Chambers Ireland Submission to the Department of Finance on the Review of the Operation of the Local Property Tax

30 April 2015

Introduction

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of SMEs from all areas in the country and represent their views.

As part of the local government reform agenda and the vision for Local Authorities to take on more responsibilities and rights, it is fitting that the LPT has been introduced to enable a stable revenue stream which can be directly targeted to fund local government and local services. Chambers Ireland supported, and continues to support, the introduction of local property tax with the aim of helping to create a sustainable funding model for Local Authorities. We welcome this review, and have set out what we consider to be the key relevant points below.

Increases in Commercial Rates must be avoided

The introduction of the Local Property Tax (LPT) in 2013 was an important step towards ensuring adequate funding for local services. Over the past decades, Local Government funding has been eroded in line with the abolition of domestic rates and the removal of agricultural land from being rateable. In turn, we believe that a disproportionate burden has been placed on the business community through commercial rates and charges. We believed that the introduction of an LPT would address this imbalance and allow for a more equitable funding structure for local government.

However, there is a concerning trend towards Local Authorities continuing to look to the business community for increased commercial rates. The increasing reliance by Local Authorities on commercial rates as a percentage of total revenue has been flagged by the National Competitiveness Council as an issue in its most recent Cost of Doing Business Report.[1] As highlighted in this report, revenue collected through commercial rates has doubled over the period 2002-2014. As a proportion of total revenue commercial rates grew from 24% in 2002 to 36% in 2014. During the same period, the proportion of revenue received from the central Exchequer fell from 46% to 26%.

There is a risk that with the reluctance of locally elected councillors to increase yields from LPT, and the ongoing reductions in central government funding, there will be an unreasonable demand placed on the business community. This will have obvious impacts in terms of employment and local economic development throughout local authorities. The potential for short term thinking by overburdening businesses with rates may lead to long term loss of funding for local authorities.

Recent residential property price development

Chambers Ireland in principle supports that new property rates are set in accordance with market values. However, in recognition of the recent very dramatic increases in house prices in major urban areas and in areas where there is a lack of supply of residential housing, the methodology of calculating LPT should be adapted to mitigate for bubble type market conditions. It must be recognised that the notional market value of a taxpayer's residence does not necessarily equate to their ability to pay an annual tax rate.

[1] http://www.competitiveness.ie/media/24022045-Costs_of_Doing_Business_in_Ireland-Publication.pdf p.25

While the property market is still recovering and issues of lack of supply of housing are still to a degree distorting the market in major urban areas, we note that it may be reasonable to simplify and broaden the current valuation bands for a prescribed period. For example, one rate could be set for houses valued less than €200,000, a second rate for those valued between €200,000 and €400,000, etc. By simplifying and broadening the valuation bands in this way, a buffer will be included for erratic fluctuation in market prices. This would lessen the administrative costs of operating the LPT, improve the stability of revenue collected through the tax, and enhance affordability for the taxpayer. Broadening the bands should not result in the revenue from the LPT being reduced from its current level.

It may be necessary in the short term to introduce a cap on upward valuations to keep any increases in LPT reasonable. In order to limit the potential negative effects of bill shock on consumer confidence, increases to the base valuation should also be communicated well in advance and may need to be introduced in phases.

The overall yield from LPT and its contribution to total tax revenue on an ongoing basis

In order for the LPT to be successful in achieving its purpose (i.e. funding local government and the provision of services), Chambers Ireland considers it necessary that the vast majority of funding derived from the LPT should be spent within the area in which it is collected. By taking this approach, we believe that acceptability of the tax amongst taxpayers will improve in parallel with their tax payments being used to fund visible investments within their local area. Furthermore, compliance and accountability with the tax will be easier to monitor if funds are retained at local level.

In line with international best practice, Chambers Ireland believes that the LPT review must include recognition that a portion of funding must be centrally retained and distributed to local authorities with weaker funding bases which otherwise would be chronically underfunded. Any increase in the 80% rule on retaining funds within the local authority area in which it was raised should thus be limited.

Increases in the LPT should not automatically lead to pro rata reductions in Exchequer funding for Local Authorities. If this happens, there would be no net benefit to local government funding from LTP and commercial rates, and as a consequence many local authorities may well be under pressure to increase business rates.

<u>Administration of LPT</u>

In an effort to improve public acceptability of the LPT and support the efficient operation of the LPT, Chambers Ireland considers it inappropriate that LPT revenue is used to subsidise other purposes through offsets against grants. For example, now that Irish Water is providing water services to customers who are directly charged for these services, LPT funds should not be used as a de facto subsidy for the utility. Any financial deficits within Irish Water's operation should be treated as a deficit and addressed through the economic regulatory cycle rather than offset by funds derived from the LPT.

Similarly, fixed grant offsets towards housing and roads should no longer be sourced from LPT revenue. Rather than setting budget allocations for road maintenance and housing we propose that the Department of the Environment, Community and Local Government set performance requirements and allow individual councils decide how they best can meet these requirements.

In addition, grant offsets result in councils having little discretionary funding at their disposal. By guaranteeing that LPT funds are no longer offset against pre-determined grants, councils would be able to increase investment in the local area for the benefit of both residential households and businesses.

Regular reviews

We recognise the timeliness of this review and would suggest that the principle of 3 year reviews might usefully be retained. This would facilitate administrative efficiency (not just for collection but also to address any rapid increases in house prices in a year), and certainty of revenue for local authorities.

LPT exemptions and reductions

Chambers Ireland supports the view that certain properties and individuals should be exempted from the LPT. In addition to the full exemptions currently in place, we suggest that reductions in rates are also considered.

For example, we believe there is merit in considering property tax credits (in the year of such spending) for home owners who undertake home improvements or energy efficiency investments. This, we believe, would enable more activity in the construction sector and would support properties becoming more energy efficient and Ireland reaching its EU 2020 energy targets.

Equally, it may be appropriate to allow certain low-income households, including elderly in receipt of state pension or individuals receiving Job Seeker's Benefit, to defer payment of the property tax until they have sufficient cash flow or when the property is sold (or transferred to another party).

The desirability of achieving relative stability, both over the short and longer terms, in LPT payments of liable persons

Local Adjustment Factor

Chambers Ireland would make the point that currently the Local Adjustment Factor under legislation must be communicated to the Revenue Commissioners at the end of September. However, this does not align with the Local Authorities' budget discussion. This situation allows the debate on local revenue to be separated from local expenditure. Chambers Ireland, despite the administrative challenges for Revenue, would recommend that the determination for the Local Adjustment Factor be aligned with the overall budget decisions by local authorities.

Property register

In order to achieve long-term stability in LPT payments, Chambers Ireland recommends that a complete central database containing detail on individual properties and property evaluations throughout the country is developed as a priority. As part of this database, we propose that the Revenue Commissioners collect valuation data per square meter, which would help identify the emergence of any future property bubbles.

Supporting broader policy objectives

As part of the LPT review, Chambers Ireland furthermore proposes that the Department investigate how the LPT may be designed to support broader planning policy objectives.

In particular, we note how the LPT could be structured in such a way that would encourage city/town centre living or sustainable planning. In this way, the LPT could be amended to underpin other Government policy targets, including the Department of the Environment, Community and Local Government's objective of rejuvenating town and city centres.