THE FUTURE OF TAXATION AND WELFARE IN IRELAND

What does the *Report of the Commission on Taxation and Welfare* mean for local government?

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The report of the Commission on Taxation and Welfare, titled *Foundations for the Future*, was published this autumn. As part of its remit was to examine the merits of a Site Value Tax (SVT), albeit as a way to achieve housing policy objectives rather than to fund local government, here we summarise the specific contents of the report that may have an impact in the future on local government finance and council revenues. Aside from an SVT, this includes recommendations on commercial rates, the Local Property Tax (LPT), an accommodation tax and congestion charges.

Overall, the Commission was tasked to take a strategic, wideranging, medium- to long-term approach to the suitability and sustainability of the taxation and welfare systems in Ireland. Guided by five principles – of sustainability, reciprocity, adequacy, equity and efficiency – the core policy objectives are fiscal sustainability, income adequacy and equity, the promotion of enterprise, innovation and employment, and climate change. The key messages and recommendations of the report include the need to increase the overall level of taxation as a share of national income, broaden the tax base, and rebalance taxation away from taxes on labour to taxes on consumption, capital and wealth, including land and property.

Local Property Tax – room for improvement

As for specific proposals on land and property, we begin with the LPT. According to the Commission, while not perfect, the LPT is a well-functioning tax, and as it represents a fair approach to raising taxes from residential property and is generally well understood by the public, its current structure and broad features should remain. They include the market-value basis, minimum exemptions and regular revaluations.

With regard to specific recommendations, LPT revenues should be increased substantially over time, via an adjustment of the basic rates and, potentially, through an adjustment of valuation bands. Additional recommendations include the removal of the discretionary power of local authorities to decrease the basic rate, an LPT surcharge for vacant properties, and in the case of multiple property owners, an LPT surcharge applying to properties not occupied as the principal primary residence of the property owner or a registered tenant.

Broadening the tax-base – congestion charges and tourist taxes?

Moving to a low-carbon economy where the yield from taxes on fossil fuels will decline, the Commission recognises the need for road-usage charges. In the short term, it supports the introduction of congestion charging in key urban areas. Separately, to ensure base broadening, the Commission recommends the introduction of an accommodation tax (also known as a tourist or hotel tax) as is common in many European cities. Although congestion charges and an accommodation tax can be local in design – where local councils have rate-setting powers or, at the least, revenues from these taxes are assigned to local

authorities – the Commission did not express a view on which level of government should be assigned these taxes, as its term of reference did not extend to consideration of local authority financing.

Commercial rates – significant reform required in the short term

Regarding commercial rates, the Commission's view was that 'the current commercial rates system is in need of significant reform as it applies differential rates across council borders and the yield collected by a local authority is a function of its specific budgetary needs, vacancy levels in a council area, delays in bringing new properties into the charge, and delayed revaluations'. Aside from the strange or odd criticism of local authorities applying different rates (as they should, given the local nature of commercial rates reflecting local circumstances and choices of local councils), the Commission, in examining an SVT, concluded that over time, commercial rates would be replaced by an SVT.

Site Value Tax (SVT) should replace commercial rates

The Commission also stated that there was some merit in incorporating the (policy objectives of the) new Zoned Land Tax within the SVT in due course. As for the SVT, which formed the major recommendation by the Commission in respect of potential changes to local government finance, the SVT proposal is outlined in Chapter 14 of the report. A site or land value tax is an annual tax on the value of a parcel of land, excluding the value of any structure, building or improvement on that land.

According to the Commission, as it would apply to all land, regardless of use, it promotes the efficient use of land as improvements are not discouraged by higher tax liabilities. It also discourages land hoarding and the purchase of land for speculative purposes by levying a recurring tax on undeveloped or unimproved land. However, as acknowledged by the Commission, a site value is not as easily assessed or understood as currently applies, i.e. market value of the combined land and buildings.

A briefing paper for the Commission on a site value tax outlined the merits of an SVT. Compared with the LPT, an SVT ranks highly in terms of neutrality and efficiency (in that it does not affect economic decision-making and does not act as a disincentive to invest in property), and also scores well with respect to supply as it encourages the activation of land.

Although the Commission recognises the potential costs and the implementation challenges, these are outweighed by the potential benefits of a 'single, efficient and equitable tax based on the site value'. The report's recommendation is for an SVT on all land not subject to the LPT, to include all commercial (developed and undeveloped), mixed-use, agricultural, undeveloped zoned residential lands, state-owned lands, as well as all land on which derelict and uninhabitable premises sit. The recommended features are:

- SVT to be levied annually on the owners of the land, with the owner required to pay the liability;
- Tax base is the unimproved value of land, i.e. estimated site value only;
- Tax to be centrally administered by Revenue, with the Valuation Office conducting site valuations;
- Rate-setting powers to be at the national level, with no local discretion;
- Exemptions to be minimised, but with deferrals for owners with limited means to pay;
- Agricultural land to be taxed differently due to its unique role in the production process.

The Commission highlighted the time needed to design and implement an SVT, requiring collation of a number of data sources on land, property prices and other property characteristics, a comprehensive register of sites, the development of an appropriate estimation model, and additional resources for Revenue and the Valuation Office. To ensure that taxpayers do not face any sudden increase in liabilities, the Commission recommended that the tax be introduced on a graduated basis.

The Commission recommended that the yield from an SVT would be significantly greater than commercial rates income (and other existing taxes in this area), and that over time, the SVT would replace the commercial rates system. As for the assignment of SVT revenues, because the terms of reference don't include the funding model of local government, the Commission 'do not have a strong view on how revenues from a SVT should be utilised'. However, the report does conclude that an SVT could potentially subsume all existing recurrent property taxes that apply at national and local government level, with the exception of LPT.

The challenge ahead...

While the Commission's review of and recommendation for an SVT is laudable, significant challenges need to be overcome before an SVT could be introduced. Often argued as an ideal tax in theory, the practice is very different, highlighted by the very small number of jurisdictions worldwide that currently have an SVT in place, as opposed to the more common property tax on combined land and buildings. Reasons for this vary from the political resistance to taxing land, to the complexity of assessing site values, combined with the likely need for a higher tax rate than currently applies (to commercial rates and the LPT) given the smaller tax base under an SVT system. Despite these obstacles, an SVT is worth further consideration, not simply as a funding source for the local authorities, but as a measure to improve land use, housing supply and affordability in tackling Ireland's housing crisis.