, Kerry, Galway and Cork City) would exceed the threshold assuming the 2018 baseline was kept.*

20 *Local authorities are permitted to keep 80% of the LPT yield from their Local Authority area. Of this, they may use their baseline and up to 20% of their total LPT yield for discretionary spending. Additional funds raised through the LPT are used to replace Exchequer funding in Housing and/or Roads Service Divisions i.e. 80% of LPT yield = baseline + 20% of LPT yield + Roads/Housing Spending.*

Local Property Tax: Issues to be considered with the revaluation of the base

The first option would increase the funds available to local authorities whose LPT yield falls below the baseline. The second option would increase the funds available to all local authorities as all local authorities contribute to the Equalisation Fund even if they also draw from it. Alternatively the baselines could be increased.

Without knowing the exact increase in yield it is difficult to predict which Local Authorities would benefit. The Thornhill Review 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 areas. Authorities with weaker tax bases would consequently need to receive supplementary Exchequer funding." This would make the LPT a truly local tax and Thornhill recommended that if this was done to rename it 'Local Council Tax'. A significant increase in the revenue yield from LPT would make this process easier as fewer Local Authorities would need equalisation funding if the 2018 baseline funding was maintained.

Conclusion

The Thornhill Review recommendation 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 areas" still has merit.

Local Property Tax and fiscal space from 2020 onwards

The current treatment of LPT revenue with regard to budgetary projections is not in line with best practice in budgetary planning and transparency. When forecasting the revenue from LPT in 2020 and beyond, the Department of Finance are projecting no change in yield from the LPT.[21] This is not reflective of the current "no-policy change" scenario. Given the scale of the increase in the Residential Property Price Index since 2013, and the Department's own analysis in 2015, there is ample evidence that there will be a significant increase in yield from the LPT in 2020 under current legislative conditions. Government forecasts should recognise this additional revenue as it is legislated for and account for any intended policy measures that will reduce the total yield of the LPT when they are made, rather than ignoring the implications of current legislation. The current position obscures the impact of Government interventions on the available fiscal space by presenting it net of legislative changes that have not yet been introduced.

The PBO understands that, under the no policy change scenario (i.e. option A), it is likely that the European Commission will view the additional revenue as deriving from 'economic buoyancy'. This would mean that it should be used to decrease Government debt rather than be available for additional expenditure. In addition, it is unclear how changes in the LPT system are to be considered with respect to what are known as "discretionary revenue measures" under the EU fiscal rules. Not allowing the full effect of the property price increases to be reflected in the amount of revenue raised could be considered a "discretionary tax cut" as the benefit of the increased property prices would not be reflected in the tax revenue raised. This would reduce the fiscal space available for other priorities.

21 *Reply to Parliamentary Questions Nos. 73-80 of 14 December 2017.*

Conclusion

The Department of Finance when projecting LPT revenues in 2020 and beyond should reflect the current legislative position.

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.

Robustness

LPT was introduced as a revenue raising measure during the economic downturn. It was part of a package of measures (including USC, removing tax exemptions, etc.) that broadened the tax base and replaced revenues from volatile sources such as stamp duty.

Any system put in place to control the volatility of LPT liability should also consider the impact of falls in property prices alongside the impact of increases. A system that constrains increases in LPT liabilities will likely also restrain decreases in LPT. This could be seen as a positive – a system that is too responsive to changes in property values will become another pro-cyclical revenue source and undermines the need to broaden and stabilise the tax base. It will also support Local Authority budgets as a system that is overly responsive to changes in property values could leave Local Authorities unexpectedly short of funds.

However, it may undermine the legitimacy of the tax if people were put under substantial hardship if they were obliged to pay LPT liabilities set at peak prices during a later downturn.

Consideration should be given to a system that does not leave Local Authorities overly reliant on LPT for funding and insulates Local Authority budgets against volatility in property values but that is responsive enough to ensure that LPT paid accurately reflects the value of the property in question.

Local Property Tax: Issues to be considered with the revaluation of the base

Appendix 1: Current Local Property Tax Bands and Rates

Valuation Band, €	Mid-point, €	Standard rate	Standard LPT Payment, €
0-100,000	50,000	0.18%	90
100,001-150,000	125,000	0.18%	225
150,000-200,000	175,000	0.18%	315
200,001-250,000	225,000	0.18%	405
250,001-300,000	275,000	0.18%	495
300,001-350,000	325,000	0.18%	585
350,001-400,000	375,000	0.18%	675
400,001-450,000	425,000	0.18%	765
450,001-500,000	475,000	0.18%	855
500,001-550,000	525,000	0.18%	945
550,001-600,000	575,000	0.18%	1,035
600,001-650,000	625,000	0.18%	1,125
650,001-700,000	675,000	0.18%	1,215
700,001-750,000	725,000	0.18%	1,305
750,001-800,000	775,000	0.18%	1,395
800,001-850,000	825,000	0.18%	1,485
850,001-900,000	875,000	0.18%	1,575
900,001-950,000	925,000	0.18%	1,665
950,001-1,000,000	975,000	0.18%	1,755

Properties worth more than €1 million are assessed on the actual value at 0.18% on the first €1 million and 0.25% on the portion above €1 million.

Source: https://www.revenue.ie/en/property/local-property-tax/valuing-your-property/what-are-the-rates-of-local-property-tax-lpt.aspx.

Appendix 2: Local Property Tax Variations 2015-2018

	2015		2016		2017		2018	
Local Authority	Rate	Funds	Rate	Funds	Rate	Funds	Rate	Funds
Clare County Council	-15%	€1,560,900						
Cork City Council	-10%	-€1,144,727	-10%	-€1,070,389				
Cork County Council	-10%	-€4,183,175	-5%	-€1,991,933				
Dublin City Council	-15%	-€12,398,895	-15%	-€11,632,116	-15%	-€11,920,132	-15%	-€11,968,437
Dún Laoghaire-Rathdown County Council	-15%	-€8,020,882	-15%	-€7,610,420	-15%	-€7,747,809	-15%	-€7,773,682
Fingal County Council	-15%	-€5,861,213	-15%	-€5,590,146	-15%	-€5,717,668	-10%	-€3,822,079
Galway County Council					10%	€1,455,426		
Kerry County Council							5%	€704,097
Kildare County Council	-7.5%	€1,663,684	-7.5%	€1,580,886				
Laois County Council							10%	€492,822
Limerick City and County Council	-3%	€485,883			10%	€1,566,808	7.5%	€1,176,448
Longford County Council	-3%	€65,274	-3%	-€61,867	-3%	-€63,113	5%	€105,588
Louth County Council	-1.5%	€145,512	-1.5%	-€137,682				
Mayo County Council	-3%	€312,308						
Monaghan County Council			-7.5%	-€278,664				
South Dublin County Council	-15%	€2,642,002	-15%	-€4,595,699	-15%	-€4,708,070	-15%	€4,726,401
Tipperary County Council							10%	€1,182,910
Waterford County Council							2.5%	€232,545
Westmeath County Council			-3%	€197,413				
Wexford County Council					5%	€607,812	10%	€1,218,517
Wicklow County Council	-15%	€2,642,002						

Source: Department of Housing, Planning and Local Government LPT Allocations 2015-2018.

Appendix 3: Number of Local Property Tax exemptions and deferrals 2013 to 2017

	2017	2016	2015	2014	2013
Exemptions	**('000)**	**('000)**	**('000)**	**('000)**	**('000)**
Charitable recreational Activities	0.2	0.2	0.2	0.2	0.2
Charity/Public Body owned for special needs	7.3	7	6.9	6.8	7.9
Diplomatic Properties	0	0	0	0	0
Property purchased as a home in 2013	11.8	11.9	12.1	9.4	3.4
Fully subject to Commercial rates	2.3	2.2	2.2	2.3	2.3
Long-term illness	7.4	7	6.9	6.5	6.2
Mobile homes	0.3	0.3	0.3	0.3	0.3
New & unused between 1/1/2013-31/10/2019	5.2	5.3	5.2	4.3	2.7
Nursing homes	0.3	0.3	0.3	0.3	0.3
Pyrite damaged	1.1	0.8	0.3	0.2	0.2
Residence of a severely incapacitated individual	2	1.9	1.9	1.8	1.8
Unfinished Housing Estates	3.3	3.3	3.3	3.3	3.3
Unsold by builder/developer	6.7	7	7.2	7.3	7.4
Total exemptions	**48**	**47**	**47**	**43**	**36**
Deferrals					
Executor/Administrator of an Estate	0.9	0.9	1	1	0.9
Significant Financial Loss	0.2	0.2	0.3	0.3	0.2
Below Income Threshold	59.6	46.4	39.2	39.2	33.3
Insolvent Liable Person	0.9	0.8	0.6	0.6	0.5
Total deferrals	**62**	**48**	**41**	**41**	**35**

Source: Revenue Commissioners LPT Statistics 2013-2017.

Appendix 4: Local Property Tax Statistics 2017

Local Authority	2017 Properties Returned ('000)	2016 Properties Returned ('000)	2017 LPT Collected (€ million)	2016 LPT Collected (€ million)	2017 Compliance Rate %
Carlow	23	22.6	3.8	3.9	98.7
Cavan	30.7	30.3	4.4	4.4	98.3
Clare	53.1	52.5	9.8	8.4	99.4
Cork City	53.9	53.4	11.6	10.4	97.5
Cork County	166.8	165.1	39.7	38.2	99
Donegal	72.9	71.9	11	10.8	93.6
Dublin City	230.1	228	68.2	67.4	95.4
Dun Laoghaire Rathdown	83.7	83.1	43.9	43.1	99
Fingal	103.5	102.7	30.3	31.7	99.2
Galway City	32.2	32	8.2	8.1	99.1
Galway County	72.1	71.3	15.5	14.2	98.4
Kerry	68.9	68.2	14.2	14	97.3
Kildare	78.8	78.1	20	19.5	98.2
Kilkenny	36.8	36.4	7.3	7.4	98
Laois	30.5	30.2	4.7	4.9	98.2
Leitrim	16.1	16	2.1	2.1	95.6
Limerick City and County	79.1	78.1	16.6	15.5	97.6
Longford	17	16.8	2.1	2.1	96.4
Louth	49.9	49.3	9	9.2	95.7
Mayo	59.4	58.7	10.4	10.2	96.9
Meath	68.4	67.7	16	17	97.6
Monaghan	23.1	22.8	3.8	3.5	97.9
Offaly	28.7	28.5	4.7	4.8	96.6
Roscommon	28.1	27.7	3.9	3.9	98.7
Sligo	30.5	30.1	5.2	5.2	97.4

Local Authority	2017 Properties Returned (‘000)	2016 Properties Returned (‘000)	2017 LPT Collected (€ million)	2016 LPT Collected (€ million)	2017 Compliance Rate %
South Dublin	98.1	97.2	25.2	26.4	99.4
Tipperary	65.6	64.8	11.7	11.8	98.6
Waterford City and County	50.9	50.3	9.4	9.6	97
Westmeath	35.7	35.3	6.1	6.3	97.6
Wexford	64.8	64	12.5	12	98.8
Wicklow	53.1	52.6	16.7	16.8	98.9

Source: Revenue Commissioners 2017 LPT Statistics.

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