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Dear Sir/Madam

Public Consultation on Review of Local Property Tax

We welcome the opportunity to provide input to the Review of Local Property Tax (LPT). Conducting this Review now is an important step in helping to inform the future policy of LPT that can deliver a stable source of revenue for local services for the years to come. It will also provide a level of certainty for property owners over their future LPT liabilities, which is essential, well in advance of the next property revaluation date on 1 November 2019.

In formulating our response to this consultation, we have focused our comments on two aspects of the LPT:

1. The importance of regularly reviewing the LPT regime
2. The deductibility of LPT as an expense in computing taxable rental income

The importance of regularly reviewing the LPT regime

LPT came into effect in 2013. To date, LPT collection has been in line with expectations[1] with a compliance rate of 97%[2], resulting in revenues of €452m[3] in 2017. To ensure that LPT continues to provide a stable and sustainable yield in the medium and long-term, all features of the LPT regime should be reviewed at regular intervals. The tax base, rates and any specific rules included in the design of the tax, such as exemptions and deferrals should be under

[1] Estimated yield of LPT was €500m for a full year when it was introduced in Budget 2013 – see Summary of 2013 Budget Measures Policy Changes
[2] Revenue Annual Report 2017
[3] Revenue Annual Report 2017

constant review to ensure that they are appropriate, up to date and reflect current circumstances.

It is an imperative that the property tax does not become obsolete. The yield from LPT should be maintained to ensure that Ireland's overall tax base remains as broad as possible. There should also be certainty for taxpayers, while avoiding large and sudden increases in tax liabilities.

Valuations

Generally, this stability is maintained in a property tax by updating property values on a regular basis. International experience has shown that *"a robust revaluation schedule (including a built-in timetable) is an important element for a properly functioning property tax*".[4]

When LPT was first introduced in 2013, the date on which property owners were required to establish the market value of their properties for calculating their LPT liabilities was 1 May 2013[5]. The second valuation of residential properties was due to take place on 1 November 2016. However, following a review[6] of the LPT in 2015 by Dr Don Thornhill, the Government decided to postpone the revaluation date for the LPT to 1 November 2019. This postponement has resulted in property owners continuing to have their properties valued for LPT purposes based on their 1 May 2013 declared valuations.

Property prices nationally have increased by 75%[7] since their trough in early 2013. In a market such as the one we currently have, updating values could create significant additional tax burdens for householders. Volatility in the property market is likely to continue to present challenges for the certainty and stability of the yield. Therefore, a regular review of the valuation bands is necessary to avoid unexpected spikes or falls in LPT yields in the years to come.

To manage these fluctuations, it may be appropriate to also review the rates and/or band structures as well as the valuation. There are a range of policy levers that can be chosen by Government but what is critical is that the tax should be reviewed regularly so that it remains current.

Tax base

It is equally important to ensure that the LPT tax base is sufficiently broad and to consider whether current, albeit limited, exemptions remain appropriate. A review of the tax exemptions and reliefs from LPT should be carried out on a regular basis. For example, the exemption for individuals who were first-time buyers in 2013 should be reconsidered. This approach would be consistent with the Department of Finance's best practice guidelines on *ex post* analysis of tax expenditures. It would ensure that LPT remains a *"fair and progressive*"[8] tax.

The ability for property owners with low incomes to defer payment of LPT is crucial. However, the relevant income thresholds should also be periodically reviewed to ensure that they are set

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4 Property Tax in Ireland: Key Choices C. Keane, J.R. Walsh, T. Callan and M. Savage – Renewal Series Paper 11, April 2012
[5] Part 4, Finance (Local Property Tax) Act 2012
[6] Review of the Local Property Tax, Dr Don Thornhill, July 2015
[7] CSO, Residential Property Price Index, March 2018
[8] Budget 2013 Financial Statement by Minister Michael Noonan T.D, 5 December 2012

at an appropriate level and revised in line with the Consumer Price Index, as proposed in the Thornhill report.[9]

The deductibility of LPT as an expense in computing taxable rental income

LPT applies to all residential properties in the State (other than certain exempt properties) and is calculated on the market value of the property on a self-assessment basis. In the case of rented residential properties, the obligation to pay the LPT falls on the landlord.

The question of whether LPT should be deductible as an expense in computing taxable rental income has been considered in a number of government reports.

The Inter-Departmental Group which reported on the Design of the Property Tax in 2012 recommended that LPT should be tax deductible when calculating rental profits. The Group were of the view that LPT is *"a genuine expense of the transaction under which rents are received"*[10] and that at least a portion of the LPT paid in respect of a rental property should be tax deductible in the same way as commercial rates are deductible for tax purposes. However, it was acknowledged that this could only be introduced on a phased basis, due to Budgetary constraints at that time.

By contrast three years later, the 2015 Thornhill report concluded that LPT is a tax on the amenity value of property rather than a business cost, and as such it should not be tax deductible.

In our view, LPT should be deductible in calculating a landlord's rental profits. It is akin to any business investment, it just happens to be residential property and therefore, any costs defraying an expense of a transaction under which the rents are received should be deductible. It is comparable with commercial rates, which are directly related to providing local services for rental properties. The LPT payment is a genuine business expense for a landlord, who has not purchased the property for its amenity value but rather to generate income from a rental business.

Currently, Ireland is experiencing a severe shortage in rental stock. Many individual investors with significant borrowings have exited the market due to the high costs, increased regulation and high taxes. In recent Budgets, the Government has taken positive steps to increase the supply of residential rental property, for example, by allowing a deduction for pre-letting expenses for vacant premises and reinstating, on a phased basis, interest relief on borrowings to purchase, improve or repair rented premises.

In light of the current imbalance between supply and demand in the rental sector, further policy measures, which can be stood over based on sound tax principles and can also encourage potential investors into the market and existing landlords to remain in the sector should be considered by policymakers, such as a permitting a tax deduction for LPT against rental income.

[9] Review of the Local Property Tax, Dr Don Thornhill, July 2015
[10] Inter-Departmental Group Report, Design of the Property Tax, 2012

Conclusion

For the reasons outlined above, we would recommend that the valuation date, exemptions and reliefs under the LPT regime should be regularly reviewed to ensure that the property tax continues to provide a stable and sustainable yield in the medium and long-term.

Furthermore, it is our view that LPT should be deductible as a genuine business expense against taxable rental income.

Yours truly

David Fennell
President