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A review of Ireland's Local Property Tax

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Abstract

Property taxes are common in countries around the world. Until recently, Ireland was an exception as there was no annual tax on residential property. This paper is a review of the Local Property Tax (LPT) system that was introduced in 2013 and had its first property revaluations in 2021. Using the lens of municipal finance and tax assignment, the rationale, history, features and administration of this new residential property tax are outlined. While recognising country-specific circumstances, lessons, opportunities and challenges are explored with a view to future improvements in the design and implementation of the LPT. Lessons from the LPT experience are the importance of tax administration and the role of the central tax collection agency, and, in terms of design, the need for a tailored approach to suit local circumstances. Challenges include the rates/LPT mix and the relative tax burdens on non-residential and residential properties, the long-term sustainability of the LPT arising from design issues, the current low tax rate and future revaluations, and, finally, the need for regular property tax reform because of political and taxpayers' opposition to a highly visible, unpopular but good local tax.

Keywords: Property taxes, local taxation, LPT

Introduction

Local recurrent taxes on immovable property are common across time and space. Property taxes predate income tax and many other taxes. A majority of countries worldwide use property taxes in some shape, and do so primarily to fund local government. Until recently, Ireland was an exception as there was no annual tax on residential property. This paper is a review of the Local Property Tax (LPT) system, which was introduced in July 2013 and had its first property revaluations in November 2021. Using the theoretical framework of local public finance and the tax assignment pillar of intergovernmental fiscal relations, the rationale, history, features and administration of this new residential property tax are outlined. While recognising country-specific circumstances, opportunities and challenges are explored with a view to future improvements in the design and implementation of the LPT.

The paper begins with theory, on the economic rationale for local government. A section on tax assignment and property tax follows. A brief overview of the history of local property taxes in Ireland is followed by an account and a review of the LPT. The paper concludes with some lessons and challenges.

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' model of fiscal decentralisation, Charles Tiebout's hypothesis of local choice and Mancur Olson's principle of fiscal equivalence, which were all published in a sixteen-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 maximise 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 allocate society's scarce resources. In cases of market failure, outcomes can be improved by government intervention. Once it is decided that provision is by the public sector, the next question that arises is the appropriate level of government, whether that is central, regional or local.

Unlike political scientists, who emphasise the political or democratic role of local government, economists focus on the economic perspective, namely, in achieving efficiency through local public service delivery. Using the framework of the traditional three branches of government, the main economic functions of government are the allocative, distributive and stabilisation roles (Musgrave, 1959). Whereas it is argued that the income redistribution and macroeconomic stabilisation functions are best undertaken by central government, the resource allocation role should primarily be delivered by subnational government and, in cases where the benefits are localised, by local government. The welfare gains that accrue by moving government closer to its constituencies and ensuring that citizens get what they want are the allocative efficiency case for local government and dominate the economic debate in favour of decentralisation.

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 (the so-called 'matching' principle of costs and benefits) 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 be best achieved by providing public services at the lowest level of government possible.

As long as there are different preferences for the level and mix of local services and different costs in local public service delivery, there are welfare gains from fiscal decentralisation. Formalised by Oates (1972), this fiscal decentralisation theorem presents the economic case for local government. Given its importance to the economic rationale for local government, Oates' original statement is reproduced 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).

An earlier and rather different perspective, but with many of the same outcomes, was made by 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 said to be efficient (Tiebout, 1956).[1]

Not altogether dissimilar but more focused on the design of jurisdictions, Olson's principle of fiscal equivalence assigns revenue-generation 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. When citizens reside in several overlapping jurisdictions, they should pay taxes to each level corresponding to the benefits that they receive from each jurisdiction (Olson, 1969).

Notwithstanding the externalities and economies of scale arguments in favour of a more centralised government, functions should be assigned to the level of government whose jurisdiction most closely approximates the geographical area of benefits provided by the function. This indicates that, for example, national defence, foreign affairs, migration 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 governments as these are primarily local affairs.

Once expenditures have been assigned according to the principles as set out above, the next step is to assign appropriate revenues, in the form of taxes, transfers or borrowing: together these four questions constitute the pillars of intergovernmental finance.[2] As this research paper focuses on property taxes, the next section deals with the issue of tax assignment – who should tax what? – and the suitability of property tax as a good local tax.

[1] 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'. 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).

[2] More formally, the four pillars are expenditure assignment, tax assignment, intergovernmental transfers, and borrowing and debt.

Tax assignment and property tax

The division of tax sources among different tiers of government constitutes the tax assignment problem of intergovernmental fiscal arrangements. 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 characterised by few spillovers and limited economies of scale, that is not the case for tax assignment (Musgrave, 1959, 1983; Oates, 1972).[3] 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).[4]

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 maintaining the link between the taxes paid, the benefits accrued and the costs incurred. 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 of local government.

The taxes assigned to local government should meet certain criteria. As set out in Bird (2001), the characteristics of a good local tax are that the tax base should be relatively immobile and visible; that the tax should be mainly borne by local residents and not easily exported; that 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 it should increase over

[3] In order to ensure a hard budget constraint and avoid the dangers of overspending or undertaxing, one of the rules of fiscal decentralisation and the related sequencing of policy reforms is that finance should follow function (Bahl, 1999). We will return to these rules in the concluding section of the paper.

[4] 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 who 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).

time as expenditures increase and be relatively stable and predictable.[5] The tax that best meets these criteria and is widely used by local governments worldwide is the 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/or improvements in the form of buildings are obviously immobile and salient, the tax on such is borne primarily by local residents who benefit from the services supplied, information required is likely to be available locally, and its yield is relatively stable and varies less with the business cycle than other taxes. In addition, a well-designed property tax is relatively neutral with respect to its impact on economic decisions relating to savings, investment and labour supply decisions of households and firms. As it distorts 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).

One of the features of property taxation is that it can be defined differently, in that it can be viewed as a generalised 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 (i.e. a form of wealth tax). 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 mobilisation is limited. Another weakness is that assessment and valuation are often difficult, and administration costs can be high.

Despite these problems, property tax is a mainstay of municipal finance, with the majority of local governments worldwide relying on some form of property tax. Indeed, in this instance we can say that the public finance theory and practice coincide (as is often not the case), as any rational assignment of taxing powers should see local government assigned a tax on real property. Bird (2006) writes that a

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

'property tax is indeed an excellent local tax', and 'undoubtedly the pre-eminent local tax'. Similarly, the Mirrlees Review in the UK 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, chap. 16).

History of local property taxes in Ireland

Rates are local taxes levied on certain classes of fixed or real property and 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 twelfth century), the basis of the English rating system is the Poor Relief Act of 1601. The tax, or cess as it was called, was levied on both domestic and non-domestic properties. According to Collins (1954), the name 'rate derives from the fact that the expenses to be met are raised rateably, that is proportionately, according to the value of the property in respect of which it 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, i.e. land, buildings, mines, fisheries, canals, railways, etc., but with some exemptions, e.g. state properties, places of religious worship, 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, oats, butter, mutton and beef, for example) and was to take into account the quality of the land, proximity to the market, etc. 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 was not the case, resulting in an out-of-date rating system (Coughlan & de Buitleir, 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, namely tenant farmers. In parallel to the grand juries that were responsible for law and order, and public works (such as repair of courthouses and prisons, and maintenance of roads and bridges), poor law unions 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, i.e. landlords (Collins, 1954; Donnelly, 1996).

The reform of the English system of local government in the 1890s was followed closely in Ireland by the Local Government (Ireland) Act 1898, which was the foundation for Ireland's system of local government in the twentieth 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 1978, 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.[6] They 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). A Residential Property Tax assigned to central government had been introduced in 1983 but was 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.

Albeit with different features, today's successor to rates on residential property is the LPT.

The local residential property tax

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 1. For a more detailed account

[6] According to Dollard (2003), the result of the decision to abolish domestic rates 'had the single largest negative effect on the finances of local authorities. It interfered with the local democratic process, curtailed local accountability, weakened local discretion, reduced the amount of money available to local authorities … and made local government more dependent on central government.' For a more recent version of the definitive book on local government in Ireland, see Callanan (2018).

Table 1: Design features of a local residential property tax

Elements:	*Base*	*Liability*	*Rate*	*Assessment*	*Valuation*	*Collection*	*Enforcement*
Features/ options:	**Land +** **buildings** or land only or buildings only exemptions, reliefs and deferrals?	**Owner** or occupier or both	**Central and**/or **local** **uniform** or differentiated single or **graduated**	Area-based or **value-based** or hybrid central or local direct- assessment or **self-assessment**	**Capital** or rental individual or **banded** indexation and/or **revaluation**	**Central** or local what payment options?	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: The actual design features chosen for the LPT by the authorities are in bold. The payment options are listed in footnote 16, as is a source for the list of exemptions and deferrals. See Appendix 1 for a comparison between these design features and the features of council tax in England.

of the steps involved in a property tax, see Slack (2006) and Norregaard (2013). 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.[7] Ireland is no different in this regard.

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 property tax, it was the 2008 financial crisis that accelerated the reintroduction of a residential property tax. Given the booming property market and imprudent taxation decisions taken by national policymakers leading up to the 2008/9 economic crisis, the EU/IMF/ECB (the so-called Troika), as part of their financial support programme, committed Ireland to introduce a residential property tax as a means to widen the Irish tax base.[8]

[7] For example, it is often said that property valuation is more an art than a science. For more on the political economy of property tax and reform, see Slack & Bird (2014). Likewise, consideration must be given to the inevitable trade-offs (for example, efficiency vs equity, simplicity vs accuracy, stability vs buoyancy) that are involved in the design of a property tax.

[8] Initially envisaged as a Site Value Tax (SVT), after careful consideration by the Inter-Departmental Group (2012) 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 a SVT in place'. The Commission on Taxation (2009) had reached the same conclusion a few years earlier, arguing that 'it may not be a pragmatic approach', and noting the 'operational difficulties of introducing it and communicating its benefits to home-owners and landholders'. A similar conclusion was reached by the Tax Strategy Group (2010), when it examined a number of short-term and long-term options. 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 close on €500 million. Of course, there is no guarantee that this proposal would have been implemented if it was not for the Troika's programme of financial support and its conditionality.

At the outset, there were a number of problems associated with a new residential property tax. There was much political and popular resistance to a new tax, and especially on property given Ireland's historical affinity to land and home ownership. There was also opposition due to 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), and no more so than 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 terms of reference were 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'.[9]

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 1. The key recommendations were as follows:

[9] In the Foreword of the Group's report, it said, '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). From a broader perspective, Article 9 of the European Charter of Local Self-Government includes some very 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).

- owners of residential properties be liable for the tax, but with certain exemptions permitted;
- the basis of the assessment should be the market value of residential properties using valuation bands and the tax rate applied to the mid-point, with a system of self-assessment by liable taxpayers;
- all revenues accrue to the local authorities, incorporating a locally determined element;
- development of a comprehensive database/register of residential properties be undertaken as a priority;
- the Revenue Commissioners be given the responsibility for all aspects of the local property tax;
- as for payment options, the tax 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.[10] Following an interim measure of a €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, with properties valued by self-assessment as of 1 May 2013 (and applicable for the next three years), and the first (half-year) payment due by 1 July 2013.[11]

[10] An earlier report by the Commission on Taxation included many of the same recommendations. Two (of eleven) chapters entitled '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 the Revenue Commissioners; and a wide range of payment options available. It was the same report that 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).

[11] 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 an LPT return. 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/Computer Assisted Mass Appraisal methodologies, see Walsh (2013).

Continued

The LPT is an annual local tax on the market value of residential properties, which are 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). The Act provides for the establishment and maintenance of a register of residential properties, and for the different categories of liable persons other than the owner, e.g. local authorities, lessees, trustees, etc. As stated, the property owner is the liable person and is required to file an LPT return (essentially the valuation band, with no requirement to return any property characteristics) 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, chap. 15).

The valuation bands were initially €50,000 in width (for eighteen of the twenty bands, with the first band from €0 to €100,000 and band twenty greater than €1 million). The basic rate was 0.18 per cent applied to the mid-point of the relevant band, with a higher rate of 0.25 per cent 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.[12]

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 (LAF) whereby local authorities can

[11] *Continued:* 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 & 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).

[12] 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 per cent of properties declared were in a band more than one lower than the 'Revenue estimate': 177,000 properties in a band two lower and 94,000 properties 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 per cent of owners returned the same valuation or just one band higher or lower than the Revenue guidance (Walsh et al., 2021).

vary the central rate by +/– 15 per cent annually.[13] If used, it reverts to the basic rate after the twelve-month period has elapsed. Initially, local authorities were slow to use this discretion, with a majority of councils in the first couple of years opting to leave the basic rate unchanged (and those that did use this taxing power all implemented a cut in the rate). Over time, the number of local authorities exercising these powers increased, as did the number of councils that increased the rate. In 2022 twenty-six (out of thirty-one) councils varied the basic rate, with twenty-two increasing it. Interestingly, since 2015 the four Dublin local authorities have used their powers to cut the rate, primarily to lower the tax liabilities of residential property owners in the capital city, where property prices are at their highest, in the face of 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 equalisation grant, initially funded by central government transfers, was subsequently financed mainly by receipts from the LPT, with 80 per cent retained locally and the remaining 20 per cent pooled and distributed on the basis of a formula and an equalisation grant to councils with smaller revenue bases, i.e. 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 reached in early 2013, and with an estimated 74 per cent 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 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

[13] Initially, the Inter-Departmental Group proposed that local authorities could only increase the rate by between 5 and 15 per cent of the basic rate. In the end, the government decision to widen the LAF to 15 per cent either way (i.e. in the range of 0.153 per cent to 0.207 per cent), but more importantly allow local authorities to reduce the rate if they sought fit, gave local authorities more autonomy but also more responsibility.

intervals from €50,000 to €87,500) and basic rate (a reduction to 0.1029 per cent) to ensure that the majority of LPT payers would not see a rise in their liability (Government of Ireland, 2021).[14]

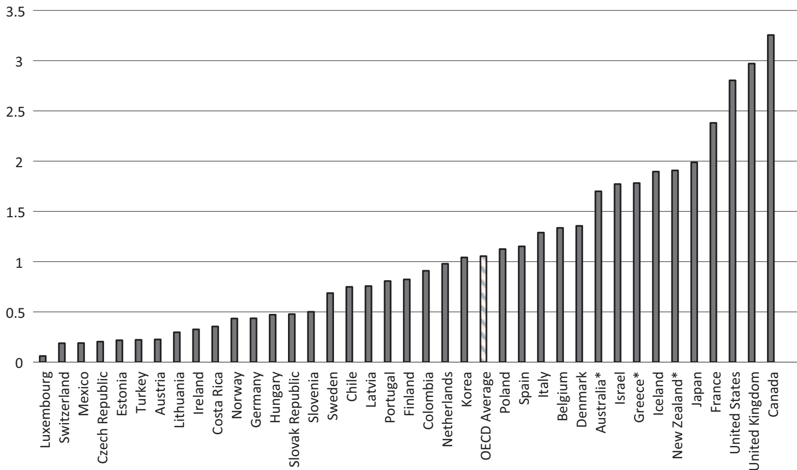
The rate and yield (circa €500 million, equal to about 7 per cent of local government revenues and less than 1 per cent of total tax revenue, and diminishing) are relatively modest by international standards (Turley & McNena, 2019). Combining LPT revenues with income from commercial rates, recurrent property taxes as a percentage of GDP in Ireland are relatively low, at less than 0.5 per cent, compared with an OECD average of over 1 per cent, and with most other countries of an Anglo–Saxon tradition with a property tax revenue/GDP ratio in excess of 2.5 per cent (see Figure 1). 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 if the objective is to improve urban planning and land use.[15] Nevertheless, there are many good features of the LPT. The base is 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 for payment, at more than 95 per cent, no doubt due to the multiple payment options offered by Revenue but also to the sanctions listed in Table 1.[16] Given the difficulty in introducing new taxes and the high visibility of property tax in particular, the outcome achieved is commendable.

[14] A very large majority (more than 75 per cent) of the 2013 returns were in the first three bands, 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 big 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.

[15] 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.

[16] 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.

Figure 1: Recurrent property taxes as a percentage of GDP, OECD countries, 2020



Source: OECD, Revenue Statistics, 2022.
* 2019 data for Australia, New Zealand and Greece.
Note: My thanks to Enid Slack for providing me with this figure, which is taken from Slack (2022). The data reported above are for recurrent taxes on immovable property only, and not data matching the wider definition of property taxes used by the OECD.

Lessons and conclusions

As with many other policy reforms, we need to be careful advocating best-practice recommendations or, put another way, be cognisant of the gap that often exists between theory and practice. 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 so 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 decentralisation is a comprehensive system whereby common implementation rules and an optimal sequencing apply (see Bahl, 1999; Bahl & 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 & Bird, 2014).

Yet O'Leary (2018) 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.

On the positive side, the decision to focus on the administration element of tax design (as seen in the original eighteen recommendations of the Inter-Departmental Group report, where one-third of these 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, where the post-2008-crisis circumstances and the involvement of external funders to the sovereign allowed for a window of opportunity to introduce a new tax, Revenue's involvement was, nonetheless, critical.[17]

Revenue is one of Ireland's most respected public institutions, helped by its track record but also 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, and where 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 also they are not automatic, i.e. taxpayers are required to file a return and, when doing so, only then 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.

[17] 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, were absent, or at least not a constraint that might have stalled the process. In a 2016 book chapter on the design and implementation of a new tax, written by two senior officers of the Revenue Commissioners involved in the LPT and modelling property valuations, three lessons were identified, particularly in respect of collection and enforcement. They were: (i) Keep it simple; (ii) Do not ignore the letter from Revenue; and (iii) Easy to pay, hard to avoid (Kennedy & Walsh, 2016).

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, and moreover a tax on property. Indeed, over the longer term the credibility and sustainability of the LPT have been enhanced by the revaluation of properties that took place in 2021.

On the downside, although the revaluation is welcomed (and particularly so 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 with some opportunities missed. For example, due to political difficulties, 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 here was lost to raise additional revenue from the LPT more in line with international levels, with a 'no change policy' projected yield before any LAF adjustments of almost €1 billion (Walsh et al., 2021). 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 taxes on property (or, more generally, taxes on labour), was lost.

Two design features of the LPT stand out, namely self-assessment and valuation bands. These features are not common in property tax systems around the world, and can result in inaccuracies, undervaluations and regressive tax burdens. In theory, banding and self-assessment may be considered second-best solutions compared with the more optimal, common forms of valuation. 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 visible. 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, the OECD (2021) notes, 'The Irish case has interesting peculiarities that makes it relevant for countries that aim at implementing a reform nearly from scratch', but also describes some of these design features as 'potentially problematic approaches'. The issue now is whether these features will be retained, as transitional-type measures, or whether they will be transformed into more 'conventional' long-term features (Turley, 2022).

Another issue related to the original design of the LPT is the future funding of a fiscal equalisation grant to local authorities with smaller tax bases. As alluded to earlier, 20 per cent (about €100 million) of LPT receipts combined with a smaller contribution (about €35 million) from central government has funded the annual equalisation grant since 2015. As part of the 2021 revaluation, the national government also announced that in future local authorities will retain 100 per cent of LPT receipts, with the central government financing equalisation transfers, i.e. a move from horizontal equalisation to vertical equalisation. The separation of the LPT and fiscal equalisation is welcomed, as the original design caused confusion but also frustration amongst urban local authorities, and particularly the four Dublin local councils, as they viewed urban – and especially Dublin – residents and owners of city properties as subsidising residents in rural areas that have fewer and less valuable residential properties. Although this redesign 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 thus will require a larger equalisation pot, funded by a central government facing competing calls on its scarce resources.[18]

In relation to the mix between the LPT and commercial rates, there was a missed opportunity to reduce the heavy burden on non-residential properties compared with residential properties (albeit a common practice worldwide), to reduce the over-reliance on rates for many local councils, and to consider the property tax treatment of SMEs with, for example, the introduction of small business rates relief, as is common in the UK. There are also legacy issues arising from the 2008/9 property crash and the Covid-19 pandemic that have not been fully resolved, including the tax treatment of vacant homes, unoccupied commercial properties and derelict sites at a time of a housing crisis with rising rents and residential property prices.

Aside from the relatively low tax take from the LPT, a greater test for the LPT 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 Sinn Féin prioritised 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

[18] 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. The recently announced equalisation fund for 2023 is actually smaller in size, at €118m.

rate of 7 per cent to 15 per cent (Sinn Féin, 2020).[19] This possibility that some time in the future an opportunistic national government might decide to terminate the LPT was succinctly put by O'Leary (2018) 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.'

As for a 'gold standard' in property tax, namely a well-administered tax based on current market values (see Bird & Slack, 2013), it can be said that the LPT meets the first half of this standard. Given the pragmatic approach of successive 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: local governments must be allowed to set their own tax rates, the tax base must be maintained adequately, and a series of procedural reforms is needed to improve collection efficiency, valuation accuracy and coverage of the potential tax base.

Judging the LPT in Ireland against these three criteria, we can confidently say that since the revaluation of residential properties for the purposes of the LPT in November 2021, the Irish local residential property tax scores reasonably well on all three reforms. Future reforms aimed at improving the LPT would see more regular revaluations, a reduction in the number of valuation bands 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. A reduction in rates income 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.

[19] 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. A Vacant Homes Tax was also announced in Budget 2023. An SVT, as a means to achieve housing policy objectives, was examined by the new Commission on Taxation and Welfare.

As the LPT is generally tolerated by politicians and taxpayers, and given the fundamental role of residential property taxes in funding local governments and the public services they provide to local residents, we conclude that the LPT is here to stay, at least for now.

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Appendix 1: Local residential property taxes – Ireland vs England

Given the close ties between England and Ireland, and the residential property tax systems in both jurisdictions, this appendix presents the property tax differences and similarities in the two countries. Some of the design 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 by Northern Ireland's rating reforms.[1]

	Residential Property Tax	
	Ireland	*England*
Name	LPT	Council tax
Base	Residential properties	Domestic properties
Liability	Owner	Occupier
Rate	Central but with local variation	Local but subject to central thresholds/caps and local referenda
Assessment	Self-assessed	Central valuation office
Valuation	Capital values, within bands. Re-banding and revaluation in 2021	Capital values (as of April 1991), with bands. No general re-banding or revaluation since 1991
Collection	Central	Local

Source: Author.

[1] McCluskey & 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. For an account of Northern Ireland's residential rating system and the reforms in the mid 2000s, see McCluskey & Woods (2010).

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