



Note on Revaluation of the Local Property Tax base

PBO Note 2 of 2018

Introduction

This Note provides a brief overview of the operation of the Local Property Tax (LPT), examines some of the implications of the revaluation of the LPT base due in 2019, and examines some of the issues and options for reform that have been proposed.

It also summarises the Parliamentary Budget Office's conclusions on these issues.

Context

The Local Property Tax was introduced in 2013 as a replacement for the Household Charge and the Non-Principal Private Residence Charge. Residential properties are taxed on their self assessed value as of 1 May 2013. Property owners are asked to estimate which of 20 valuation bands their property falls into and are taxed at 0.18% of the midpoint of this band. Properties valued at over €1,000,000 pay a higher rate (0.25%) for the portion above €1,000,000. Local Authorities may vary LPT rates by +/-15%. Provision has been made for exemptions for certain properties from the LPT and for deferrals of payment of the LPT in circumstances where a taxpayer may experience difficulties in paying.

The Department of Housing, Planning and Local Government expect the LPT to yield €485.6 million in 2018. Local Authorities retain 80% of the LPT yield raised in their Local Authority area. The remaining 20% of funds are paid into an Equalisation Fund, which is used to support Local Authorities that do not have a sufficient base to meet their funding needs. The LPT forms 9% of Local Authority revenue and is an important source of discretionary funds for them.

Properties were to be revalued on 1 November 2016, but this was postponed to 1 November 2019. The Government has indicated that it intends to avoid a sharp increase in property tax liability when this revaluation takes place.

Thornhill Review

The *Review of the Local Property Tax* (the Thornhill Review) was commissioned by the Minister for Finance in 2015 to consider the operation of the Local Property Tax and the impact of property price developments on LPT liabilities in light of the revaluation due in 2016. The report considered a wide range of options for the future of the LPT.

The Review's recommendations on pyrite-affected residential properties and reliefs for properties occupied by persons with disabilities were adopted by the *Finance (Local Property Tax) (Amendment) Act 2015*. The Review recommended that the revaluation date be postponed to allow the system to be reformed in line with its other recommendations. The revaluation date was postponed in 2015 but no further reforms to the LPT have been made.

Revenue implications of revaluation

The revaluation is expected to expand the tax base. However, the revaluation does not have to lead to an increase in the yield from the LPT. This is because the total yield of the LPT is a function of the value of liable properties and the rate that they are taxed at. If an amount is determined for the desired revenue to be collected from the LPT, increases in the value of liable properties can be offset by reductions in the rate that is charged. This will maintain the yield. The amount individual taxpayers owe may, however, still change.

Taxpayers whose properties have had below average increases in property prices will benefit most from lowering the rate. While taxpayers whose properties have had above average increases will be paying a lower rate but this will be offset by the increase in value of their property.

Policy Options for Revaluation

There are *four main options* with regard to revaluation. These are:

No policy change – i.e. the 2019 revaluation goes ahead as planned.

This will take place if legislation is not introduced to further amend or replace the *Finance (Local Property Tax) Act 2012*. Because of the increase in property values there will be a large increase in LPT liabilities for many taxpayers and a commensurate increase in LPT yields. This will be largest in areas that have seen the most significant property price increases, particularly Dublin and other urban areas.

Freeze valuations at 2013 levels.

This would require a further deferral of the revaluation of properties. It would likely give rise to equity issues, as properties that were of similar value in 2013 may no longer have the same value thereby creating issues relating to fairness in the system. In addition, precedent suggests that if the taxable values diverged significantly from market values in an inconsistent manner the LPT could be challenged on the basis of constitutionality.

Revalue and adjust rates nationally

This option would proceed with the revaluation but lower the rate applied nationally. Government could maintain the revenue yield at its current level or increase it by adjusting the LPT rate. If Government chooses to maintain the LPT's current yield, there will still be a distributional impact. The average payment will be similar but properties that have increased in value ahead of the national average will see increases in their LPT charge. This would concentrate increases in Dublin and other urban areas and will reduce the charge due in areas with lower increases in property values.

Revalue and adjust rates locally

This option would proceed with the revaluation but set the LPT rate for each Local Authority individually. If Government wished, it could set LPT rates in a way that would maintain the total LPT yield and each Local Authority area's contribution towards the total yield. The Thornhill Review recommended that this approach be adopted.

PBO Conclusions

- The required LPT revenue yield should be decided upon before reforms to the LPT are considered.
- The regular updating of valuations is needed to maintain the integrity of the LPT system — therefore the 2019 revaluation should proceed.
- The option chosen with respect to how LPT rates are set should reflect desired distributional priorities in the context of the amount of revenue to be raised.
- The Thornhill Review's recommendation that LPT rates be set at individual Local Authority level still has merit.
- Consideration could be given to introducing a mechanism for the LPT rate to automatically increase annually by a defined amount.
- The revaluation date should be moved to earlier in 2019 to support more effective Local Authority budgetary planning.
- All the current LPT exemptions not due to expire in 2019 should be reviewed to ensure they continue to have, and meet the objectives of, a legitimate public policy rationale.
- The LPT exemption for newly constructed properties built from 2013 onwards and for those properties purchased in 2013 should end in 2019 as planned.
- New properties built post the 2019 revaluation should not receive an exemption. The Revenue Commissioners should produce guidelines on how to value new properties sold in 2020 and beyond at 2019 prices.

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Publication Date: 15 January 2018