IMFG
Institute on Municipal Finance & Governance

IMFG Papers on Municipal Finance and Governance

No. 62 • 2022

The Old and the New: A Tale of Two Local Property Taxes in Ireland

Gerard Turley

University of Toronto

IMFG Papers on Municipal Finance and Governance

The Old and the New: A Tale of Two Local Property Taxes in Ireland

By
Gerard Turley

IMFG
Institute on Municipal
Finance & Governance

Institute on Municipal Finance and Governance
School of Cities
University of Toronto
55 St. George Street, Suite 853
Toronto, Ontario M5S 0C9
e-mail contact: info.imfg@utoronto.ca
http://imfg.org

Series editors: Tomas Hachard and Philippa Campsie

© Copyright held by author

ISBN 978-0-7727-1142-7
ISSN 1927-1921

About IMFG

The Institute on Municipal Finance and Governance (IMFG) is an academic research hub and non-partisan think tank based in the School of Cities at the University of Toronto.

IMFG focuses on the fiscal health and governance challenges facing large cities and city-regions. Its objective is to spark and inform public debate, and to engage the academic and policy communities around important issues of municipal finance and governance. The Institute conducts original research on issues facing cities in Canada and around the world; promotes high-level discussion among Canada's government, academic, corporate, and community leaders through conferences and roundtables; and supports graduate and post-graduate students to build Canada's cadre of municipal finance and governance experts. It is the only institute in Canada that focuses solely on municipal finance issues in large cities and city-regions. .

IMFG is funded by the City of Toronto, the Regional Municipality of York, the Regional Municipality of Halton, the Neptis Foundation, Avana Capital Corporation, and Maytree.

Author

After working for a time as a foreign exchange trader and economist, **Gerard Turley** joined the academic world at the University of Galway, Ireland, in 1990 and since then has lectured in Ireland, Central and Eastern Europe, Russia, China, and in the United States, where in 2009 he taught at the University of California, Berkeley.

His PhD is from Heriot-Watt University in Edinburgh, and his thesis focused on Janos Kornai's Soft Budget Constraint. He has co-authored a number of books on economic transition from plan to market, including *Transition Economics: Two Decades On* and *Routledge's Handbook on the Economics and Political Economy of Transition*. He has also worked on numerous international projects, funded by the World Bank, the European Bank for Reconstruction and Development, EC EuropeAid, UK Department for International Development, and George Soros's Open Society Foundations.

Since 2013 his research has been on local government finance, and he has published papers on territorial restructuring, local government reforms, fiscal equalization, financial performance, fiscal rules, and in particular, municipal funding and local property taxes. His local government research has been published in journals such *Local Government Studies, Administration, The Economic and Social Review,* and in *The Routledge Handbook of International Local Government*. He was a member of EU Cost Action IS 1207 *Local Public Sector Reform: An International Comparison* (LocRef) and is the country expert for the project's Local Autonomy Index. He operates and co-manages the www.localauthorityfinances.com website.

Acknowledgements

My thanks to Enid Slack and Tomas Hachard for reading the paper, and for facilitating my short but productive and enjoyable stay at the Institute on Municipal Finance and Governance (IMFG) at the University of Toronto in spring/summer 2022. Although the inspiration for the title of this paper came from Charles Dickens's 1859 classic, *A Tale of Two Cities,* clearly there are more similarities with the 2012 book *A Tale of Two Taxes,* written by Enid Slack, Almos Tassonyi, and the late Richard Bird. Thanks also to my colleagues Stephen McNena and Enda Hargaden at the J.E. Cairnes School of Business and Economics at the University of Galway for comments on an earlier draft of the article, and to participants at an IMFG event in May 2022. The views expressed in this paper are entirely my own, as are any errors or omissions.

The Old and the New: A Tale of Two Local Property Taxes in Ireland

Gerard Turley

Abstract

Property taxes are common in countries around the world. While Ireland is no exception in its current tax treatment of real property, the background to its local taxes on non-residential and residential properties is unusual in that the former dates back more than 400 years while the latter, at least in its current configuration, has been in existence for less than 10 years. This research paper outlines the rationale, history, features, and administration of commercial rates (the "old") and the residential Local Property Tax (the "new"). The purpose is to highlight, from a political economy and public policy perspective, improvements in the design and implementation of both taxes. While both taxes have some common features, the Local Property Tax has a number of unusual characteristics, including self assessment and valuation bands. While recognizing country-specific circumstances, the paper draws potential lessons from the Irish experience, identifies future opportunities, and explores challenges for policymakers. The Local Property Tax experience shows the importance of tax administration and the role of the central tax collection agency, and, in terms of design, the principle of simplicity combined with a tailored approach to suit local circumstances. Challenges include the relative tax burdens on non-residential and residential properties, the long-term sustainability of both tax regimes arising from legacy issues, the effects of current global trends and future revaluations, and, finally, the need for frequent property tax reform because of political and taxpayers' opposition to a highly visible, unpopular, but good local tax.

Keywords: local property taxes, municipal finance, property tax reform, Ireland

JEL codes: H70, H71

The Old and the New: A Tale of Two Local Property Taxes in Ireland

"The property tax is a good local tax because it is one of the best ways to fund local government." (Lincoln Institute of Land Policy, *Property Tax 101: Why the Property Tax*)[1]

1. Introduction

Local recurrent taxes on immovable property, or property taxes in short, are common across time and space. They predate income tax and most other taxes. A majority of countries worldwide use property taxes in some form, and do so primarily to fund local governments.

While Ireland is no exception in its current tax treatment of real property, the background to its local taxes on non-residential and residential properties is unusual. More specifically, while the non-residential property tax system dates back more than 400 years, the current residential property tax has been in existence less than 10 years. This research paper presents the rationale, history, features, and administration of commercial rates (the "old") and the residential Local Property Tax (the "new") and outlines improvements in the design and implementation of both taxes. While recognizing country-specific circumstances, the paper draws potential lessons from the Irish experience, identifies opportunities, and explores the challenges confronting policymakers.

The paper begins with theories on the economic rationale for local government. A section on tax assignment and property tax follows. The next section provides some country context, outlining local government finance in Ireland. A brief account of the history of rates in Ireland is followed by separate sections on commercial rates and the residential property tax. The paper ends with some lessons and future challenges.

2. Economic Rationale for Local Government: The Theory

Although there are different theoretical strands to the economics of local government, the seminal works are Wallace Oates's model of fiscal decentralization, Charles Tiebout's hypothesis of local choice, and Mancur Olson's principle of fiscal equivalence, all published in a 16-year period between 1956 and 1972. We begin, however, with Paul Samuelson's theory of public expenditure and Richard Musgrave's theory of public finance.

A society that uses its scarce resources to maximize total welfare has a mix of expenditures on privately and publicly provided goods and services (Samuelson 1954). With respect to private goods and services, the competitive market system and its pricing mechanism allocates society's scarce resources. In cases of market

1. Retrieved from https://www.lincolninst.edu/publications/multimedia/property-tax-101-why-property-tax

failure, outcomes can be improved by government intervention. When goods and services are provided by the public sector, policymakers need to determine the appropriate level of government to provide them, whether that is central, provincial, or local.

Unlike political scientists, who emphasize the political or democratic role of local government, economists focus on achieving efficiency through local public service delivery.[2] Using the framework of the traditional three branches of government, the main economic functions of government are resource allocation, income redistribution, and macroeconomic stabilization (Musgrave 1959). Income redistribution and macroeconomic stabilization are best undertaken by central governments. Resource allocation, meanwhile, should primarily be delivered by subnational government, and, where the benefits are local, by local government. Welfare gains accrue by moving government closer to its constituencies and ensuring that citizens get what they want. This is the allocative efficiency case for local government and dominates the economic debate in favour of decentralization.

Viewed through the lens of local public finance, the argument in favour of local government over national government provision of uniform services is that, given the spatial considerations, local government facilitates, to the extent possible, the matching of public service outputs with local preferences, and in doing so, promotes economic efficiency. Applying the benefit taxation model, it is desirable that those who benefit from local government expenditures should pay for them, and by doing so, maintain the link between taxes paid and benefits rendered. Where benefits do not extend beyond local boundaries, allocative efficiency can best be achieved by providing public services at the lowest level of government possible. This subsidiarity principle whereby public goods and services are provided by the lowest level of government that can do so efficiently has long been espoused by the Roman Catholic Church and in more recent times has been a core principle of the European Union.

As long as there are different preferences for the outputs of local public goods and different costs in local public service delivery, there are welfare gains from fiscal

2. One of the earliest proponents of local government was the political economist and philosopher John Stuart Mill. He wrote of local representative bodies, "it is but a small portion of the public business of a country, which can be well done, or safely attempted, by the central authorities… But after subtracting from the functions performed by most European governments, those which ought not to be undertaken by public authorities at all, there still remains so great and various an aggregate of duties that, if only on the principle of division of labour, it is indispensable to share them between central and local authorities." He went on to write, "It is necessary, then, that in addition to the national representation, there should be municipal and provincial representations: and the two questions which remain to be resolved are, how the local representative bodies should be constituted, and what shall be the extent of their functions" (Mill 1861, 168–69). As for a third question, namely the funding of local government, the equally influential economist Alfred Marshall wrote in evidence to the Royal Commission on Local Taxation that "For rural and urban districts alike, after reckoning for the initial rates of land, the remainder of the necessary funds would perhaps best be obtained by rates on immovable property, supplemented by some minor local taxes at the discretion of the local authorities" (Marshall 1899, 804).

decentralization. Formalized by Wallace Oates (1972), the fiscal decentralization theorem presents the economic case for local government. Given its importance to the economic rationale for local government, Oates's original statement is worth reproducing here. "For a public good – the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government – it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide *any* specified and uniform level of output across all jurisdictions" (Oates 1972, 35).[3]

An earlier and rather different perspective but with many of the same outcomes, was made by Charles Tiebout in his theoretical model of consumer-voter choice. If citizens are faced with areas of different types and levels of public services, as consumers they will choose the local area that best reflects their preferences, by "voting with their feet." In this case, based on assumptions of perfect residential mobility, absence of spillovers, and identical preferences within each area, a political solution is not required to provide the optimal level of public goods, as the market is considered to be efficient (Tiebout 1956).[4]

Not altogether dissimilar but more focused on the design of jurisdictions, Mancur Olson's principle of fiscal equivalence assigns revenue-generating powers to central and local governments commensurate with expenditure responsibilities and, where possible, aims for a close match between benefit area, tax area, and electoral area, that is, political boundaries that are consistent with service areas. Because citizens live in overlapping jurisdictions (central, provincial/state, local/ municipality), they should pay taxes to each level corresponding to the benefits that they receive from each jurisdiction (Olson 1969).

Notwithstanding the argument about externalities and economies of scale in favour of centralized governments, functions should be assigned to the level of government whose jurisdiction most closely approximates the geographical area of

3. Oates (2010, 10) summarizes the argument for local government and fiscal decentralization: "By tailoring the outputs of local public goods to the particular tastes and costs of specific jurisdictions, the decentralized provision of local public goods promises higher levels of social welfare than a centralized regime with more uniform levels of outputs across all jurisdictions." Furthermore, "From a purely economic perspective, the basic role of local government is to enhance the performance of the overall public sector by allowing variation in the outputs of local services in accordance with differing local tastes and costs" (Oates 2010, 23).

4. Tiebout's 1956 article, "A pure theory of local expenditures," followed shortly after and was a direct challenge to Paul Samuelson's 1954 seminal article, "The pure theory of public expenditure." Tiebout opposed what he called the Musgrave-Samuelson analysis. For a recent critique of the Tiebout model, see Boadway and Tremblay (2012). For the second-generation fiscal federalism literature, see Oates (2005) and Weingast (2009). More generally, for a more comprehensive account of the different theoretical and real-world models of local government, including more non-traditional and citizen-centred approaches, see Shah (2006).

benefits provided by the function. For example, national defence, foreign affairs, immigration, and monetary policy should be provided by central government, as the benefits and costs are national in scope. In contrast, fire protection, parks and recreation, planning and zoning, and street maintenance, for example, should be provided by local government as these are primarily local affairs.

Once expenditures have been assigned according to the principles set out above, the next step is to assign appropriate revenues, in the form of taxes, transfers, or borrowing: together these four considerations constitute the pillars of intergovernmental fiscal relations.[5] As this research paper focuses on property taxes, the next section deals with the question of tax assignment – who should tax what?[6] – and the suitability of property tax as a local tax.

3. Tax Assignment and the Property Tax

3.1 Tax Assignment

The division of tax sources among different tiers of government constitutes the tax assignment problem of intergovernmental finance. Although the traditional fiscal federalism model underlying expenditure assignment is relatively straightforward, with local government primarily responsible for the efficient provision of local public services characterized by few spillovers and limited economies of scale, that is not the case for tax assignment (Musgrave 1959, 1983; Oates 1972). To ensure a hard budget constraint and avoid the dangers of overspending or undertaxing, one of the rules of fiscal decentralization and the related sequencing of policy reforms is that finance should follow function (Bahl 1999). In the absence of a complete theory on tax assignment, and with the functions of local government limited primarily to resource allocation, the consensus is that benefit taxation is important in determining tax assignment, that local governments should be assigned limited tax sources, and that one size does not fit all (McLure 2001; Shah 1994).[7]

Whatever the tax source assigned, what makes it a truly local tax is the ability of local government to set the rate, as this ensures – at least in theory – a responsive, responsible, and accountable local government, while at the same time, maintains

5. The four pillars are expenditure assignment, tax assignment, intergovernmental transfers, and borrowing and debt.

6. In an amusing way, McLure (2001, 340) describes tax assignment as, "how benevolent Martian fiscal experts landing on earth at various points in time would suggest assigning taxes, assuming that they want to help maximize the welfare of Earthlings living in the particular nation where they land."

7. On the one hand, central government is often reluctant to devolve – give up, in the words of national politicians – taxing powers to lower tiers of government. On the other hand, local governments may resist taking on or using these powers, in the face of a local electorate that will hold them accountable at the next election. These political economy considerations need to be taken into account when assigning and designing taxes for local government (Martinez-Vazquez 2013).

the link between the taxes paid, the benefits accrued, and the costs incurred.[8] Only by choosing to pay lower or higher taxes can residents of local governments choose the level of public services they want. Other elements, including the tax base, administration, or collection, are less important in determining the tax autonomy – the power of the purse, if you like – of local government.

The taxes assigned to local government should meet certain criteria. As set out in Ter-Minassian (1997) and Bird (2001), the characteristics of a good local tax are that the tax base should be relatively immobile and visible, the tax should be mainly borne by local residents and not easily exported, it should be relatively evenly distributed, perceived as reasonably fair and relatively easy to administer, with a tax yield that should be adequate to meet local needs, that can increase over time as expenditures increase, and that is relatively stable and predictable.[9] Taxes with these characteristics help to facilitate efficient budgetary decision-making and promote good local fiscal outcomes. The tax that best meets these criteria and is widely used by local governments worldwide is the property tax.

3.2 Property Tax

Relative to other potential sources of local tax revenues, a local property tax scores well on most of the criteria listed above. Land and improvements in the form of buildings are immobile and salient,[10] the tax on them is borne primarily by local residents who benefit from the services supplied, the information required is likely to be available locally, and its yield is relatively stable and varies less with the business cycle than other taxes.[11] In addition,

8. As Bahl and Bird (2008, 16) put it, "Confronting people with the cost of government is a virtue of the property tax in terms of political accountability." They also write that "It is not surprising that academics tend to be fonder of the property tax than are the politicians who actually have to impose it." On the imposition of such a tax, Blöchliger (2015, 6) in his *Taking Care of the Unloved* paper noted that "no tax shows a wider gap between hailed benefits and entrenched reform resistance."

9. With respect to the immobile tax base, an alternative to the conventional public economics literature is the public choice literature (related to the second-generation fiscal federalism theory referenced earlier), best espoused by Brennan and Buchanan (1980), who argue that subnational taxes be levied on mobile factors so that interjurisdictional competition restrains the size of government. Likewise, for a different view on the perceived stability of property taxes as against income taxes for example, see Muellbauer (2005). To see how other locally assigned taxes do against these and other criteria, see Bird (2006) and Martinez-Vazquez (2013).

10. IMF (2013, 56) puts it nicely in its October 2013 Fiscal Monitor *Taxing Times*, "a pleasant summer house by the lake is hard to put in an offshore bank account." The same 2013 IMF report concluded that "there is a strong case in most countries, advanced or developing, for raising substantially more from property taxes" (IMF 2013, viii). Ireland's new residential property tax was introduced in the same year, with the support of the IMF, as outlined in section 7 of this paper.

11. Rosengard (2013, 173–74), when writing about the tax that everyone loves to hate, described it as "*roughly* progressive, *loosely* correlated with local government benefits, a *relatively* good proxy for a tax on multi-year income" (italics added). Later in the same article he writes,"Leaders seldom have the opportunity to design a property tax with a blank slate." This case study – Ireland's new residential property tax – is one exception!

a well-designed property tax is relatively neutral with respect to its impact on economic decisions relating to savings, investment, and labour supply by households and firms. As it is one of the taxes least prone to harmful tax competition, distorting the allocation of resources less than other taxes, the OECD found that on a "tax and growth" ranking, recurrent taxes on immovable property appear to have the least impact on economic growth (Johansson et al. 2008).

It is important to distinguish between non-residential and residential property taxes because the economic case is not the same for both taxes. Whereas the rationale for a residential property tax is strong, as outlined above, the argument in favour of a non-residential property tax is much weaker, for reasons that include a weaker link between tax payments and benefits, the greater mobility of businesses as opposed to homeowners, and the greater uncertainty over the incidence of tax with the possibility of tax exporting where some of the tax burden is shifted to non-residents (Slack 2011).

One of the features of property taxation and especially tax on residential property is that it can be defined differently, in that it can be viewed as a generalized user charge (as outlined in 1999 by the Nobel Prize-winning economist William Vickrey) or benefit tax where it serves as a "tax price" associated with a bundle of local services, or as a tax on housing consumption, or as a tax on capital (that is, a form of wealth tax).[12] Some of the advantages of a property tax are also drawbacks. For example, its high visibility, which makes it difficult to evade, also makes it vulnerable to political and popular resistance. As it is inelastic, fluctuating with economic growth less than other taxes, its yield in terms of revenue mobilization is limited. Another weakness is that assessment and valuation are often difficult, and administration costs can be high. Many of these drawbacks constitute obstacles to property tax reform. Slack and Bird (2014) identify six major obstacles, namely, salience, liquidity, regressivity, inelasticity, volatility, and the presumptive nature of the tax.

Despite these problems, property tax is a mainstay of municipal finance, with a majority of local governments worldwide relying on some form of

12. Vickrey (1999, 17) described the property tax as "economically speaking, a combination of one of the worst taxes – the part that is assessed on real estate improvements and in some cases to a limited extent on personalty – and one of the best taxes – the tax on land or site value." Similarly, Dick Netzer, in the conclusion of his seminal book *Economics of the Property Tax*, wrote, "the decision to continue with the property tax we do have is just such a choice and that it is not at all obvious that it is the best – or the worst – of all possible choices" (Netzer 1966, 220). Continuing with the worst characterization, the following quotation nicely captures the essence of the property tax, "Like democracy there is a consensus that the property tax is the worst system possible – except for all the others" (MFOA 2015, 4).

recurrent property tax.[13] Indeed, in this instance we can say that the public finance theory and practice coincide (not often the case), as any rational assignment of taxing powers should see local government assigned a tax on real property. Bird (2006, 181–84) writes that a "property tax is indeed an excellent local tax," and "undoubtedly the pre-eminent local tax." Similarly, the Mirrlees Review in the United Kingdom noted, "The fact that land and property have identifiable and unchangeable geographic locations also makes them natural tax bases for the financing of local government" (Mirrlees Review 2011, 368).

4. Context of Ireland

Ireland, with a population of just over 5 million and a surface area of 70,000 km^2, is a unitary country with two levels of government, central and local. The local government tier consists of 31 city and county councils: 3 city councils, 26 county councils, and 2 city and county councils (see Appendix 1 for a profile of the 31 local authorities). The sub-county town governments were abolished in 2014 as part of a wider reform of the public sector, largely motivated by efficiency gains, cost reductions, and austerity measures (Government of Ireland 2014).

The size of Ireland's local government units is large by international levels, with an average municipal size (by population) of more than 150,000 persons, compared with an average of fewer than 10,000 persons both in the European Union and OECD countries. In Europe, only the United Kingdom has larger local government units. As for the size difference between local authorities, the largest has a population of more than 550,000 (Dublin City Council), while the smallest has a population of just 32,000 (Leitrim County Council). In terms of surface area, the largest has an area of more than 7,200 km^2 (Cork County Council) and the smallest has an area of 50 km^2 (Galway City Council).

Ireland has a very centralized system of governance, with limited (and diminishing in recent years) functions assigned to local government. This situation is partly due to the inherited British tradition, but also to a general disdain by successive Irish governments for local administration, which was often perceived as inefficient and corrupt (Callanan 2018). In the early days of independence, there was a preference for central control, with national regulation of local government that has not diminished over time.

13. Although there is considerable variation in the degree to which countries around the world levy revenues from property taxes and rely on such taxes to fund local government services, the yield is fairly modest in most countries (Blöchliger 2015; Norregaard 2013). Measured as a percentage of GDP, recurrent property taxes range from as low as less than 0.5 percent to as high as 3 percent or more. Although the variation is often between developed and developing countries (with the former tending to rely more on property taxes), there is considerable variation within OECD countries (where the average is close to 1 percent), with high levels (in excess of 1.5 percent of GDP) in countries with an Anglo-Saxon tradition such as Australia, Canada, New Zealand, United Kingdom, and United States (but also others such as France and Japan) as against much lower levels (less than 0.5 per cent) in continental European countries such as Austria, Germany, Hungary, Norway, and Switzerland. In other parts of the world, property taxes account for a very small portion of GDP (OECD 2021; Slack 2011).

Local government's narrow remit is in the provision of purely local services and social housing – mainly "hard" or "property-related" as opposed to "soft" or "people-related" services. The main functional responsibilities are in the area of local and regional roads, planning and land use, local economic and community development, fire and library services, local amenities, and the provision of housing services, i.e. social housing units, housing supports and services for homeless people, and the accommodation of Travellers (that is, people with a cultural tradition of nomadism).[14] Unlike many other subnational jurisdictions, Irish local government has no role in the delivery of health, education, or social care services. Local government expenditure is about 10 percent of total general government expenditure.

Representing a mix of transfers from central government and own-source revenues generated directly by local authorities, the funding of local government in Ireland comes from three sources: grants, charges and fees for services, and local taxes. The local tax is a property tax, with one tax on non-residential properties (rates) and a separate one on residential properties (the Local Property Tax, LPT). Charges and fees on local goods and services are, in descending order of importance, rents on local authority housing, charges to Irish Water, parking fees and fines, charges for recreational facilities, and planning fees, with the first three accounting for about 70 percent of revenue from this source. Central government grants are specific in nature, primarily for the maintenance and repair of social housing and the road network.[15]

Table 1[16] presents a breakdown of local authority expenditure and income for 2021.

On the capital side, expenditure is primarily in the areas of housing and roads, financed largely by central government capital grants. Borrowing is permitted for capital purposes (the so-called golden rule) but requires approval by central government. The usual funding sources here are private financial institutions, state agencies such as the National Treasury Management Agency and the Housing Finance Agency, and more recently the European Investment Bank for large

14. Water and wastewater services were reassigned from the local authorities to a national utility, Irish Water, in 2014. Although Irish Water is now primarily responsible for water services, there are service level agreements in place between the local authorities and the utility company so that the local authorities continue to act as agents for Irish Water in the delivery of water services. When the local authorities were solely responsible for water services, the water services share of local government expenditure was close to 15 percent.

15. For more details on the funding of local government in Ireland (and in EU member states), see Turley and McNena (2016, 2018, 2019).

16. Table 1 is for 2021 and reflects spending and income patterns during the COVID-19 pandemic. Pre COVID-19, the property tax share of revenue income was closer to 40 percent. The general-purpose equalization grant is funded primarily from a portion (20 percent) of LPT receipts, with the remaining 80 percent retained in the local authority area from which it is derived. As 100 percent local retention of LPT receipts has been promised from 2023–24, see the concluding section for more on this issue.

Table 1: Local Government Expenditure and Revenue Shares, Ireland, 2021			
Expenditure	**Share**	**Revenue**	**Share**
Housing & building, including	35.4	**Central government grants**	38
Housing supports	19.0	**Charges and fees**	26
Maintenance & repairs	6.0	**Commercial rates**	29
Homeless services	5.2	**Local property tax**	7
Road transportation & safety	19.8		
Environmental services, including	11.9		
Fire services	6.6		
Street cleaning & litter management	2.6		
Recreation & amenity, including	8.7		
Library & archival service	3.1		
Leisure operations	3.1		
Arts & community sports	2.4		
Development management, including	8.6		
Economic & community supports	4.8		
Planning	3.7		
Water services	6.8		
Miscellaneous/others	8.9		
Total	**100**		**100**

Source: Local Authority Budgets 2021. Note: Some subcategories of these service divisions are omitted above, as amounts are small. The disaggregation of the roads, water, and miscellaneous services is not reported here.

infrastructure projects. Local authorities do not issue municipal bonds or have access to a municipal bond agency. For these reasons, local government debt is relatively low, both by international standards and compared with the level of central government debt in Ireland.

In 2019, the latest year for which audited consolidated financial accounts are available at the time of writing, the size of the local government sector as measured by the revenue budget was €5 billion, compared with central government current

spending of about €55 billion.[17] Local government capital spending in 2019 was €2.8 billion, compared with capital spending by the central government of €9 billion. Total expenditure by local authorities in 2019 was €7.8 billion, whereas central government total expenditure was €64 billion, with general government total expenditure of €82 billion. As for staffing numbers, the full-time equivalent in the local authority sector was 30,000 in 2020, with the total public-sector number equal to 350,000. At the outset of the 2008 crisis, local authority staffing numbers exceeded 35,000.

In sum, Ireland's system of local government is relatively small, primarily a provider of local services, funded by a mix of central government specific-purpose grants and own-source revenues in the form of charges/fees and local property taxes, and limited in terms of autonomy, as central-local relations are characterized by extensive regulatory, administrative, and financial controls by central government. Informed by this institutional context, we now consider in more detail the history of property taxes in Ireland, and the unusual mix that we have today of a centuries-old tax on non-residential properties and a 21st-century residential property tax.

5. History of Property Taxes in Ireland

Rates are local taxes levied on certain classes of fixed or real property that predate the foundation of the Irish State in 1922. Although the origin of rates can be dated as far back as Anglo-Norman times (circa 12th century), the basis of the English rating system is the *Poor Relief Act* of 1601.[18] The tax, or "cess" as it was called, was levied on both domestic (residential) and non-domestic (non-residential) properties. According to Collins (1954), the word *rate* implies funds are raised "rateably," that is, proportionately, according to the value of the property for which the rate is assessed.

The basic law covering valuation is the *Valuation (Ireland) Act* of 1852, which laid down that all immovable property was to be valued for the purposes of rating – land, buildings, mines, fisheries, canals, railways, etc. – but with some exemptions for state properties, places of worship, and buildings used for charitable purposes. The basis of valuation was called the Net Annual Value. For land, the reference was an average scale of prices laid down in the Act for various farm products (wheat,

17. For the purposes of this comparison, central government here excludes the Social Insurance Fund, extra-budgetary funds, and the non-commercial semi-state bodies, leaving what is called Exchequer spending. Compared with €5 billion in 2019, preliminary estimates for 2022 put local authority budget spending at €6.2 billion, with the increase during the pandemic financed by central government supports, in the form of increases in regular specific-purpose grants but also compensation payments for loss of income from rates and charges adversely affected by government restrictions and lockdowns.

18. One of the seminal books on the rating system in England is *The History of Local Rates in England: Five Lectures* by Edwin Cannan, published in 1896. In the first chapter, he writes, "It would be absurd to study a subject so dry, not to say so odious, as local rates except with a view to practical aims" (Cannan 1896, 1). I tried to keep this in mind when writing the paper!

oats, butter, mutton, and beef, for example) and was to take into account the quality of the land, proximity to the market, and other features. For houses and other buildings, assessment was by an estimate of the annual rental or letting value that could reasonably be expected, over and above the cost of repairs, maintenance, and other expenses. Although periodic general revaluations were envisaged, in practice this did not occur, resulting in an out-of-date rating system (Coughlan and de Buitléir 1996; Walker 1962).

The system was complicated by the fact that there was more than one rate. The work of the grand juries as they were called was funded by the county cess, levied on occupiers of land, that is, tenant farmers. In parallel to the grand juries responsible for law and order and public works (such as repair of courthouses and prisons, maintenance of roads and bridges, etc.), there were poor law unions that provided relief to the poor and maintained the workhouses, financed by the so-called poor rate which was levied, in the main, on the owners of property, that is, landlords (Collins 1954; Donnelly 1996).

The reform of the English system of local government in the 1890s was followed in Ireland by the *Local Government (Ireland) Act*, 1898, which was the foundation for Ireland's system of local government in the 20th century, including the new locally elected county (and borough corporations), urban, and rural district councils. All previous local rates were consolidated into one rate levied by the rating authority, and in this instance entirely on the occupiers of rateable property.

There was little change in the system of rates for more than a century until the late 1970s, when rates on domestic/residential properties (including farm buildings not previously exempt from rates) were abolished after much criticism of inequities arising from the out-of-date valuation system and years of steep rises in local rates bills largely attributed to rising health expenditures, which at the time were devolved to the local authorities.

Domestic rates were replaced with central government support in the form of a revenue grant to meet the cost of forgone domestic rates income. In 1984, based on an earlier High Court case on the use of the valuation system, a Supreme Court judgement culminated in the ending of rates on agricultural land (albeit, for many years a beneficiary of rate reliefs in the form of grants). What remains today of this property tax regime after more than four centuries of a single, integrated rating system are the rates on non-residential properties only, that is, the occupiers of commercial and industrial property.

6. The Commercial Property Tax

Commercial property taxes, or rates as they are simply called, are an annual local tax on non-residential properties. Although a property tax, rates can also be viewed as a business tax, as they are levied on properties used for commercial purposes. Rates are based on rental values and levied on the occupant of the property. If the property is unoccupied, the owner is liable.

Unlike other forms of transaction-related property taxes in Ireland (stamp duty, capital gains, or capital acquisition taxes, for example), it is a recurring tax, levied on the use rather than the transfer, disposal, or inheritance of the property. Moreover, it constitutes a local tax, as local government has rate-setting powers. In addition, rates are administered and collected by the local authorities, with rates demands issued early in the calendar year, and due in two payments (usually February and July). It is common for local authorities to facilitate monthly payments and to assist delinquent ratepayers before legal proceedings are instigated.

As in some other countries, primarily in North America, rates are determined during the budgetary process, whereby operating expenditures are estimated for the forthcoming year and budgeted non-rates (grants and charges) income is subtracted; the difference is the amount of rates to be levied. The ratio of rates income to the rates base is equal to the annual rate, called the annual rate of valuation (ARV) or in earlier times, the rate in the pound, or as more commonly used in England, the multiplier.[19] Ratepayers' liability is calculated by multiplying the ARV by the rateable valuation of the property. Valuation is the responsibility of the central Valuation Office, which is independent of local authorities and undertakes periodic or rolling revaluations of the rates base, subject to the *Valuation Act*, 2001.

As a tax on commercial and industrial properties, rates apply to entities such as shops, hotels, offices, factories, warehouses, wind farms, power stations, and licensed premises (such as restaurants and bars). The main exemptions are government properties; state-funded health and education facilities; agricultural land and farm buildings; publicly funded museums and theatres; properties used for charitable, religious, or community purposes; and certain accommodation outlets (guesthouses and B&Bs).

In theory, exemptions can be hard to justify, as exempt properties still occupy municipal space and consume local public services; they result in a smaller tax base, reduced revenues, and higher liabilities for non-exempt properties; and they can distort investment decisions on land use and commercial activity (Slack and Bird 2014). Many of the independent reviews of local government funding over the years have recommended a widening of the rates base, to include some of the list above, either entirely as in the case of state properties (that do nonetheless make a contribution to local government in lieu of rates), or part-rated as in the case of publicly run, third-level institutions or community halls, to reflect any commercial activities undertaken on their premises.

For vacant properties, local authorities have the power to grant a rates refund if certain conditions are met. National commercial vacancy rates for 2020 were 13.5 percent, with a range from a low of 10 percent in one local authority area to

19. To fulfil the statutory requirement to balance the adopted budget (the budget balance rule), total budgeted expenditure must equal total budgeted income. The amount of rates to be levied ensures this balanced budget. Although the power to set the rate lies with the local authorities, central government has in the past used ministerial orders to set rate caps and limit rate increases.

a high of 19 percent. When adjusting for vacant properties, arrears, write-offs, and waivers, collection rates in 2019 (pre COVID-19 times) were 87 percent, ranging from a low of 76 percent in one local authority to a high of almost 98 percent in one of the Dublin local authorities (Department of Housing, Local Government and Heritage 2018; NOAC 2020).

It is estimated that there are about 145,000 ratepayers in the country, with rates accounting for about 30 percent of annual local authority income. The rates share in local authorities with a large rates base – urban centres and city councils – can be as high as 50 percent, whereas in small, rural local authorities it can be as low as 15 to 20 percent. Aside from differences in the rates base, there are also variations in the ARV across the 31 local authorities, reflecting differences in local circumstances and choices. A good example of these policy differences is in the four Dublin local authorities, with two of these having the lowest ARVs in the country as against the other two which levy some of the highest ARVs nationwide.

One of the drawbacks of commercial rates or a local business tax in general is that it is a tax base that has no electoral franchise, a situation that weakens accountability. Moreover, given the high rates share of local authority revenues, there is a concern that the business community bears a significant burden of the funding required by local authorities. During the COVID-19 pandemic, a rates waiver was introduced as part of the national government's supports to businesses and industry, targeted at businesses in retail, hospitality, and the entertainment sectors affected by government restrictions. The rates waiver compensated local authorities for forgone rates income. Other challenges confronting local government's reliance on rates are the megatrends of rapid urbanization, digitalization and online retail, and hybrid working/working from home.

In light of these risks, a review of commercial rates is warranted. Indeed, such a review was undertaken in England by HM Treasury in 2020–21. Although business rates in the United Kingdom resemble more a central government tax – or even a transfer – rather than a local tax, as the rate is determined nationally rather than locally, with all revenues not automatically retained in the area from which they are generated but a portion pooled and then distributed, nonetheless the findings of the 2021 review are relevant. It reaffirmed "the importance of rates and their central role in the tax system" and that "rates continue to be a vital source of funding for local services that businesses and residents rely on," resulting in the government "not proposing changing the nature of the tax, or the basis of valuation" (HM Treasury 2021, 2–5).[20]

20. As for businesses that operate online and the uneven burden between "bricks-and-mortar" businesses and online businesses, the report committed to continue investigating an Online Sales Tax, as a way to reduce the overall burden on the business sector, especially property-intensive businesses. A similar review into non-domestic rates, called the Barclay Report, was done in Scotland, and published in 2017. On a more substantive point, for the economic argument against business rates and taxes on business property in general, see Mirrlees Review (2011).

To conclude this section, despite the well-documented arguments against a non-residential property tax put forward by economists, the reality is that local governments worldwide, and Ireland is no exception, are likely to persist with business property taxes, as they raise substantial revenues, shift some of the tax burden to non-residents, and, fortunately for local politicians, result in less accountability compared with residential property taxes and their voting homeowners.

7. Building a Local Residential Property Tax from Scratch: The Story of the LPT

The common design features of any local residential property tax are the tax base, liability, rate, assessment, valuation, collection/payment, and compliance/enforcement. Many of the design options facing the Irish authorities are outlined in Table 2. For a more detailed account of the steps (property identification, assessment, rates, bills, appeals, collection) involved in a property tax, see Slack (2006), Norregaard (2013), and Freire and Garzón (2014).

Table 2: Design Features of a Local Residential Property Tax

Elements	Choices/options
Base	Land + buildings, land only, or buildings only? Plant and machinery? Different classes? Exemptions, reliefs, and deferrals?
Liability	Owner, or occupier, or both?
Rate	Central and/or local? Uniform or differentiated? Single or graduated?
Assessment	Area-based, value-based, or hybrid? Direct assessment, or self assessment? Central or local?
Valuation	Capital or rental? Individual or bands? Indexation and/or revaluation? Agency type?
Collection	Central or local? What payment options?
Enforcement	Compliance checks and sanctions, including: Mandatory deduction at source? Surcharge and/or interest and penalties? Withholding of tax clearance certificate? A lien on the property?

Source: author. Note: For a broader and more detailed classification of the different tax bases (land tax, building tax, immovable property tax, and combinations of each), see Almy (2014). For a longer discussion of tax base, tax rate (including the important distinction between statutory tax rates and effective tax rates), and tax administration, see Bahl and Bird (2018).

The design of any property tax system, however, is not simply a technical matter, but depends on other factors, such as the economic and political circumstances of the time, and the history of property taxes pertaining to the jurisdiction in question.[21] Ireland is no different in this regard. Considered a regressive tax by many of its opponents, domestic rates were abolished in Ireland in 1978. A Residential Property Tax assigned to central government was introduced in 1983, but abolished shortly thereafter, as was the even more short-lived (quasi land-based) farm tax. An annual flat rate non-principal private residence charge was introduced in 2009, but generated little revenue and had no element of local autonomy.

Given the prevalence of residential property taxes in developed countries (and indeed, in emerging markets and developing economies), the absence of a recurring tax on residential properties meant that Ireland was an outlier, with successive governments under pressure to correct this anomaly. Despite a succession of reviews of local government funding and taxation that recommended a local residential property tax, it was the 2008 financial crisis that accelerated the reintroduction of the tax. Given the booming property market and imprudent taxation decisions taken by national policymakers leading up to the 2008–09 economic crisis, the combined European Commission, International Monetary Fund, and European Central Bank (the so-called Troika), as part of their financial support program, committed Ireland to introduce a residential property tax as a means to widen the Irish tax base.[22]

21. For example, it is often said that property assessment/valuation is more an art than a science, or, that the economics and the politics of property tax often diverge. For more on the political economy of property tax and reform, see Slack and Bird (2014). Likewise, consideration must be given to the inevitable trade-offs (for example, efficiency vs. equity, simplicity vs. accuracy, stability vs. buoyancy) involved in the design of a property tax. See Appendix 2 for a comparison between local property taxes in Ireland and England. Indeed, one of the stylized facts of property taxes worldwide is the diversity of property tax systems between and within countries. As the international literature review to the Commission on Local Tax Reform in Scotland concluded, "systems of local tax and the inter-governmental finance and distribution of services are highly idiosyncratic. They are the product of long periods of evolution and punctuated periods of reform" (Commission on Local Tax Reform 2015, 132).

22. Initially envisaged as a site value tax (SVT), after careful consideration by the Inter-Departmental Group of both a tax on residential property and a tax on the land on which the property stands, it concluded in favour of the former, on the basis of 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 the complexities and uncertainties in the valuation effort necessary to put an SVT in place" (Inter-Departmental Group 2012, 37). The Commission on Taxation had reached the same conclusion a few years earlier, arguing that "it may not be a pragmatic approach," and citing the "operational difficulties of introducing it and communicating its benefits to home-owners and landholders" (Commission on Taxation 2009, 173). A similar conclusion was reached by the Tax Strategy Group report on *Taxation of Property*, when it examined a number of short-term and long-term options (Tax Strategy Group 2010). Finally, as O'Leary (2018) correctly notes, the proposal to introduce a property tax predated the Troika agreement, as it was included in both the national Coalition government's 2009 *Renewed Programme for Government* and the 2010 *National Recovery Plan (NRP) 2011–2014*. It was the 2010 NRP that envisaged a total yield from the residential property tax of €530 million. Of course, there is no guarantee that this proposal would have been implemented if it was not for the Troika's program of financial support and its conditionality. For more on the politics of the Irish residential property tax, see O'Leary (2018).

At the outset, there were a number of problems associated with a new property tax. There was much political and popular resistance to a new tax, especially on property, given Ireland's historical affinity to land and homeownership. There was also opposition caused by the difficult economic environment of the time, with stagnant growth in output and wages, high levels of household debt, rising unemployment, and a general weariness with austerity measures. On a more technical level, there were significant logistical challenges facing the authorities (and the national tax collection agency, the Revenue Commissioners, known simply as Revenue), particularly the absence of a single and comprehensive database (or cadastre) with up-to-date information on property ownership and valuations.

In 2012, an Inter-Departmental Group was established to design a "local property tax." Guided by the usual tax principles of efficiency, equity, simplicity, and transparency, the Group was to consider the design of a property tax that would, among other objectives "provide a stable funding base for the local authority sector" and "ensure the maximum degree of fairness between and across both urban and rural areas" (Inter-Departmental Group 2012, 14).[23]

As with any new property tax, and in this case one assigned to local government, the Group examined all the key design elements of a property tax, as presented in Table 2. The key recommendations were as follows:

- Owners of residential properties would be liable for the tax, with certain exemptions;
- The basis of the assessment would be the market value of residential properties, set using valuation bands with the tax rate applied to the mid-point, through a system of self-assessment by liable taxpayers;
- All revenues would accrue to the local authorities, incorporating a locally determined element;
- Development of a database/register of residential properties would be undertaken as a priority;
- Revenue would be given the responsibility for all aspects of the local property tax;

23. The Foreword of the Group's report stated, "Establishing a local property tax addresses three long standing and important challenges in Irish public policy – the broadening of the tax base to include residential properties, the provision of a stable funding base for local government and the strengthening of democracy at local level" (Inter-Departmental Group 2012, 6). From a broader perspective, Article 9 of the European Charter of Local Self-Government includes some useful principles relating to the financial resources of local authorities. The most relevant ones to this paper are: 1. Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers. 2. Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law. 3. Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate. 4. The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks (Council of Europe 1985).

- Payment would be collected at source from payroll and from recurring and lump-sum payments made by government departments.

With the government adopting the majority of the recommendations, this report formed the basis of the new LPT.[24] Following an interim measure of a flat €100 household charge in 2012, the *Finance (Local Property Tax) Act* 2012 was enacted, the LPT was announced in December 2012 by the Minister of Finance as part of the national Budget 2013, and launched the following March. Properties were valued by self-assessment as of 1 May 2013 (and applicable for the next three years), with the first (half-year) payment due 1 July 2013.[25]

The LPT is an annual local tax on the market value of residential properties, defined in the Act as "any building or structure which is in use as, or is suitable for use as, a dwelling and includes any shed, outhouse, garage or other building or structure and any yard, garden or other land, attached to or usually enjoyed with that building, save that so much of any such yard, garden or other land that exceeds one acre shall not be taken into account" (Government of Ireland 2012, 10).

The Act provides for the establishment and maintenance of a register of residential properties, and for different categories of liable persons other than the owner, such as local authorities, lessees, or trustees. As stated, the property owner is the liable person and is required to file a LPT return (essentially the valuation band, with no requirement to return any property characteristics or specific

24. An earlier report by the Commission on Taxation included many of the same recommendations. Two (of 11) chapters, titled "Taxation on Property" (Part 6) and "Future Funding of Local Government" (Part 11), recommended an annual tax on residential property with limited exemptions and based on an up-to-date and consistent valuation database; paid by the owner; self-assessed using valuation bands; rate-setting powers devolved to local government but administered by Revenue; and a wide range of payment options available. The report concluded, "We have noted many other studies at national and European level touching on aspects of Irish local government financing. It is a policy issue that cannot be said to be understudied" (Commission on Taxation 2009, 427). Of course, this is not unique to Ireland, with many other countries experiencing a similar tale, as evident, for example, in Canada (Bird, Slack, and Tassonyi 2012; Kitchen, Slack, and Hachard 2019).

25. Revenue did provide guidance to taxpayers, in the form of an online interactive guide – with a paper-based version for those without internet access – providing average property valuation bands in a locality, but not for individual properties and a "Revenue estimate" used as a default liability in the absence of a LPT return. Given the indicative nature of the guidance and the provision of average valuation bands only, Kennedy and Walsh (2016, 9) noted, "Where the guidance was followed *honestly* and where it indicates a *reasonable* valuation for a property, Revenue accepted the owner's assessment based on the guidance but owners were advised to consider the specifics of their property when using Revenue's guidance" (italics added). Ten different databases were used in the identification and valuation process. For more technical details of the actual Revenue valuation model used and the underlying Automated Valuation Model (AVM)/Computer-Assisted Mass Appraisal (CAMA) methodologies, see Walsh (2013). In addition to Walsh (2013), several technical papers were published in advance of the LPT, including Keane et al. (2012); for the 2015 review of the LPT see O'Connor and Lynch (2016), and for the 2021 revaluation see Walsh et al. (2021). As for the reviews of the LPT, and reports into revaluations, the list includes Thornhill (2015), Parliamentary Budget Office (2018), Department of Finance (2019), and Committee on Budgetary Oversight (2019).

property value) and pay the tax, based on a self-assessment of the property's market value defined as "the price that would be agreed between a seller and a purchaser conducting a transaction at arm's length" (Comptroller and Auditor General 2014, 181).

The valuation bands were initially €50,000 in width for 18 of the 20 bands, with the first band from €0 to €100,000 and band 20 greater than €1 million. The basic rate was 0.18 percent applied to the mid-point of the relevant band, with a rate of 0.25 percent where the value of the property exceeded €1 million (sometimes called the "mansion" tax) but applied only to the portion of the value above €1 million (see Appendix 3 for old and new valuation bands and rates).[26]

Of the features listed above, the choice of valuation bands and self-assessment was both interesting and unusual, as they are not common characteristics of a property tax, either in theory or in practice. As is commonly known, banding is used in England, Scotland, and Wales for council tax, and self-assessment/self-declaration has been used by municipalities in Colombia, most notably Bogotá (Ahmad, Brosio, and Jiménez 2019). Whereas the former may have influenced the decision to recommend valuation bands, it is more likely that Revenue's experience with self-assessment for income tax purposes influenced the decision to recommend self-assessment. According to Kennedy and Walsh (2016, 4), on banding, "It was recognized that property valuation is not an exact science and providing valuation bands eases the valuation challenge," while on the issue of self-assessment, they noted that it "was seen as being more appropriate given the constraints that applied such as the tight timeframe for implementation and the lack of an existing valuation database of residential properties." There is more discussion of these features in section 8.

From the perspective of local rate-setting powers that are meant to ensure a degree of autonomy and accountability for municipalities, there is a local adjustment factor, whereby local authorities can vary the central rate by +/-15 percent annually.[27] If used, the rate reverts to the basic rate after the 12-month period has elapsed. Initially, local authorities were slow to use this discretion with

26. As might be expected for a self-assessed property tax, the self-declared values were lower than the estimates made by Revenue. In its first year, 15 percent of filed valuations were in a band more than one lower than the "Revenue estimate." The figures are 177,000 valuations in a band two lower, and 94,000 valuations in a band three or more lower than the "Revenue estimate" (Comptroller and Auditor General 2014). Expressed in a more positive light, in 2013 almost 80 percent of owners returned the same valuation or just one band higher or lower than the Revenue guidance (Walsh et al. 2021). As for valuation bands, their advantages and disadvantages are outlined in McCluskey and Woods (2010).

27. Initially, the Inter-Departmental Group proposed that local authorities could only increase the rate, and only by between 5 and 15 percent of the basic rate. In the end, the government decided to widen the local adjustment factor to 15 percent either way (that is, in the range of a minimum rate of 0.153 percent to a maximum rate of 0.207 percent), but more important, allow local authorities to reduce the rate if they saw fit, giving local authorities more autonomy but also more responsibility.

a majority of councils in the first couple of years leaving the basic rate unchanged (and all those that did use this taxing power implemented a cut in the rate).

Over time and especially during the COVID-19 pandemic, the number of local authorities exercising these powers increased, as did the number of councils that increased the rate. In 2022, out of 31 councils, 26 varied the basic rate, with 22 increasing it. Interestingly, since 2015, the four Dublin local authorities have cut the rate in the face of some opposition and a fear of a deterioration in the delivery of local services.

Another key aspect from the perspective of the local councils is that the LPT, although new, is not, as was believed by many at the time, an additional source of revenue, as it coincided with a reduction in central government grants, in the form of an initial cut and subsequent termination of the general-purpose grant. The local authority funding model was further complicated when the equalization grant, initially funded by central government transfers, was subsequently financed mainly by receipts from the LPT, with 80 percent retained locally and the remaining 20 percent pooled and distributed on the basis of a formula and an equalization grant to councils with smaller revenue bases (that is, fewer residential properties).

The single biggest issue since the introduction of the LPT has been the rise in residential property prices since the first valuation in May 2013 (coinciding with the trough of property prices in early 2013), with an estimated 74 percent increase in property prices between May 2013 and December 2020 according to the Central Statistics Office, and the impact that a revaluation would have on taxpayers' liabilities. The decision to revalue was deferred in 2016, and again (twice) in 2019–20, with a revaluation finally taking place in November 2021, but only after changes were made to the bands (a widening of the intervals from €50,000 to €87,500 in most cases) and basic rate (a reduction to 0.1029 percent) to ensure that the majority of LPT payers would not see a rise in their liability (Government of Ireland 2021).[28]

The rate and yield (circa €500 million, equal to about 7 percent of local government revenues and less than 1 percent of total tax revenue, and diminishing) are modest by international standards. Another criticism of the LPT is that it is a tax on land and buildings, and not a land or site value tax, which many view as a better tax – at least in theory – if the objective is to improve urban development and land use.[29]

28. A very large majority (more than 75 percent) of the 2013 returns were in the first three bands (with the average liable property in band 2), resulting from liable persons valuing their property at less than €200,000. Initial reports on the 2021 returns show a not too dissimilar breakdown. Despite the increase in average property prices since 2013, this similarity is explained by the widening of the valuation bands with the result that the upper limit of band 3 is now €350,000.

29. The most famous and extreme version of the land value taxation was espoused by Henry George in his 1879 classic *Progress and Poverty*, when he advocated replacing all taxes with a single tax, namely a land value tax, not simply to raise revenues but also to reduce inequality and promote economic justice.

Nevertheless, there are many good features of the broad-based, low-rate LPT (more on this in the next section). The base is indeed wide, as exemptions and deferrals are limited, and from a local public finance and funding perspective, the local authorities do have rate-setting powers at the margin. With about 1.9 million properties, compliance rates are very high, at more than 95 percent for payment, no doubt due to the multiple payment options offered by Revenue but also the credible sanctions listed in Table 2.[30] Given the difficulty in introducing new taxes and the high visibility of property tax in particular, the outcome achieved is commendable.[31]

8. Lessons and Future Challenges

As with many other policy reforms, we need to be aware of the gap that often exists between theory and practice (Bahl and Linn 2014). Here we give two examples from the LPT that illustrate this disconnect between theory and reality. First, the theory underlying property tax is usually based on the benefit taxation model, yet much of the focus, maybe not surprisingly, given the difficult economic conditions of the time, has been based on the ability-to-pay model and the inequities – perceived or otherwise – in the LPT.

Second, it is often argued that fiscal decentralization is a comprehensive system whereby common implementation rules and an optimal sequencing apply (see Bahl 1999; Bahl and Martinez-Vazquez 2013). This argument also applies to property tax reform, ideally bundled with other tax changes and broader reforms in public sector management (Slack and Bird 2014). Yet O'Leary (2018, 86) argues in his comparison of the success of the LPT to the "policy disaster" of water charges in Ireland, that part of the success story of the LPT was that it was a "tightly focused" revenue-raising measure only, "not an element in an integrated, multi-faceted reform of local government," and not related to any other pillar of municipal funding.[32]

30. The payment options are cash, cheque, debit/credit card, direct debit, single or annual debit payment, deduction at source (from salary, occupational pension, certain social welfare payments, or farming payments), or the use of an approved payment service provider. As for the exemptions and deferrals (including income thresholds), the current list is available at https://www.revenue.ie/en/property/local-property-tax/index.aspx. Revenue's LPT website also includes LPT statistics on valuation bands (by local authority and distribution of properties), methods of payment, compliance rates, and LPT receipts.

31. In a 2016 book chapter on the design and implementation of a new tax, two senior officers of Revenue involved in the LPT and modelling property valuations identified three lessons, particularly for collection and enforcement. They were (1) Keep it simple; (2) Do not ignore the letter from Revenue; and (3) Easy to pay, hard to avoid (Kennedy and Walsh 2016). In 2013, at a ITD Conference on tax and intergovernmental relations, the chair of Revenue, Josephine Feehily, in talking about the administration and implementation of the LPT, listed the following lessons: political engagement is required; IT capability is essential; communication and leadership are needed; vested interests should not be underestimated; not all dimensions will be understood, and things will go wrong (Feehily 2013).

32. For readers not familiar with the story of water charges in Ireland, suffice to say that at the time of writing this paper, households are not charged for water services despite an attempt to re-introduce charges in the mid-2010s, by the same centre-right governments that introduced the LPT. For more details on domestic water charges in Ireland, including the establishment of Irish Water, the proposed tariff structure but also the policy-making process and ultimately policy failure, see O'Leary (2018).

8.1 Lessons

On the positive side, the decision to focus on the administration of tax design (as seen in the original 18 recommendations of the Inter-Departmental Group report in which one-third related to compliance and enforcement) and specifically the recommendation to give responsibility for the administration, collection, enforcement, and audit of the LPT to the national tax collection agency is one of the defining lessons. Although the timing may have helped, given the post 2008-crisis circumstances and the involvement of external funders (in the form of the Troika) to the sovereign allowed for a window of opportunity to introduce a new tax, nonetheless Revenue's involvement was critical.[33]

Revenue is one of Ireland's most trusted public institutions, helped not only by its track record but also by its impressive enforcement powers. Unlike the LPT's predecessors (the non-principal private residence charge and the household charge), which were administered by the Local Government Management Agency on behalf of the local authorities, for which collection rates were relatively low, compliance rates for both filing and payment since the introduction of the LPT have been very high. From early on, and following the view of the 2012 Inter-Departmental Group that the LPT be considered "a universal liability" applying to "all owners of residential property," there has been a very limited number of exemptions and deferrals, but they are not automatic. Taxpayers are required to file a return and only then can they apply for an exemption or deferral. Furthermore, administrative mechanisms such as the default "Revenue estimate" and payment by deduction at source (including mandatory deduction in the case of non-compliance) helped to ensure high compliance rates. Overall, the decision to assign the administration and collection of the LPT to Revenue was central in gaining the public's acceptance and in ensuring the legitimacy of a new tax on property. Furthermore, the credibility of the LPT over the longer term has been enhanced by the revaluation of properties that took place in 2021.

Another reason for the success of the LPT, and a potential lesson for other jurisdictions reforming property taxes, is the simplicity of the new residential property tax system in Ireland. The LPT is relatively straightforward in design, but also in filing and compliance. Although the 2021 revaluation did cause some confusion among taxpayers, as judged by the number of delays in LPT returns, the new residential property tax meets the simplicity criteria of any good taxation system, and so helps to ensure high compliance rates. Related to simplicity is the importance of speed. The time frame between the publication of the Inter-Departmental Group report and the first LPT payment due was tight, just 12 months, but target dates were met without delay. This was made possible by a number of factors, including the simple design but also the tailored approach.

33. Also, the introduction of a new tax rather than the reform of an existing tax meant that the usual distributional impacts with the inevitable winners and losers was absent, or at least not a constraint that might have stalled the process.

Three design features stand out, namely valuation bands, self-assessment, and deduction at source. These features are not common in property tax systems around the world. In theory, banding and self-assessment may be considered second-best solutions compared with the more optimal, common forms of valuation and assessment. Yet the rationale for their selection is clear, in the absence of an up-to-date register of residential properties at the time of design, the need to facilitate assessment in a relatively short period, and to increase compliance by making property tax payments less salient. A more collection-led rather than valuation-led approach combined with a campaign to educate taxpayers and encourage voluntary compliance – alongside sensible but not draconian sanctions – were strategies chosen by Revenue to ensure a successful outcome. In recognition of the unusual but understandable choice of a banding system and self-assessment in the structure of the residential property tax in Ireland, OECD (2021, 118) writes, "The Irish case has interesting peculiarities that makes it relevant for countries that aim at implementing a reform nearly from scratch" but also describes these design features as "potentially problematic approaches." The issue now is whether these features will be retained, as transitional-type measures, or whether pressure will build to transform them into more "conventional" long-term features.

On the downside, although the 2021 revaluation is welcomed (and particularly the inclusion of more than 100,000 "new" or previously exempt properties into the tax net), some of the details were less than optimal, and some opportunities were missed. For example, due to political sensitivities over rising asset prices, the revaluation was designed to keep the yield at levels close to €500 million, and in doing so, both the valuation bands and the basic rate were amended (widened and reduced, respectively). An opportunity was missed to capture some of increase in property prices (and, by doing so, raise additional revenue from the LPT more in line with international levels) with a "no change policy" projected yield before any local adjustments of almost €1 billion (Walsh et al. 2021, 19). Likewise, the opportunity to widen the economy's tax base further, and rebalance the overall tax burden more towards annual taxes on immovable property as against transaction-related property taxes was lost.

8.2 Challenges

An issue related to the original design of the LPT is the future funding of a fiscal equalization grant to local authorities with smaller tax bases. As alluded to earlier, 20 percent (about €100 million) of LPT receipts combined with a smaller contribution (about €35 million) from central government has funded the annual equalization grant since 2015. As part of the 2021 revaluation, the national government also announced that in future, local authorities will retain 100 percent of LPT receipts, with the central government financing equalization transfers, in a move from horizontal equalization to vertical equalization.

The separation of the LPT and fiscal equalization is welcomed, as the original design caused confusion and frustration amongst urban local authorities, particularly in the four Dublin local councils, as they felt that urban – and especially

Dublin – residents and owners of city properties were subsidizing residents in rural areas with fewer and less valuable residential properties. Although this redesign away from Robin Hood-type equalization is likely to reduce the tension between the local authorities, full local retention of LPT receipts widens the horizontal fiscal imbalance at the local government level, and will require a larger equalization pot, funded by a central government facing competing calls on its scarce resources.[34]

In relation to the LPT/rates mix, there is an opportunity to reduce the heavy burden on non-residential properties compared with residential properties (albeit a common practice worldwide), to reduce the overreliance on rates for many local councils, and to consider the property tax treatment of small and medium-sized enterprises with, for example, the introduction of small business rates relief as is common in the United Kingdom and elsewhere.

Two other short-term challenges are the need to continue the rolling rates revaluations and the next LPT revaluation, and to tackle the rural-urban property divide and the impact on business formation and location decisions. Specifically in relation to rates, both the 2017 Barclay Review in Scotland and the 2021 HM Treasury report suggest that the rating system and its current format are here to stay. Earlier reviews of local government funding in Ireland indicated no desire for or likelihood of moving from the rating system to an alternative source of municipal funding, such as, for example, a local income tax, a local sales tax, or a local non-property tax on business (see Commission on Taxation 2009; Indecon 2005).

Legacy issues arising from the 2008–09 property crash and the COVID-19 pandemic also have not been resolved. These include the tax treatment of vacant homes, unoccupied commercial properties, and derelict sites during a housing crisis in which rents and residential property prices are rising; the different tax burdens that bricks-and-mortar businesses face compared with online businesses; and the issue of hybrid working and its impact on traditional property-intensive businesses located in urban and city councils. Further research on these outstanding challenges is required.

Aside from the relatively low tax take from the LPT, a greater test will be a change in government at the national level, as the main opposition party has opposed the LPT from its inception. In its 2020 general election manifesto, it prioritized the abolition of the “unfair” LPT, replacing it with “direct Exchequer funding for local authorities” and an increase in the vacant site levy from the current rate of 7 percent to 15 percent.[35] This possibility that some time in the

34. Even more so in 2022 as inflation rates rise and the increased cost of living becomes, at the very least in the short run, a serious problem in Ireland and in other countries.

35. The vacant site levy was introduced in 2015, and applied from January 2018. For more details, see Parliamentary Budget Office (2020). As a result of much criticism, in the national Budget 2022 it was announced that it would be replaced by a phased-in residential zoned land tax, details of which were included in the subsequent *Finance Act*. A vacant property tax has also been promised, for Budget 2023. A site value tax, as a means to achieve housing policy objectives, is to be examined by the Commission on Taxation and Welfare. These forms of property taxes have less to do with revenue generation and more to do with land use and urban regeneration, and attempts to moderate excessive property price increases.

future an opportunistic national government might decide to terminate the LPT was succinctly put by O'Leary (2018, 71) when he noted that as the LPT share of total tax receipts falls, "the more the opportunity cost of retaining the tax will decline and the temptation to abolish it will increase."

In the meantime, any reform of the LPT should focus on more regular revaluations, a reduction in the number of valuation bands, a separate rate (and regime) for vacant or under-utilized properties, and (albeit politically difficult) an increase in the basic rate. Such an increase is needed not only to tap the residential property tax base more in line with international norms, but also to offset potentially lower revenues from commercial rates in the future. Lower rates could arise either from a deliberate policy decision to reduce the tax burden on non-residential properties or from a smaller property-intensive business tax base caused by the effects of the growth of online retail and hybrid working arrangements on the demand for office/commercial spaces in urban centres.

On a more technical level, a move from self-assessment to direct assessment might be necessary in the longer term, especially if undervaluations of properties increase with each revaluation. Finally, as is often the case with property tax reform worldwide, greater monitoring and performance analysis is required (UN-Habitat 2013). Whatever the specific strategies, policymakers need to proceed with caution, to ensure that the hard-won gains are not reversed by voter backlash, tax revolts, or the populist policies of a future government.

In terms of a "gold standard" in property tax, namely a well-administered tax based on current market values (see Bird and Slack 2013, 143), it can be said that the local property tax systems in Ireland meet the first half of this standard. Given the pragmatic approach of recent governments in the face of political realities and data limitations, they can claim some "allowance," temporarily at least, in not fully meeting the second requirement.

As for future changes in this area, Bird (2001) identifies three policy reforms with respect to property tax: (1) local governments must be allowed to set their own tax rates, (2) the tax base must be maintained adequately, and (3) a series of procedural reforms is needed to improve collection efficiency, valuation accuracy, and coverage of the potential tax base.[36] Judging the rating system and the LPT in

36. The problem of property tax base erosion is not an issue in Ireland as it is in some countries, and especially in the United States, where preferential treatment in the form of tax abatements, holidays, caps, freezes, and limits to certain businesses and industries, to low-income homeowners, to senior citizens, and to cash-poor, asset-rich property owners, are common, and undermine the sustainability of the property tax. As for the differences between the property tax in Ireland and property tax in the province of Ontario, where I was based when writing this paper, Ireland's property tax regimes are relatively simple in design, with only two property classes (residential and non-residential) compared with multiple classes in Ontario, and with no capping or clawbacks, no tax ratios and ranges of fairness, no upper tier or education rates, and no phase-in programs, as in Ontario. As an outsider looking in, the property tax system in Ontario seems complex, or at least relatively complex compared with the local property tax system in Ireland. However, given the differences in institutions and local circumstances, and the dangers of transplanting one-size tax systems across nations, I will leave it with local experts to judge whether property tax reform in Ontario is needed, and if so, what and how!

Ireland against these three criteria, on balance we can say that since the revaluation of residential properties for the purposes of the LPT in November 2021, the Irish local property taxes score reasonably well on all three reforms. While collection rates fell during 2020–21, it is anticipated that a recovery in the economy will see a return, albeit maybe not fully, to pre-COVID-19 levels. As rates and the LPT are generally tolerated by politicians and taxpayers – as much as any property tax can be – the old and the new are here to stay, at least for now. This brings to an end this tale of two property taxes. As for their fortunes in the future, that's another tale!

9. Works Cited

Ahmad, Ehtisham, Giorgio Brosio, and Juan Pablo Jiménez. 2019. *Options for Retooling Property Taxation in Latin America*. VIII Jornadas Iberoamericanas de Financiación Local, Ciudad de Mexico, October 1–2.

Almy, Richard. 2014. *Valuation and Assessment of Immovable Property*. OECD Working Papers on Fiscal Federalism No.19, Paris: OECD.

Bahl, Roy W. 1999. "Implementation rules for fiscal decentralisation." *Public Budgeting & Finance* 19(2): 59–75.

Bahl, Roy W., and Richard M. Bird. 2008. "Subnational taxes in developing countries: The way forward." *Public Budgeting & Finance* 28(4): 1–15.

Bahl, Roy W., and Richard M. Bird. 2018. *Fiscal Decentralisation and Local Finance in Developing Countries: Development from Below*. Studies in Fiscal Federalism and State-Local Finance Series, Cheltenham, UK: Edward Elgar.

Bahl, Roy W., and Johannes F. Linn. 2014. *Governing and Financing Cities in the Developing World*. Policy Focus Report. Cambridge, Mass: Lincoln Institute of Land Policy.

Bahl, Roy W., and Jorge Martinez-Vazquez. 2013. "Sequencing fiscal decentralisation." *Annals of Economics and Finance* 14(2): 623–70.

Barclay Review. 2017. *Report of the Barclay Review of Non-Domestic Rates*. Edinburgh: Scottish Government.

Bird, Richard M. 2001. *Subnational Revenues: Realities and Prospects*. Working Paper. Washington, DC: World Bank.

Bird, Richard M. 2006. "Local and regional revenues: Realities and prospects." In Richard M. Bird and François Vaillancourt (eds.), *Perspectives on Fiscal Federalism*. Washington, DC: World Bank.

Bird, Richard M., Enid Slack, and Almos Tassonyi. 2012. *A Tale of Two Taxes. Property Tax Reform in Ontario*. Cambridge, Mass: Lincoln Institute of Land Policy.

Bird, Richard M., and Enid Slack. 2013. "Metropolitan public finance: An overview." In Roy W. Bahl, Johannes F. Linn, and Deborah L. Wetzel (eds.), *Financing Metropolitan Governments in Developing Countries*. Cambridge, Mass: Lincoln Institute of Land Policy.

Blöchliger, Hansjörg. 2015. *Reforming the Tax on Immovable Property: Taking Care of the Unloved.* OECD Economics Department Working Papers No. 1205. Paris: OECD.

Boadway, Robin, and Jean-François Tremblay. 2012. "Reassessment of the Tiebout model." *Journal of Public Economics* 96(11–12): 1063–78.

Brennan, Geoffrey, and James M. Buchanan. 1980. *The Power to Tax: Analytical Foundations of a Fiscal Constitution*. New York: Cambridge University Press.

Callanan, Mark. 2018. *Local Government in the Republic of Ireland.* Dublin: Institute of Public Administration.

Cannan, Edwin. 1896. *The History of Local Rates in England: Five Lectures*. London: Longmans, Green, and Co.

Collins, John. 1954. "Local government." *Administration* 1(4): 45–111.

Commission on Local Tax Reform. 2015. *Compendium of Evidence – Volume 3.* Edinburgh: The Commission on Local Tax Reform.

Commission on Taxation. 2009. *Commission on Taxation Report 2009*. Dublin: The Stationery Office.

Committee on Budgetary Oversight. 2019. *Scrutiny Report on Review of Local Property Tax*. Dublin: Houses of the Oireachtas.

Comptroller and Auditor General. 2014. "Chapter 15 Local Property Tax." In *Report on the Accounts of the Public Services 2013*. Dublin: Office of the Comptroller and Auditor General.

Coughlan, Maurice, and Donal de Buitléir. 1996. *Local Government Finance in Ireland.* Dublin: Institute of Public Administration.

Council of Europe. 1985. *European Charter of Local Self-Government*, European Treaty Series No. 122. Strasbourg: Council of Europe.

Department of Finance. 2019. *Review of Local Property Tax*. The report of the Interdepartmental Group, March. Dublin: Government of Ireland.

Department of Housing, Planning and Local Government. 2018. *An Overview of Commercial Rates in Local Authorities*. Local Government Audit Service Value for Money Unit. Dublin: Government of Ireland.

Department of Housing, Local Government and Heritage. 2021. *Local Authority Budgets 2021*. Dublin: Government of Ireland.

Department of the Taoiseach. 2009. *Renewed Programme for Government*. Dublin: Government of Ireland.

Donnelly, Brian. 1996. "An overview of the development of local government in Ireland." *Journal of the Irish Society for Archives* 3(2): 3–20.

Feehily, Josephine. 2013. *The Introduction of Local Property Tax in Ireland.* Presentation at the ITD Conference on Tax and Intergovernmental Relations, Morocco, December 3–5.

Freire, Maria Emilia, and Hernando Garzón. 2014. "Managing local revenues." In Catherine Farvacque-Vitkovic and Mihaly Kopanyi (eds.), *Municipal Finances: A Handbook for Local Governments*. Washington, DC: World Bank.

George, Henry. 1879. *Progress and Poverty. An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy*. New York: Robert Schalkenbach Foundation.

Government of Ireland. 2010. *The National Recovery Plan 2011–2014*. Dublin: The Stationery Office.

Government of Ireland. 2012. *Finance (Local Property Tax) Act*, 2012. Dublin: The Stationery Office.

Government of Ireland. 2014. *Local Government Reform Act*, 2014. Dublin: The Stationery Office.

Government of Ireland. 2021. *Finance (Local Property Tax) (Amendment) Act*, 2021. Dublin: The Stationery Office.

HM Treasury. 2021. *Business Rates Review: Final Report*. London: Government of the United Kingdom.

IMF. 2013. *Taxing Times*. World Economic and Financial Surveys, Fiscal Monitor. Washington, DC: IMF.

Indecon. 2005. *Indecon Review of Local Government Financing*. Prepared by Indecon International Economic Consultants in association with the Institute of Local Government Studies at the University of Birmingham, October. Commissioned by the Minister for the Environment, Heritage and Local Government.

Inter-Departmental Group. 2012. *Design of a Local Property Tax*. Dublin: Government of Ireland.

Johansson, Åsa, Christopher Heady, Jens Matthias Arnold, Bert Brys, and Laura Vartia. 2008. *Taxation and Economic Growth*. OECD Economics Department Working Papers No. 620, Paris: OECD.

Keane, Claire, John R. Walsh, Tim Callan, and Michael Savage. 2012. *Property Tax in Ireland: Key Choices*. ESRI Renewal Series Paper 11. Dublin: Economic and Social Research Institute.

Kennedy, Jean, and Keith Walsh. 2016. "The local property tax – A case study in designing and implementing a new tax." In Gary Tobin and Cora O' Brien (eds.), *Irish Tax Policy in Perspective*. Dublin: Irish Tax Institute.

Kitchen, Harry, Enid Slack, and Tomas Hachard. 2019. *Property Taxes in Canada: Current Issues and Future Prospects*. IMFG Perspectives Papers No. 27. Toronto: University of Toronto, Institute on Municipal Finance and Governance.

Marshall, Alfred. 1899. "The incidence of local rates, with some suggestions as to policy." Evidence to the Royal Commission on Local Taxation. Reprinted in *Principles of Economics,* 8th ed., 1925, 794–804. London: Macmillan.

Martinez-Vazquez, Jorge. 2013. "Local nonproperty revenues." In Roy W. Bahl, Johannes F. Linn, and Deborah L. Wetzel (eds.), *Financing Metropolitan Governments in Developing Countries*. Cambridge, Mass: Lincoln Institute of Land Policy.

McCluskey, William J. and Nigel D. Woods. 2010. *Property Tax Reform: The Northern Ireland Experience*. Lincoln Institute of Land Policy Working Paper. Cambridge, Mass: Lincoln Institute of Land Policy.

McLure, Charles E., Jr. 2001. "The tax assignment problem: Ruminations on how theory and practice depend on history." *National Tax Journal* 44(2): 339–63.

MFOA. 2015. *Property Taxation in Ontario: A Guide for Municipalities*. Toronto: Municipal Finance Officers' Association of Ontario.

Mill, John Stuart. 1861. *Utilitarianism, Liberty, Representative Government*. Chapter XV: Of Local Representative Bodies, 1910. London: J. M. Dent & Sons.

Mirrlees Review. 2011. *Tax by Design*. Chapter 16. The Taxation of Land and Property. London: Institute for Fiscal Studies.

Muellbauer, John. 2005. "Property taxation and the economy after the Barker review." *The Economic Journal* 115: 99–117.

Musgrave. Richard A. 1959. *The Theory of Public Finance: A Study in Public Economy*. New York: McGraw-Hill.

Musgrave, Richard A. 1983. "Who should tax, where, and what?" In Charles E. McLure, Jr. (ed.), *Tax Assignment in Federal Countries*. Canberra: Australian National University, Centre for Research on Federal Financial Relations.

Netzer, Dick. 1966. *Economics of the Property Tax*. Studies of Government Finance. Washington, DC: The Brookings Institution.

NOAC. 2020. *Local Authority Performance Indicator Report 2020*. Dublin: National Oversight and Audit Commission.

Norregaard, John. 2013. *Taxing Immovable Property – Revenue Potential and Implementation Challenges*. IMF Working Paper WP/13/129. Washington, DC: International Monetary Fund.

Oates, Wallace E. 1972. *Fiscal Federalism*. New York: Harcourt Brace Jovanovich.

Oates, Wallace E. 2005. "Toward a second-generation theory of fiscal federalism." *International Tax and Public Finance,* 12(4): 349–74.

Oates, Wallace E. 2010. "Local government. An economic perspective." In Michael E. Bell, David Brunori, and Joan Youngman (eds.), *The Property Tax and Local Autonomy*. Cambridge, Mass: Lincoln Institute of Land Policy.

OECD. 2021. *Making Property Tax Reform Happen in China. A Review of Property Tax Design and Reform Experiences in OECD Countries*. OECD Fiscal Federalism Studies. Paris: OECD.

Olson. Mancur, Jr. 1969. “The principle of ‘fiscal equivalence’: The division of responsibilities among different levels of government.” *American Economic Review* 59(2): 479–87.

O’Connor, Brendan, and Donal Lynch. 2016. “Analysis of recent property price developments and implications for Local Property Tax liabilities and revenue yield.” *Administration* 64(1): 29–60.

O’Leary, Jim. 2018. *How (Not) to Do Public Policy: Water Charges and Local Property Tax*. Galway: Whitaker Institute, National University of Ireland Galway.

Parliamentary Budget Office. 2018. “Local property tax: Issues to be considered with the revaluation of the base.” Briefing Paper 2. Dublin: Houses of the Oireachtas.

Parliamentary Budget Office. 2020. “Challenges in implementing and administering the vacant site levy.” Dublin: Houses of the Oireachtas.

Revenue Commissioners. Various years. *LPT Statistics*. Dublin: Office of the Revenue Commissioners.

Rosengard. Jay K. 2013. “The tax everyone loves to hate: Principles of property tax reform.” In William McCluskey, Gary C. Cornia, and Lawrence C. Walters (eds.), *A Primer on Property Tax: Administration and Policy*. Oxford, UK: Wiley-Blackwell.

Samuelson, Paul. 1954. “The pure theory of public expenditure.” *Review of Economics and Statistics* 36(4): 387–89.

Shah, Anwar. 1994. *The Reform of Intergovernmental Fiscal Relations in Developing and Emerging Market Economies*. Policy and Research Series 23. Washington, DC: World Bank.

Shah, Anwar (ed.). 2006. *Local Governance in Industrial Countries*. Public Sector Governance and Accountability Series. Washington, DC: World Bank.

Slack, Enid. 2006. “Alternative approaches to taxing land and real property.” In Richard M. Bird and François Vaillancourt (eds.), *Perspectives on Fiscal Federalism*. Washington, DC: World Bank.

Slack, Enid. 2011. *The Property Tax – in Theory and Practice*. IMFG Papers No. 2. Toronto: University of Toronto, Institute on Municipal Finance and Governance.

Slack, Enid, and Richard M. Bird. 2014. *The Political Economy of Property Tax Reform*. OECD Working Papers on Fiscal Federalism No.18. Paris: OECD.

Tax Strategy Group. 2010. *Taxation of Property*. TSG10/09. Dublin: The Stationery Office.

Ter-Minassian, Teresa (ed.). 1997. *Fiscal Federalism in Theory and Practice*. Washington, DC: International Monetary Fund.

Thornhill, Don. 2015. *Review of the Local Property Tax (LPT)*. Report for the Minister of Finance published as part of Budget 2016 documentation. Dublin: The Stationery Office.

Tiebout, Charles. 1956. "A pure theory of local expenditures." *Journal of Political Economy* 64(5): 416–24.

Turley, Gerard, and Stephen McNena. 2016. "An analysis of local public finances and the 2014 local government reforms." *The Economic and Social Review* 47(2): 299–326.

Turley, Gerard, and Stephen McNena. 2018. "Financing local government in the twenty-first century: Local government revenues in European Union member states, 2000–2014." In Richard Kerley, Joyce Liddle, and Pamela T. Dunning (eds.), *The Routledge Handbook of International Local Government*. Abingdon, UK: Routledge.

Turley, Gerard, and Stephen McNena. 2019. "Local government funding in Ireland: Contemporary issues and future challenges." *Administration* 67(4): 1–26.

UN-HABITAT. 2013. *Property Tax Regimes in Europe*. The Global Urban Economic Dialogue Series. Nairobi, Kenya: UN-HABITAT.

Vickrey, William. 1999. "Simplification, progression, and a level playing field." In Kenneth C. Wenzer (ed.), *Land-Value Taxation: The Equitable and Efficient Source of Public Finance*. New York: M.E. Sharpe.

Walker, David. 1962. "Local government finance in Ireland. A preliminary survey." Paper No. 5. Dublin: The Economic Research Institute.

Walsh, Gillian, Fionnuala Ryan, Jean Acheson, and Keith Walsh. 2021. *Local Property Tax (LPT) Valuation for 2022 to 2025*. Technical Paper. Dublin: Revenue.

Walsh, Keith. 2013. *Property Valuation. Developing, Assessing and Deploying a Valuation Model for Local Property Tax*. Dublin: Revenue.

Weingast, Barry. 2009. "Second generation fiscal federalism: The implications of fiscal incentives." *Journal of Urban Economics* 65(3): 279–93.

Appendix 1 *Profile of the 31 Local Councils in Ireland*

Local Councils	Population	Population density, per km²	Urban population share	Expenditure per capita €	Own-source revenues share	Property tax share
Carlow County	56,932	64	0.49	1,104	0.54	0.30
Cavan County	76,176	41	0.31	1,034	0.48	0.27
Clare County	118,817	38	0.39	1,106	0.67	0.38
Cork City	210,853	1,128	n.a.	1,073	0.80	0.49
Cork County	332,015	46	n.a.	1,049	0.68	0.37
Donegal County	159,192	33	0.27	975	0.63	0.30
Dublin City	554,554	4,757	1.00	1,947	0.66	0.36
Dún-Laoghaire Rathdown County	218,018	1,725	0.99	969	0.77	0.52
Fingal County	296,020	647	0.93	967	0.78	0.55
Galway City	78,668	1,573	1.00	1,303	0.64	0.41
Galway County	179,390	31	0.22	761	0.57	0.31
Kerry County	147,707	32	0.35	1,140	0.64	0.34
Kildare County	222,504	131	0.68	738	0.70	0.48
Kilkenny County	99,232	48	0.39	907	0.59	0.31
Laois County	84,697	49	0.48	931	0.52	0.24
Leitrim County	32,044	21	0.11	1,334	0.42	0.20
Limerick City & County	194,899	73	0.54	4,398	0.33	0.09
Longford County	40,873	39	0.34	1,400	0.44	0.19
Louth County	128,884	156	0.66	1,013	0.60	0.33
Mayo County	130,507	24	0.29	1,220	0.52	0.28
Meath County	195,044	84	0.59	793	0.64	0.38
Monaghan County	61,386	48	0.29	1,159	0.44	0.25
Offaly County	77,961	39	0.43	931	0.54	0.32
Roscommon County	64,544	26	0.27	977	0.53	0.26
Sligo County	65,535	37	0.40	1,052	0.55	0.28
South Dublin County	278,767	1,250	0.98	961	0.73	0.51
Tipperary County	159,553	35	0.42	1,159	0.51	0.25
Waterford City & County	116,176	65	0.62	1,277	0.53	0.29
Westmeath County	88,770	51	0.49	971	0.53	0.28
Wexford County	149,722	64	0.39	875	0.68	0.40
Wicklow County	142,425	71	0.65	833	0.68	0.37
Total	**4,761,865**	**69**	**0.63**	**1,246**	**0.60**	**0.33**

Notes: Population estimates are based on the latest census figures available at the time of writing, that is, 2016, with the exception of Cork City Council and Cork County Council, due to a boundary change in 2019. Expenditures and revenues are based on 2021 budgets, and reflect higher COVID-19–related expenditures and central government grants. Own-source revenues share is defined as income from commercial rates, the LPT (minus any equalization payment), and charges and fees, combined and expressed as a percentage of revenue income. Property tax share is defined as income from commercial rates and the LPT (minus any equalization payment), combined and expressed as a percentage of revenue income. Revenue/expenditure data for Limerick City & County Council is inflated because of Housing Assistance Payments (HAP) and its role as operator of the HAP shared-service centre on behalf of all 31 local authorities. Dublin City Council and Laois County Council also have significant shared-service expenditures, for fire & homeless services and payroll services, respectively. The adjusted expenditure per capita figures (for 2020) for Limerick, Dublin, and Laois are €1,164.2, €1,905.51, and €986.22, respectively (NOAC 2020).

Source: Author's calculations.

Appendix 2 *Local Property Taxes: Ireland vs. England*

Given the close ties between England and Ireland, and the residential and non-residential property tax systems in both jurisdictions, this appendix presents the property tax differences and similarities in the two countries. Indeed, the theme of *the old and the new* applies equally well in England (and Scotland), where the centuries-old business rates and the relatively new – an early 1990s creation – council tax constitute their annual local taxes on immovable property. Some of the structural features chosen for the LPT (valuation bands, preference for capital over rental values, for example) were undoubtedly influenced by the experience of council tax in England and Scotland, and Northern Ireland's rating reforms.[37]

	Residential Property Tax		Non-residential Property Tax	
	Ireland	**England**	**Ireland**	**England**
Name	LPT	Council tax	Commercial rates	Business rates
Base	Residential	Domestic	Commercial and industrial	Non-domestic
Liability	Owner	Occupier	Occupier	Occupier
Rate	Central but with local variation	Local but subject to central thresholds/caps and local referenda	Local	Central and uniform
Assessment	Self-assessed	Central Valuation office	Central Valuation office	Central Valuation office
Valuation	Capital value, with bands. Re-banding and revaluation in 2021	Capital value (as of April 1991), with bands. No general re-banding or revaluation since 1991	Rental value Rolling revaluations	Rental value Periodic revaluations
Collection	Central, with a portion retained locally and the remainder pooled and redistributed	Local	Local	Local, with a portion retained and the remainder pooled and redistributed

37. McCluskey and Woods (2010) make the case for a valuation assessment based on capital rather than rental values where the domestic residential property market is dominated by capital sales as opposed to rental transactions, as is the case on the island of Ireland as a whole. For an account of Northern Ireland's residential rating system and the reforms in the mid-2000s, including the pros and cons of a rental value vs. capital value assessment, and banding vs. individual assessment approaches, see McCluskey and Woods (2010).

Appendix 3 *LPT Valuation Bands, Rates and Tax Liabilities, 2013 and 2021*

	Old valuation bands and charges, 2013		New valuation bands and charges, 2021	
	Band, €	**Charge, €**	**Band, €**	**Charge, €**
1	0 – 100,000	90	1 – 200,000	90
2	100,001 – 150,000	225	200,000 – 262,500	225
3	150,001 – 200,000	315	262,501 – 350,000	315
4	200,001 – 250,000	405	350,001 – 437,500	405
5	250,001 – 300,000	495	437,501 – 525,000	495
6	300,001 – 350,000	585	525,001 – 612,500	585
7	350,001 – 400,000	675	612,501 – 700,000	675
8	400,001 – 450,000	765	700,001 – 787,500	765
9	450,001 – 500,000	855	787,501 – 875,000	855
10	500,001 – 550,000	945	875,001 – 962,500	945
11	550,001 – 600,000	1,035	962,501 – 1,050,000	1,035
12	600,001 – 650,000	1,125	1,050,001 – 1,137,500	1,190
13	650,001 – 700,000	1,215	1,137,501 – 1,225,000	1,409
14	700,001 – 750,000	1,305	1,225,001 – 1,312,500	1,627
15	750,001 – 800,000	1,395	1,312,501 – 1,400,000	1,846
16	800,001 – 850,000	1,485	1,400,001 – 1,487,500	2,065
17	850,001 – 900,000	1,575	1,487,501 – 1,575,000	2,284
18	900,001 – 950,000	1,665	1,575,001 – 1,662,500	2,502
19	950,001 – 1,000,000	1,755	1,662,501 – 1,750,000	2,721
20	Over €1 million		1,750,001+	
Rate	Mid-point rate of 0.18 percent. For properties over €1 million, the charge is 0.18 percent on the first €1 million and 0.25 percent on the portion over €1 million.		Mid-point rate of 0.1029 percent. For bands 1 and 2, the charge remains at €90 and €225, respectively. For properties in bands 12–19, a mid-point rate of 0.1029 percent on the first €1.05 million, plus 0.25 percent on the portion over €1.05 million. Properties in band 20 are charged on individual property values at 0.1029 percent on the first €1.05 million, 0.25 percent between €1.05 million and €1.75 million, and 0.3 percent on the balance.	

Note: The council tax bands are different in England, Wales, and Scotland, which in general have fewer bands (8 or 9), greater variation in intervals, and larger differences in rates (but not liabilities) compared with the LPT.

IMFG Papers on Municipal Finance and Governance

1. *Are There Trends in Local Finance? A Cautionary Note on Comparative Studies and Normative Models of Local Government Finance*, by Richard M. Bird, 2011.
   ISBN 978-0-7727-0864-9
2. *The Property Tax – in Theory and Practice*, by Enid Slack, 2011.
   ISBN 978-0-7727-0866-3
3. *Financing Large Cities and Metropolitan Areas*, by Enid Slack, 2011.
   ISBN 978-0-7727-0868-7
4. *Coping with Change: The Need to Restructure Urban Governance and Finance in India*, by M. Govinda Rao and Richard M. Bird, 2011.
   ISBN 978-0-7727-0870-0
5. *Revenue Diversification in Large U.S. Cities*, by Howard Chernick, Adam Langley, and Andrew Reschovsky, 2011.
   ISBN 978-0-7727-0870-4
6. *Subnational Taxation in Large Emerging Countries: BRIC Plus One*, by Richard M. Bird, 2012.
   ISBN 978-0-7727- 0874-8
7. *You Get What You Pay For: How Nordic Cities are Fi*nanced, by Jorgen Lotz, 2012.
   ISBN 978-0-7727-0876-2
8. *Property Tax Reform in Vietnam: A Work in Progress*, by Hong-Loan Trinh and William J. McCluskey, 2012.
   ISBN 978-0-7727-0878-6
9. IMFG Graduate Student Papers. *Development Charges across Canada: An Underutilized Growth Management Tool?* by Mia Baumeister; *Preparing for the Costs of Extreme Weather in Canadian Cities: Issues, Tools, Ideas,* by Cayley Burgess, 2012.
   ISBN 978-0-7727-0880-9
10. *The Reform of Business Property Tax in Ontario: An Evaluation*, by Michael Smart, 2012.
    ISBN 978-0-7727-0882-3
11. *Hungary: An Unfinished Decentralization?* by Izabella Barati-Stec, 2012.
    ISBN 978-0-7727-0884-7
12. *Economies of Scale in Fire and Police Services*, by Adam Found, 2012.
    ISBN 978-0-7727-0886-1
13. *Trading Density for Benefits: Toronto and Vancouver Compared*, by Aaron A. Moore, 2013.
    ISBN 978-0-7727-0901-1
14. *Merging Municipalities: Is Bigger Better?* by Enid Slack and Richard M. Bird, 2013.
    ISBN 978-0-7727-0903-5

15. *Public Finance and the Politics of Scale in Montréal: Will the Proposed Reforms Save the Megacity?* by Jean-Philippe Meloche and François Vaillancourt, 2013.
ISBN 978-0-7727-0915-8
16. *Decentralization and Infrastructure in Developing Countries: Reconciling Principles and Practice*, by Roy Bahl and Richard M. Bird, 2013.
ISBN 978-0-7727-0919-6
17. *Provincial-Municipal Relations in Ontario: Approaching an Inflection* Point, by André Côté and Michael Fenn, 2014.
ISBN 978-0-7727-0923-3
18. *A Better Local Business Tax: The BVT,* by Richard M. Bird, 2014.
ISBN 978-0-7727-0921-9
19. *Cooperation and Capacity: Inter-Municipal Agreements in Canada,* by Zachary Spicer, 2015.
ISBN 978-0-7727-0934-9
20. *Can GTA Municipalities Raise Property Taxes? An Analysis of Tax Competition and Revenue Hills,* by Almos Tassonyi, Richard Bird, and Enid Slack, 2015.
ISBN 978-0-7727-0938-7
21. *How to Reform the Property Tax: Lessons from around the World,* by Enid Slack and Richard M. Bird, 2015.
ISBN 978-0-7727-0943-1
22. *A Good Crisis: Canadian Municipal Credit Conditions After the Lehman Brothers Bankruptcy*, by Kyle Hanniman, 2015.
ISBN 978-0-7727-0945-5
23. *Municipal Employee Pension Plans in Canada: An Overview*, by Bob Baldwin, 2015.
ISBN 978-0-7727-0949-3
24. *Cities, Data, and Digital Innovation*, by Mark Kleinman, 2016.
ISBN 978-0-7727-0951-6
25. *Can Tax Increment Financing Support Transportation Infrastructure Investment?* by Murtaza Haider and Liam Donaldson, 2016.
ISBN 978-0-7727-0953-0
26. *Good Governance at the Local Level: Meaning and Measurement,* by Zack Taylor, 2016.
ISBN 978-0-7727-0956-1
27. *More Tax Sources for Canada's Largest Cities: Why, What, and How?* by Harry Kitchen and Enid Slack, 2016.
ISBN 978-0-7727-0959-2
28. *Did the Land Transfer Tax Reduce Housing Sales in Toronto?* by Murtaza Haider, Amar Anwar, and Cynthia Holmes, 2016.
ISBN 978-0-7727-0961-5

29. *Financing the Golden Age: Municipal Finance in Toronto 1950-1975*, by Richard White, 2016.
    ISBN 978-0-7727-0971-4
30. *Climate Change, Floods, and Municipal Risk Sharing*, by Daniel Henstra and Jason Thistlethwaite, 2017.
    ISBN 978-0-7727-0973-8
31. *The Evolving Role of City Managers and Chief Administrative Officers*, by Michael Fenn and David Siegel, 2017.
    ISBN 978-0-7727-0977-6
32. *(Re)creating Boundary Lines: Assessing Toronto's Ward Boundary Review Process*, by Alexandra Flynn, 2017.
    ISBN 978-0-7727-0979-0
33. *Land Value Capture and Social Benefits: Toronto and São Paulo Compared*, by Abigail Friendly, 2017.
    ISBN 978-0-7727-0981-3
34. *Financing Urban Infrastructure in Canada: Who Should Pay?* by Enid Slack and Almos T. Tassonyi, 2017.
    ISBN 978-0-7727-0989-9
35. *Paying for Water in Ontario's Cities: Past, Present, and Future*, by Harry Kitchen, 2017.
    ISBN 978-0-7727-0991-2
36. *Re-imagining Community Councils in Canadian Local Government,* by Alexandra Flynn and Zachary Spicer, 2017.
    ISBN 978-0-7727-0987-5
37. *Climate Finance for Canadian Cities: Is Debt Financing a Viable Alternative?* by Gustavo Carvalho, 2018.
    ISBN 978-0-7727-0994-3
38. *The Public Finance Challenges of Fracking for Local Governments in the United States*, by Austin Zwick, 2018.
    ISBN 978-0-7727-0996-7
39. *Returning to the Golden Rule of Balanced Budgets: The Institutional and Political Economy of Restricting Public Deficits and Debt*, by Bernard Dafflon, 2018.
    ISBN 978-0-7727-0998-1
40. *The Platform Economy and Regulatory Disruption: Estimating the Impact on Municipal Revenue in Toronto*, by Zachary Spicer, 2018.
    ISBN 978-0-7727-1005-5
41. *Development Charges in Ontario: Is Growth Paying for Growth?* by Adam Found, 2019.
    ISBN 978-0-7727-1009-3
42. *Does Local Government Autonomy Promote Fiscal Sustainability? Lessons from Illinois's Home-Rule Municipalities*, by Matthew Walshe, 2019.
    ISBN 978-0-7727-1011-6

43. *Mind the Funding Gap: Transit Financing in Los Angeles County and Metro Vancouver*, by Matthew Lesch, 2019.
    ISBN 978-0-7727-1016-1
44. *The Practice of Municipal Cooperation: Australian Perspectives and Comparisons with Canada*, by Graham Sansom, 2019.
    ISBN 978-0-7727-5502-5
45. *Filling the Gaps: The Role of Business Improvement Areas and Neighbourhood Associations in the City of Toronto,* by Alexandra Flynn, 2019.
    ISBN 978-0-7727-1020-8
46. *The Fallacy of the "Creatures of the Provinces" Doctrine: Recognizing and Protecting Municipalities' Constitutional Status,* by Kristin R. Good, 2019.
    ISBN 978-0-7727-1023-9
47. *Power and Purpose: Canadian Municipal Law in Transition,* by Zack Taylor and Alec Dobson, 2020.
    ISBN 978-0-7727-1029-1
48. *Collaborative Regional Governance: Lessons from Greater Manchester,* by Alan Harding, 2020.
    ISBN 978-0-7727-2526-4
49. *Theme and Variations: Metropolitan Governance in Canada*, by Zack Taylor, 2020.
    ISBN 978-0-7727-2496-0
50. *Policy in Place: Revisiting Canada's Tri-Level Agreements,* by Neil Bradford, 2020.
    ISBN 978-0-7727-2523-3
51. *Cities in National Constitutions: Northern Stagnation, Southern Innovation,* by Ran Hirschl, 2020.
    ISBN 978-0-7727-2517-2
52. *Municipal Financing Opportunities in Canada: How Do Cities Use Their Fiscal Space?* by Jean-Philippe Meloche and François Vaillancourt, 2021.
    ISBN 978-0-7727-2532-5
53. *Developing Air and Land Control at Toronto's Airport: Local, Regional, and National Conflict and Cooperation, 1937–72,* by Nick Lombardo, 2021.
    ISBN 978-0-7727-2536-3
54. *Addressing the Fairness of Municipal User Fee Policy,* by Almos Tassonyi and Harry Kitchen, 2021.
    ISBN 978-0-7727-2540-0
55. *Indigenous-Municipal Legal and Governance Relationships*, by Doug Anderson and Alexandra Flynn, 2021.
    ISBN 978-0-7727-2542-4
56. *Development Charges and Housing Affordability: A False Dichotomy?* by Adam Found, 2021.
    ISBN 978-0-7727-2550-9

57. *Provincial-Local Equalization in Canada: Time for a Change?* by Richard M. Bird and Enid Slack, 2021.
    ISBN 978-0-7727-2554-7
58. *Evaluating Affordable Housing Outcomes in Toronto: An Analysis of Density Bonusing Agreements,* by Julie Mah, 2022.
    ISBN 978-0-7727-1112-0
59. *A Seat at the Table: Municipalities and Intergovernmental Relations in Canada,* by Tomas Hachard, 2022.
    ISBN 978-0-7727-1136-6
60. *A New Agenda for Local Democracy: Building Just, Inclusive, and Participatory Cities* by Brittany Andrew-Amofah, Alexandra Flynn, and Patricia Wood, 2022.
    ISBN 978-0-7727-1113-7
61. *Housing and Infrastructure Provision for Informal Settlements: Comparing Accra and Buenos Aires,* by Hsi-Chuan Wang, 2022.
    ISBN 978-0-7727-7365-4

ISBN 978-0-7727-1142-7
ISSN 1927-1921