Joint Committee on Housing, Local, Government and Heritage-

6 July 2021

Proposed changes to the Local Property Tax

Opening Statement by Anne Marie Walshe, Principal Officer, Department of Finance

Introduction

Good afternoon

I thank the Chairman for the invitation to appear before the Committee and the opportunity to discuss the proposed changes to the Local Property Tax and to answer any questions the Committee may have on these changes. I am joined by Keith Walsh, from the Statistics & Economic Research Branch, Revenue. At the outset I would like to clarify that the Department of Finance has responsibility for the policy and legislation for LPT which as you know, is collected by Revenue. It is then paid into the Local Government Fund and does not form part of Exchequer receipts. Distribution of the LPT yield and matters associated with Local Government funding arise from Government decisions sponsored by the Minister for Housing, Local Government and Heritage and I am not in a position to discuss these. What I can do, is provide a brief outline of LPT and the proposed changes to the tax. The Committee may wish to note that Minister Donohoe is scheduled to meet the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach for Scrutiny of the General Scheme of the Finance (Local Property Tax) (Amendment) Bill 2021 tomorrow 7 July.

Overview of LPT

Local Property Tax was introduced in 2013 under the Finance (Local Property Tax) Act 2012 to provide a stable funding base for the local authority sector, and to broaden the base for taxation in a manner that does not directly impact on employment. The tax has yielded approximately €3.6 billion since 2013 - €482m in 2020.

LPT is currently based on property values on 1 May 2013. Revaluation of properties has been deferred on 3 occasions, in 2016, 2019 and 2020 which means that LPT liabilities are still based on 2013 valuations. This has resulted in a situation whereby it has not been possible to bring new properties into scope and properties built since 2013 are excluded from the tax.

2019 Review

There have been two reviews of the tax since its introduction, the Thornhill Review of LPT in 2015, and the Inter-Departmental Review of LPT published in 2019. The Review was conducted by an inter-Departmental Working Group chaired by the Department of Finance and consisting of senior officials from this Department, the Department of the Taoiseach, the Department of Public Expenditure and Reform, the Department of Housing, Planning and Local Government and the Office of the Revenue Commissioners.

Both of these reports, considered in particular, the effects of changes in property prices since 2013 on LPT liabilities and the impact of these on taxpayers' liabilities following a revaluation of their properties. The 2019 review considered a number of methods ("Scenarios") for calculating LPT liabilities with a view to achieving relative stability in LPT liabilities for taxpayers following revaluation of properties.

Earlier this year, the Minister asked us to consider options for the reform of the tax in the context of the Programme for Government commitment which is to bring forward legislation in relation to the Local Property Tax on the basis of fairness and that most homeowners will face no increase in their LPT liability, and to bring new homes, which are currently exempt from the LPT, into the taxation system.

Our starting point for this work was the scenarios considered under the 2019 review. These scenario analyses, were based on a dataset assembled by the Revenue Commissioners from the Property Price Register combined with CSO, Revenue data and Department of Finance forecasts.

I should note that the analyses can provide only a very broad picture of the estimated effects on taxpayers. They are based on economic modelling and the predicted outcomes can offer only indicative rather than guaranteed outcomes.

A key challenge encountered during both the work on the 2019 Review and the more recent analysis is the significant variation of property price increases geographically, and in particular the uneven pace and rate of increases in residential property values throughout the country since the original valuation on 1 May 2013.

Following extensive engagement at both official and political level, the Government agreed on a modified version of Scenario 5 of the 2019 LPT Report as the basis for the calculation of future LPT liabilities, and a General Scheme of a Bill which provides for this approach as well as other amendments to the tax was published on 2 June.

Revised Methodology

The original scenario 5 as proposed by the Inter-Departmental Group increases all of the valuation band thresholds by 80 per cent, based on the expected average property price between 2013 and end 2019, as estimated at the time of 2019 LPT Review. The midpoint of each band increases correspondingly and the rate is reduced to leave the liability in each band unchanged.

The widening of bands provides a smoothing effect whereby the probability of a taxpayer moving bands is reduced.

The approach outlined in the General Scheme of the LPT Bill maintains the number of bands at 20, which are widened by 75 per cent, a lower rate is applied, and the current rate structure is maintained. However, in order to mitigate the effects of the changes for lower value homes Bands 1 and 2 are fixed - Band 1 will be for values up to €200,000, Band 2 from €200,001 to €262,500 with the LPT charge for these bands fixed at the current rates of €90 and €225 respectively (equivalent to the rates applicable for the first two bands currently). This results in the vast majority of current band 1 properties remaining in the new band 1 and continuing to pay the same amount as presently.

A higher mid-point rate will be applied to properties above €1.05 million , for values which will fall in bands 12-19, and a third rate will be introduced for properties valued above €1.75 million – these fall in Band 20.

Other changes

Other changes proposed to the tax include:

- All new residential properties built between valuation dates will be brought into the tax. They will be retrospectively valued as if they had existed on the preceding valuation date.
- Property valuations will be reviewed every four years, rather than the current three years.
- The income thresholds for LPT deferrals will be increased to €18,000 (from €15,000) for a single owner and €30,000 for a couple (from €25,000) in line with the recommendation of the 2019 review. The rate of interest on deferred LPT will be reduced from 4 per cent to 3 per cent.
- From its inception the LPT has been underpinned by the principle that keeping the number of exemptions low helps to keep the tax rate low for those who are liable to pay it. The exemptions for first-time buyers and homes in unfinished estates will be allowed to lapse and the exemption in respect of pyrite damaged properties will be phased out. A new exemption is being introduced for homes in Mayo and Donegal that are damaged through the use of defective concrete blocks in their construction.

Estimated yield

The yield for 2022 under the revaluation approach as outlined and set out in the General Scheme of the Bill is provisionally estimated to be €560 million. This is before any Local Adjustment Factors are applied. As LPT remains a self-assessment tax, the final actual yield will be determined by the valuations returned by property owners.

Equalisation and Local Retention

Finally, while not a matter directly for the legislation or this Department, the Minister and his colleagues (Minister for Housing, Local Government and Heritage and Public Expenditure and Reform) felt it was important to address the third element of the Programme for Government commitment in the Government decision. This part of the commitment is to discontinue the equalisation contribution from local authorities and allow all local authorities retain 100 per cent of the LPT that is collected in their own local authority area. Local Authority allocations are decided in advance of collection, based on estimated yield in individual areas for the following year. Therefore, as this is a valuation year this process and the Local Adjustment Factor decisions this year will, of necessity, take place before local authorities receive the up to date information on the expected LPT yield in their areas following the revaluation, as well as the addition of new properties to the LPT system.

In light of this, the Department of Housing, Local Government and Heritage advise that it is intended to retain the 80/20 model for the 2022 process and to move to the 100% local retention model from 2023. This will mean that local authorities and the Exchequer will have the benefit of the post-revaluation information to inform these decisions.

I am happy to take any questions that the Committee may have on Local Property Tax**.**

Thank you