



## Introductory paper on housing

### CONFIDENTIAL AND NOT FOR WIDER CIRCULATION

#### For information

<b>Subject</b>	<b>Introductory paper on housing</b>
<b>Author</b>	Commission on Taxation and Welfare Secretariat
<b>Version</b>	Final
<b>Date</b>	2 July 2021

### Key Points

- The supply of houses in Ireland has fallen from an annual average of 60,200 house completions in the 2000s to 11,500 on average in the 2010s, rising to 20,676 in 2020. The recently published Economic Recovery Plan identifies the Government's target of increasing supply to 33,000 homes per annum as an immediate priority.
- Housing affordability represents a key challenge in Ireland's housing market. Since 2013, nominal house prices and average rents have increased by 91% and 61% respectively, while average nominal weekly earnings have increased by only 16%.
- The tax regime in relation to housing is extensive. Tax is levied on many aspects of the housing market, including wealth taxes such as the local property tax (LPT) on home ownership and transactional taxes such as CGT, stamp duty, CAT and VAT on the transfer of residential property. Income derived from renting property is liable to income tax or corporation tax. A summary of these taxes and related relief measures is set out in sections 3 and 4 of this paper. Welfare measures aimed at the provision of housing are also summarised in Section 4.
- Recent significant tax developments in the area of housing include changes concerning institutional investment in the housing market and upcoming amendments to the LPT regime, including rate and band changes and the extension of the charge to previously exempt properties.

Whilst every effort is made to ensure the accuracy of the information contained in this document, this material is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive and the authors cannot be held responsible for any errors or omissions.

## Table of Contents

1.	Introduction .....	3
2.	Recent developments .....	4
2.1	Government Policy.....	4
2.2	Supply Developments .....	5
2.3	Price Developments.....	6
2.4	Social housing .....	8
2.5	Tenure type.....	9
3.	Tax measures for housing .....	10
3.1	Selling a house .....	11
3.2	Buying a house .....	12
3.3	Owning a house .....	14
3.4	Construction.....	15
3.5	Inheritances and gifts.....	15
3.6	Renovation and refurbishment.....	16
4.	Tax and welfare measures for renting .....	17
4.1	Renting – landlord perspective .....	17
4.2	Renting – tenant perspective.....	20
4.3	Social housing – welfare support.....	20
5.	Institutional investors in housing .....	23
5.1	Recent changes to the stamp duty treatment of institutional investors.....	26
6.	Commission on Taxation 2009 .....	26
7.	The impact of tax interventions on the housing sector .....	29
8.	Proposals for the Commission – forward looking .....	31

## 1. Introduction

The terms of reference for the Commission on Taxation and Welfare 2021 ask the Commission to consider the appropriate role for the taxation and welfare system in achieving housing policy objectives, to include a review of the sustainability of such a role. This consideration should have regard to the experience of previous interventions in the housing and construction market and the current significant State supports for housing provision.

The Commission has also been asked to examine the merits of a Site Value Tax, an introduction to which is considered in a separate paper by the Secretariat.

This paper is intended as a high-level introduction to the housing sector in Ireland and an overview of the main tax considerations.

Section 2 of this report comments on the current live challenges and topical issues for housing, including an overview of the Government's objectives in this area, information on current supply, prices and tenure type and the impact of the Covid-19 pandemic. While there have been a number of reforms since the last Commission on Taxation in 2009, housing remains a key area of policy concern in Ireland. In particular, generating the supply necessary to meet demand for affordable and high quality housing is a challenge particularly in urban locations (a key objective of the National Planning Framework). House prices and rents have been rising at rates far higher than average earnings and thus housing costs have been absorbing an increasing share of household income relative to other spending.

The tax and social welfare regime in relation to housing is extensive, with various tax charges levied on different activities (e.g. CGT, stamp duty, LPT, VAT, CAT and income tax), complemented by reliefs and supports where necessary (e.g. CGT Principal Private Residence relief, CAT dwelling house exemption and the Help to Buy Scheme). Section 3 outlines the main features of the tax system in relation to home ownership while Section 4 describes the tax and welfare aspects of renting (e.g. HAP, RAS and rent supplement). Given their topicality and recent stamp duty changes, the treatment of institutional investors of residential properties is also considered briefly in Section 5.

A summary of the main recommendations of the Commission on Taxation 2009 is included in Section 6, the principal one being the introduction of an annual property tax.

The paper concludes in Section 7 with a brief examination of the impact of previous tax interventions on the housing market. Ireland's past experience with tax-based interventions in the housing sector

has demonstrated that property related tax incentives which are poorly targeted or left unchecked can have distortionary and adverse impacts.

## **2. Recent developments**

### **2.1 Government Policy**

The Programme for Government sets out the State's housing objectives for the next five years. Chief among these commitments are; to increase the social housing stock by 50,000 units with an emphasis on new builds, progress a state-backed affordable home purchase scheme to promote home ownership and to improve affordability via increased supply of rental accommodation. The Government has since published the Affordable Housing Bill 2021 and the Land Development Agency Bill 2021 both of which are expected to be introduced before the summer recess. In addition, the Department of Housing is also finalising its new housing strategy "Housing for All", to be launched later this summer, replacing the Rebuilding Ireland plan which ran from 2016 to 2021. It is likely that this strategy will include a range of capital expenditure and tax measures.

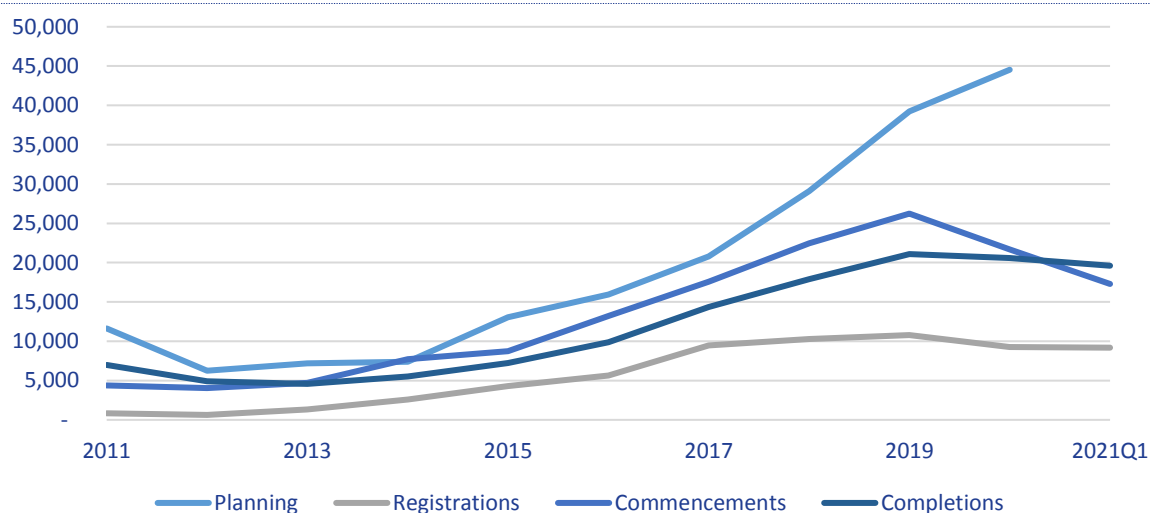
The Affordable Housing Bill 2021 has four primary components. The first will give local authorities the powers to build affordable houses on State lands. The second is a cost-rental scheme, the idea of which is to provide rent at a level consistent with the cost of build only (excluding profit margins), providing below-market rents. The third element is a State-backed shared equity scheme that will see the State providing equity for households seeking to secure a mortgage. The final component involves a reform of Part V of the Planning and Development Act, increasing the existing 10% obligation for social housing in residential developments to a 20% obligation for social and affordable housing. The Land Development Agency Bill has been published with the intention of speeding up the process of development and sale of State-owned land to private contractors. Crucially, it involves a transfer of powers around housing development on State-owned lands from local authorities to the Land Development Agency, established in 2018. Both bills are working their way through the Oireachtas.

The recently published Economic Recovery Plan further outlines the Government's ambitions in this regard. The Plan contains a target of 33,000 homes per annum and an aim to retrofit 500,000 homes to a BER of B2. A Commission on Housing will be established in September 2021, which will be tasked with examining issues such as tenure, standards, sustainability and quality-of-life in the provision of housing in Ireland. The terms of reference will be drafted having regard to Programme for Government and the upcoming Housing for All Action Plan.

## 2.2 Supply Developments

The impact of a decline in the construction of residential housing following the financial crisis continues to weigh heavily on the delivery of housing in Ireland, and this difficulty has been compounded by the Covid-19 Pandemic. Relatively high house prices and rents are a reflection of high demand growth relative to supply growth. Between 1998 and 2008, an average of 60,200 house completions took place each year. Between 2008 and 2019, annual completions were approximately 11,500 on average. It should be noted that, prior to the Pandemic, housing completions had been rising steadily year-on-year with 21,000 completions recorded in 2019<sup>1</sup>. However, the ESRI estimates that around 28,000 homes on average will be required annually over the next 20 years if supply is to keep pace with population growth alone<sup>2</sup>.

**Figure 1: Residential construction indicators (annual totals)**



Source: Central Bank of Ireland (CSO and Department of Housing, Local Government and Heritage).

The Covid-19 Pandemic is also having a significant adverse impact on the supply and cost of housing. The cessation of construction for extended periods in 2020 and 2021 is expected to lead to reduced supply and cost inflation for key materials. Annual housing completions fell in 2020 for the first time in six years and completions are forecast to number approximately 20,000 units this year and 23,000 in 2022, well below estimated demand<sup>3</sup>. While house completions fell by just 2 per cent in 2020, housing commencements, a better indicator of investment, fell significantly. Commencements were 24 per cent lower between March 2020 and March 2021 than the same period a year previously. This

<sup>1</sup> CSO – [New Dwelling Completions](#)

<sup>2</sup> ESRI – [Regional demographics and structural housing demand at a county level](#), December 2020

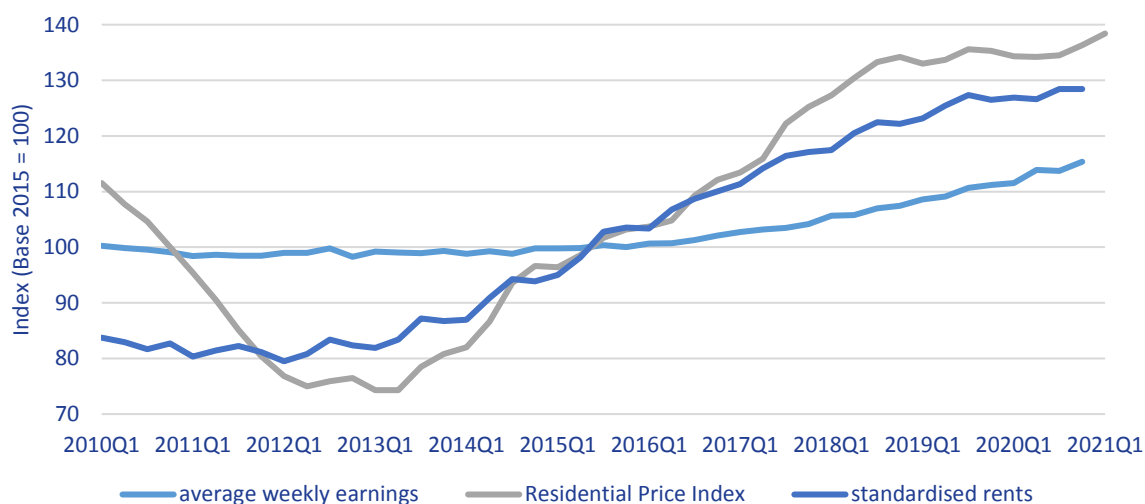
<sup>3</sup> Central Bank of Ireland (CBI) – [Quarterly bulletin Q2 2021](#)

is in stark contrast to the continued strong levels of demand has been observed throughout the pandemic despite shocks to income and employment. Mortgage approvals and drawdowns in late 2020 and early 2021 are exceeding what was observed in 2019, with Q1 2021 figures reaching their highest first quarter level since 2009.<sup>4</sup> The ESRI suggest that demand will likely return to pre-pandemic levels as employment increases, while supply will likely be sluggish due to curtailments in investment during the Pandemic. This is likely to exacerbate pre-existing gaps between supply and demand<sup>5</sup>.

## 2.3 Price Developments

Recent years have seen considerable house price inflation due to low levels of supply coupled with high demand and rising costs of construction. House prices and rents are becoming increasingly unaffordable as a result. Figure 2 below presents national average weekly earnings and house price growth from 2010 to Q1 of 2021. Since 2013, nominal house prices have increased by 91 per cent, while average nominal weekly earnings have increased by only 16 per cent. Similarly, average rents have increased by 61 per cent. In Irish cities, affordability for potential owner-occupiers has decreased since 2013. The national median house price was 2.8 times the median household income in 2013; in 2019 the equivalent was 4.1 (4.7 in Dublin)<sup>6</sup>.

**Figure 2: Residential prices and average weekly earnings (indexed to 2015 prices, rents and earnings)**



Source: CSO and Residential Tenancies Board

<sup>4</sup> CBI – [Financial Stability Review 2021](#)

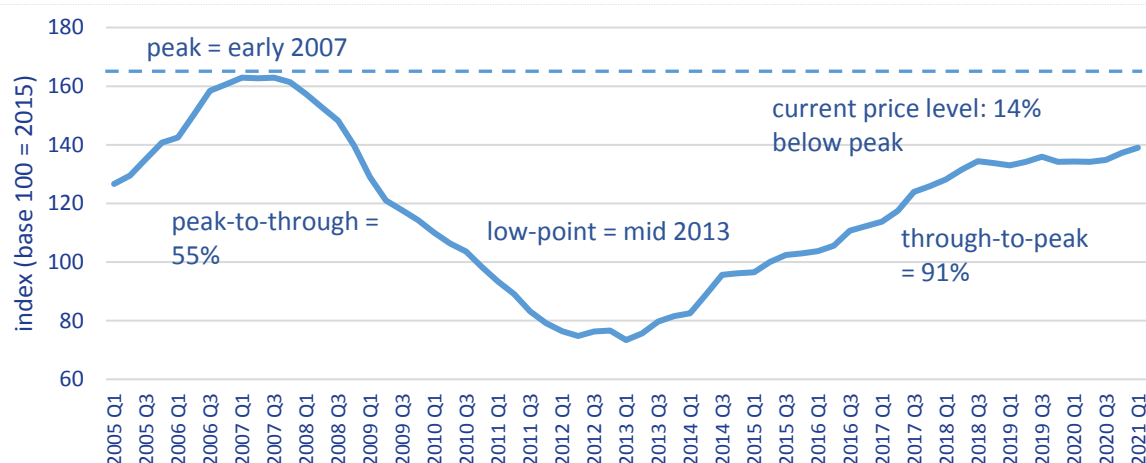
<sup>5</sup> ESRI – [Assessing the impacts of Covid-19 on the Irish property market: An overview of the issues](#), 2020

<sup>6</sup> Housing Agency – [House Price to Income Ratio](#)

Affordability and viability issues for developers act as a major constraint for delivery of new housing. In a 2020 study of 30 development sites in the Greater Dublin Area conducted by the SCSi<sup>7</sup>, it was found that the cost of building a three-bedroom semi-detached home has increased by €41,000 (12%) over the last four years and now stands at €371,000. “Hard costs” (e.g. bricks and mortar) increased by 19% (over €28,000) since 2016, while “soft costs” (e.g. land cost, levies, VAT, finance, margin) involved in delivery increased by 7% (over €12,000). The rising cost of house site development works such as drainage, water connections, landscaping and paving is cited as a significant factor. Contributory factors for increased costs include new building and compliance regulations as well as general labour and materials inflation. The report particularly notes that the 13.5% rate of Value Added Tax (VAT) in Ireland on new house sales accounts for 12% of total delivery cost, in contrast with a zero rate of VAT on new homes in the UK and Northern Ireland. Furthermore, the delivery cost figure of €371,000 does not take account of the cost of complying with Covid-19 public health measures or “abnormal costs” that are often encountered when dealing with contaminated sites, difficult topography or any other case specific site challenges. “Abnormal” costs are a regular feature of development and on average, can amount to as much as €15,000 per unit (case dependent).

The cost of delivering apartments was also examined by the SCSi more recently<sup>8</sup>. The report notes that construction costs of apartment schemes have increased generally within the past three years. Apartments are expensive to develop and it is often difficult to ensure the viability of new units for the sales market; instead, investors and developers seek a long-term yield from the development to make the investment viable.

**Figure 3: House Price Levels 2005-2021 (Base 2015 = 100)**



Source: CSO<sup>9</sup>

<sup>7</sup> Society of Chartered Surveyors Ireland (SCSi), [Real Cost of Housing Delivery Report 2020](#), July 2020

<sup>8</sup> SCSi, [Real Cost Of New Apartment Delivery Report 2020](#), January 2021

<sup>9</sup> CSO, [Residential Property Price Index](#), April 2021

Figure 3 shows that house prices fell by 55% from a peak in early 2007 to a low point in mid-2013. Prices have subsequently risen but as of Q1 2021 they remain 14% below peak levels.

Another issue faced by potential owner-occupiers is access to credit. The ESRI estimate that insufficient savings for a down-payment are a bigger driver of access to mortgages than affordability as measured by price-to-income<sup>10</sup>. Housing supply shortages coupled with access to credit issues have resulted in many would-be purchasers opting to rent, adding further to pressures in this market.

The ESRI has however noted that Ireland had a higher increase in the savings rate in 2020 than other countries<sup>11</sup>. While a similar savings rate is observed before the pandemic when comparing Ireland to the EU27, the increase in Q2 and Q3 of 2020 were substantially higher. Latest CSO records show that households saved €29.6 billion in 2020, compared to €14.5 billion the previous year<sup>12</sup>. It is likely that some of these excess savings will be used to purchase assets such as housing over the near term putting further pressure on demand.

## 2.4 Social housing

Social supports for housing include local authority housing, housing provided by Approved Housing Bodies (AHB) and support for renting in the private sector through schemes administered by the local government sector (Rental Accommodation Scheme (RAS) and the Housing Assistance Payment (HAP)) and the Rent Supplement scheme operated by the Department of Social Protection.

While numbers on the social housing waiting list have fallen by 32 per cent since 2016, there are over 61,000 households on the list as of November 2020<sup>13</sup>. Homeless figures have fallen in the past couple of years, but remain above 2017 levels – in April 2021, over 8,000 were registered as homeless.<sup>14</sup>

The main findings from an ESRI report in 2018<sup>15</sup> show that the overall percentage of housing that is socially supported increased during the recession to 17% from 13% in the boom years (2004-2007, mainly via increased use of Rent Supplement) but dropped back towards pre-recession levels by 2015 (about 15%). Growth in use of the private sector for socially-supported housing rose from 28% in the boom years to 42% during the recession before dropping back to 33% by 2016.

<sup>10</sup> ESRI, [Credit demand in the Irish mortgage market](#), October 2020

<sup>11</sup> ESRI - [Quarterly Economic Commentary Spring 2021](#)

<sup>12</sup> CSO - [Quarterly Institutional Sector Accounts Non-Financial Q4 2020](#)

<sup>13</sup> Department of Housing, Local Government and Heritage – [Press Release](#)

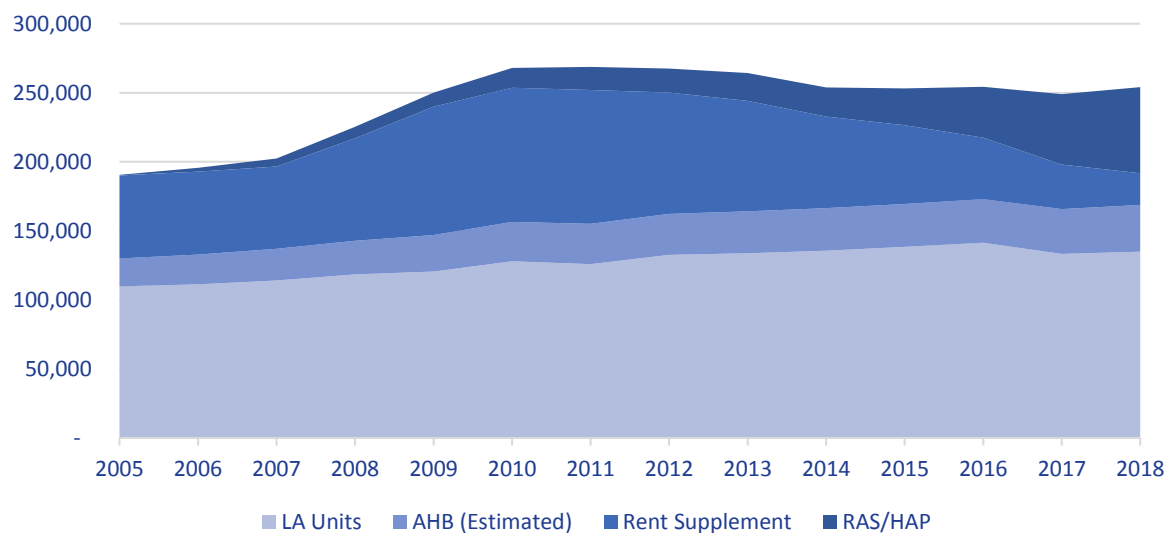
<sup>14</sup> Focus Ireland – [Latest figures on Homelessness in Ireland](#)

<sup>15</sup> ESRI - [Social housing in the Irish housing market](#), June 2018



Overall, total expenditure on social housing has increased significantly in recent years with €3.1 billion allocated in Budget 2021 representing growth of 229% since 2016<sup>16</sup>. Figure 4 provides an overview of the evolution of social housing stock between 2005 and 2018 (see section 4.3 for further information).

**Figure 4: Estimated social housing stock 2005-18**



Source: PublicPolicy.ie<sup>17</sup>

Note: Social housing here includes publicly subsidised private sector rented accommodation

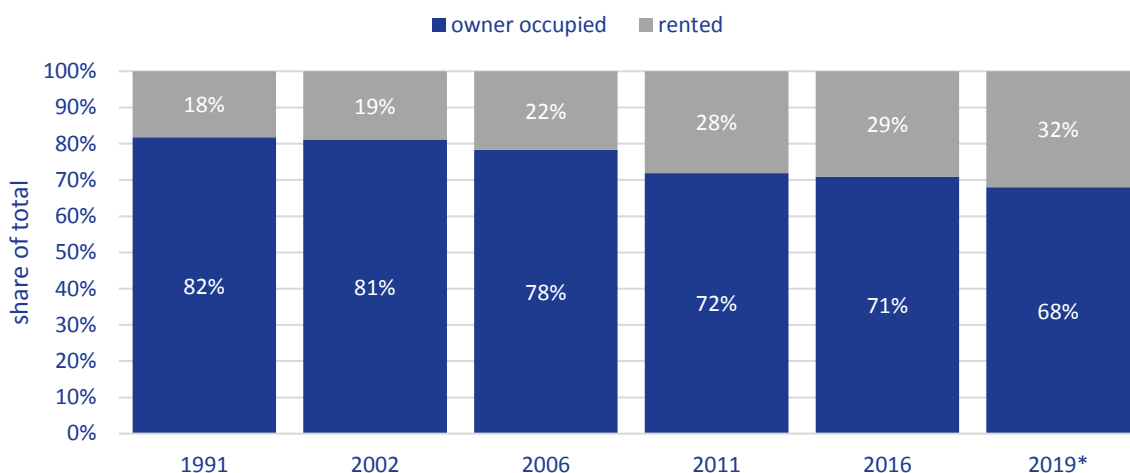
## 2.5 Tenure type

The types of tenancies that dwellers tend to occupy has changed since the 1990s. In 1991, 82% of dwellers were in owner-occupied housing – in 2019, the equivalent was 68%. Renters now represent 32% of total dwellers, whereas in 1991, this figure was just 18%. Local authority renters have remained relatively stable as a proportion of total dwellers, averaging 8% between 1991 and 2016. From a comparative context, in 2019, Ireland is now below the EU-27 average regarding the share of owner-occupiers where 70% of dwellers are owner-occupiers in the EU. This picture has remained largely unchanged since 2011. Conversely, Germany and the United Kingdom have owner-occupier rates of 51 and 65 per cent respectively<sup>18</sup>.

<sup>16</sup> [Spending Review 2020 – analysis of social housing](#), Oct 2020

<sup>17</sup> PublicPolicy.ie – [Social Housing Outputs and Stock](#), June 2020

<sup>18</sup> [Eurostat](#)

**Figure 5: Tenure status by year (1991-2019)**

Source: Source: CSO<sup>19</sup>

Note: 2019 data – SILC data (CSO)

### 3. Tax measures for housing

The tax regime in relation to housing is extensive. The following is intended as a high-level overview of the tax charges and reliefs in place for various housing activities. It is by no means exhaustive but gives a general introduction to the tax considerations in relation to home ownership.

**Table 1 – Summary of primary tax expenditures**

Tax expenditure	Cost	Numbers benefiting	Year of Estimate
<b>CGT exemption on Principal Private Residence</b>	Data not available	Data not available	
<b>CGT relief for disposal of a site to a child</b>	Data not available	104	2018
<b>Help to Buy (HTB) scheme</b>	€374.8 million	23,149	Total for scheme to the end of 2020
<b>LPT Exemptions</b>	€14.3 million	49,100	2020
<b>CAT – Dwelling House Exemption</b>	€50.1 million	542	2019
<b>Living City Initiative</b>	€0.5 million	27	2018
<b>Rent a Room Relief</b>	€30.9 million	14,850	2018

Source: [Revenue Commissioners](#)

<sup>19</sup> CSO – [Changes in Rent, Home Ownership and Mortgages](#)

### 3.1 Selling a house

**Capital Gains Tax (CGT)** is payable at a rate of 33% on chargeable gains arising on the disposal of Irish residential property. A disposal can include a sale, gift or exchange of an asset.

- The chargeable gain is usually calculated as the difference between the sales proceeds and the aggregate of the cost of the asset, acquisition and disposal costs and any enhancement expenditure incurred during the period of ownership.
- The family home represents a major source of wealth in Ireland, and this is recognised through the tax system. A significant exemption from CGT is **Principal Private Residence (PPR) relief**. The disposal of a property which was occupied by the taxpayer or by a dependent relative of the taxpayer as a sole or main residence does not give rise to a chargeable gain. Restrictions may apply where the property was not fully occupied as a main residence throughout the period of ownership or where the sale price reflects development value. No data is available on the estimated cost of this relief.
- There is an exemption from CGT for **land and buildings purchased between 7 December 2011 and 31 December 2014**, where this property was subsequently disposed of after being held for between four and seven years. Partial relief is available where the property has been owned for more than seven years.
- An exemption from CGT is available on the **transfer of a site by a parent to a child** to build a house which is the child's only or main residence. For the purposes of this exemption, a transfer includes a joint transfer by an individual, and their spouse or civil partner, to their child. The area of the site must not exceed one acre and the value of the land must not exceed €500,000.
- If a property was acquired prior to 2003 the seller can avail of **Indexation Relief**, meaning the costs of acquisition and enhancement expenditure incurred before 2003 are adjusted for inflation. Indexation does not apply to costs incurred from 2003 onwards.
- Where the market value of an Irish residential real estate being sold exceeds €1 million, the purchaser is obliged to **withhold 15%** of the sale consideration, unless a CG50 pre-clearance is applied for by the vendor from Revenue.
- **Resident companies** pay corporation tax on the disposal of residential property rather than CGT. The corporation tax liability is computed in such a way that the chargeable gain on disposal is adjusted to arrive at the same liability as if the gain was liable to the CGT rate of 33%. Companies cannot avail of the Principal Private Residence relief. Corporates pay CGT on any gains arising from the disposal of development land.

- **Non-resident individuals and companies** must pay CGT on the disposal of “specified assets”, which includes land and buildings located in Ireland and unquoted shares deriving the greater part of their value from land and buildings located in Ireland. The disposal of quoted (listed) shares by non-residents is not within the charge to CGT, even if those shares derive their value from Irish property.

### 3.2 Buying a house

Purchasers of Irish residential property must pay **stamp duty** at a rate of 1% on property up to a value of €1 million and 2% on any excess over €1 million. These rates have been unchanged since December 2010 and apply whether the home is being bought for occupancy by the purchaser, or to be offered for rental. A new 10% rate was introduced in May 2021 on the multiple purchase of ten or more residential units (excluding apartments), in an effort to deter bulk buying by institutional investors (see section 5.1 for further detail).

- For stamp duty purposes ‘residential property’ includes houses and apartments used as a dwelling and curtilage (gardens, paths, driveways, garages, etc.) up to an area of one acre. If the curtilage exceeds one acre, the excess area is treated as ‘non-residential property’ and currently attracts a stamp duty rate of 7.5% on the value of the non-residential part of the property. The commercial rate of 7.5% was increased from 6% in October 2019 and from 2% in October 2017.
- A site is normally considered non-residential property however if a site is bought with a connected agreement to build residential property on it then the site is deemed residential property and will attract the lower rate of stamp duty. Stamp duty is then paid on the site cost plus the VAT-exclusive cost of the building.
- The **Stamp Duty Refund Scheme** was introduced as part of Finance Act 2017 and provides for a refund of a portion of the stamp duty paid on non-residential land, where that land is subsequently developed for residential purposes. The refund brings the effective rate of stamp duty paid down to a minimum of 2%. There are a number of conditions attached designed to ensure that only those builders and developers who provide completed housing units within a reasonable period of time can qualify for a refund. The scheme is set to end on 31 December 2022.
- The stamp duty collected from land and property purchases represents a large percentage of overall stamp duty receipts, as shown in the table below.

**Table 2 – Stamp duty receipts 2014 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014
<b>Stamp duty from land &amp; property (€m)</b>	566.2	716.9	659.8	380.8	388.9	301.1	275.1
<b>% of total stamp duties</b>	27%	47%	45%	32%	33%	24%	16%

Source: Revenue Commissioners

The **Value Added Tax (VAT)** treatment of property can be complex and the rules were substantially changed on 1 July 2008. Under the post 1 July 2008 rules VAT is charged depending on whether a property is considered ‘new’ or ‘old’ (which is determined by a set of detailed rules).

- VAT is charged at the reduced rate of 13.5% where a new house is bought from a builder or developer in the course of business.
- Old properties are not liable to VAT. In certain circumstances the person supplying the property and the purchaser may jointly opt to have the supply subject to VAT.
- VAT is not chargeable on a site bought for a house from a landowner, unless there is an agreement with both the landowner and a builder to develop the site.
- If VAT has been charged on a residential property then stamp duty is charged on the VAT-exclusive value of the house.

The **Help to Buy (HTB)** scheme for first time buyers of newly-built homes and once-off self-build homes gives a refund of income tax and Deposit Interest Retention Tax (DIRT) paid in the previous four tax years. The scheme is intended to assist individuals with funding the cost of a deposit for a new house or apartment. The relief was introduced in 2017 and is set to expire on 31 December 2021. The amount of tax relief is the lesser of €20,000 and 5% of the purchase value for the period 1 January 2017 to 22 July 2020. An enhanced amount of relief was introduced on the lesser of €30,000 and 10% of the purchase value for the period 23 July 2020 to 31 December 2021. HTB does not apply to investment properties, properties valued above €500,000 or second-hand homes. Over 75% of HTB claims to date have been for first-time buyers and the balance for self-builds. Revenue has estimated that the total value of approved and pending HTB claims to the end of 2020 is in the order of €374.8 million<sup>20</sup>.

**Mortgage Interest Relief** was an income tax relief on interest paid in a tax year on a qualifying mortgage loan. The interest must have been paid on a loan taken out between 1 January 2004 and 31 December 2012 used to purchase, repair, develop or improve the home. The relief was due to cease

<sup>20</sup> Revenue, [Help to Buy Annual Report 2020](#), March 2021

at the end of 2017 but was extended to the end of 2020 on a tapered basis. It is no longer available from 2021 onward.

### 3.3 Owning a house

Owners of residential property must pay an annual **local property tax (LPT)** based on the market value of the property on 1 May 2013.

- From 2022 onwards the valuation date for LPT will be 1 November 2021. Any property that did not exist on 1 May 2013 will become a liable property in 2022.
- For LPT purposes a 'residential property' is any building (or part of a building) which is used as or is suitable for use as a dwelling, even if the property is not occupied. There are a limited number of properties that are exempt from LPT, including nursing homes, mobile homes, unfinished housing estates and properties fully liable to commercial rates.
- LPT operates on a self-assessment basis and the level of compliance has been consistently high since its introduction in 2013. The tax is collected centrally by Revenue with the funds then transferred to local government.
- Property values are organised into valuation bands and the mid-point of the valuation band is used to calculate the tax liability, using a base tax rate of 0.18%. Since 2015, local authorities can vary the base rate by up to 15% and this is referred to as the Local Adjustment Factor. Properties valued over €1 million are chargeable to LPT on their actual market value and not a valuation band. LPT of 0.18% applies to the first €1 million in value and a higher rate of 0.25% applies to the portion of the value above €1 million.
- On 1 June 2020 the Heads of the Finance (Local Property Tax) (Amendment) Bill 2021 was approved by the Government<sup>21</sup>. The Bill will give effect to a number of changes to the LPT regime, including: a revised method for calculation liabilities (via a revision of rates and widening of valuation bands), the bringing of certain currently exempted and excluded properties into the taxation system (including new homes built since 1 May 2013) and a number of administrative and technical reforms. The new rates will be a mid-point rate of 0.1029% on property values up to €1.05 million, 0.25% on values between €1.05m and €1.75m and 0.3% on values in excess of €1.75 million. The Bill is expected to be enacted over summer 2021.

---

<sup>21</sup> Department of Finance, [Press release on changes to LPT](#), June 2021

**Table 3 – LPT receipts and the cost of exemptions 2014 to 2018 (€ million)**

Year	2020	2019	2018	2017	2016	2015	2014
<b>LPT receipts*</b>	480	473.4	482	476	463	469	493
<b>Exemptions</b>	14.3	13.5	12.7	12.5	12	12	12

Source: Revenue Commissioners

Note: \* Since 2018, LPT receipts go to the Local Government Fund.

### 3.4 Construction

**Relevant Contracts Tax (RCT)** is a withholding tax that applies to certain payments by principal contractors to subcontractors in the construction, meat processing and forestry Sectors. The rates of tax are 0%, 20% and 35% depending on the subcontractor's tax compliance record with Revenue (the compliance record can be categorised as up-to-date tax, substantially up-to-date or poor). The subcontractor can then use the RCT credit against other tax due once he or she has filed a tax return. There are significant penalties for non-operation of RCT by a principal contractor.

Building services are liable to the reduced **VAT** rate of 13.5%.

### 3.5 Inheritances and gifts

Beneficiaries of gifts and inheritances of residential property are liable to **Capital Acquisitions Tax (CAT)**.

- The current rate of CAT is 33% and this is charged where the value of the gift or inheritance exceeds the recipient's relevant tax-free group threshold (there are three lifetime group thresholds based on the relationship of the disponent to the beneficiary). Transfers between spouses are exempt.
- The CAT Group A tax free threshold, which applies primarily to gifts and inheritances from parents to their children is currently €335,000, with lower thresholds of €32,500 for benefits to siblings, nieces, nephews and grandchildren (Group B) and €16,250 for other relationships (Group C). The threshold level has a particular impact on the tax burden faced on passing a family home to next of kin.
- The **dwelling house exemption** is a relief from CAT where a principal private residence is inherited (or gifted in limited circumstances) by an individual who has lived in that property for three years prior. Finance Act 2016 considerably narrowed the scope of the exemption so that it no longer applies to gifts of dwelling houses, unless the gift is made to a dependent relative of the donor. In Finance Act 2019, the conditions of the relief were amended to ensure that all properties inherited

from the same disponer are considered when assessing eligibility for the exemption. The tax expenditure on the dwelling house exemption, together with the number of claimants for the years 2015 to 2019 is set out in the table below.

**Table 4 – CAT dwelling house exemption cost and claimants 2015 to 2018**

Year	2019	2018	2017	2016	2015
<b>Cost (€m)</b>	50.1	44.6	92.7	58	52
<b>Number of claimants</b>	542	533	805	631	741

*Source: Revenue Commissioners*

- If CGT and CAT are due on the same event and on the same property, the beneficiary of the gift may be entitled to a **credit for CGT paid** against their CAT liability. The credit allowed cannot exceed the CAT liability.
- Individuals who have the **use of a property for free**, or for less than it is worth, are deemed to receive a gift for CAT purposes. If the property is used over multiple years the person is deemed to receive a gift on 31 December each year and the benefit is taken into account for aggregation purposes and can reduce the CAT annual small gift exemption available.

Individuals who receive a gift of residential property situated in Ireland must also pay **stamp duty**. The same rules and rates outlined above for buying a house apply.

### 3.6 Renovation and refurbishment

The **Living City Initiative** is a property tax incentive that commenced in May 2015. The scheme provides tax relief for qualifying expenditure incurred on the refurbishment and conversion of certain residential and commercial buildings where conditions are met. The incentive is aimed at the regeneration of certain areas in the historic centres of Cork, Dublin, Galway, Kilkenny, Limerick and Waterford. There are three types of relief within the scheme: owner-occupier residential relief, commercial relief and rented residential relief. There has been relatively low uptake of this initiative and the scheme is set to end on 31 December 2022. This relief is subject to the high-income earner's restriction. The expenditure claimed and number of claimants for the period 2015 to 2018 is set out in the table below.



**Table 5 – Living city initiative cost and claimants 2015 to 2018**

Year	2018	2017	2016	2015
Amount claimed (€m)	0.5	0.4	0.5	0.5
Number of claimants	27	23	15	13

Source: Revenue Commissioners

The **Home Renovation Incentive (HRI)** was in operation from 2013 to 2018. It provided tax relief for homeowners, landlords and tenants of local authority housing by way of a tax credit at 13.5% of qualifying expenditure incurred on repair, renovation or improvement work carried out on residential property. The value of work carried out on a property must have been at least €5,000 including VAT and only work which was chargeable at the 13.5% VAT rate counted towards that threshold. At the end of 2020, the cumulative total of tax credits available to be claimed by those who have completed qualifying works under the HRI scheme was €189 million across more than 98,000 individual properties<sup>22</sup>.

## 4. Tax and welfare measures for renting

The following is intended as a high-level overview of the tax charges and reliefs and welfare supports in place for rental accommodation.

### 4.1 Renting – landlord perspective

The majority of landlords in Ireland are individuals, mainly owning one or two rental properties. Other professional landlords include corporate vehicles, Real Estate Investment Trusts (REITs) and investment funds (discussed in Section 6).

**Individual landlords** are liable to income tax, the Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) on any **rental income**.

- This liability must be paid under self-assessment, with preliminary tax payable by 31 October each year and any balance paid with the filing of an income tax return the following year.
- The amount of income tax and USC payable depends on the taxpayer's level of income, age and marital status, subject to a maximum combined rate of 48%. A 3% USC surcharge may also apply on any non-PAYE income above €100,000. PRSI is charged at 4% on rental income.

<sup>22</sup> Revenue, [HRI Statistics 2013 - 2020](#), January 2021

- Owners of rental properties are entitled to claim **deductions** from gross rents for various expenses relating to their rental property. These expenses include any rent payable in respect of the premises, general repairs and maintenance (capital expenditure excluded), insurance and management fees, rates, service charges, accountancy fees and certain mortgage protection policy premiums.
- Interest on loans used to purchase, improve or repair a property can also be deducted. **Mortgage interest relief** for landlords of residential property was restricted to 75% of qualifying interest in supplementary Budget 2009, in the context of the fiscal crisis and the need to broaden the income tax base. This was viewed as limiting the attractiveness of the residential rental market for private landlords so in order to support the provision of accommodation by landlords, a phased unwinding of the restriction was announced in Budget 2017. Mortgage interest relief was restored on a phased basis from a 75% interest deduction to 80%, 85% and 100% in 2017, 2018 and 2019 respectively.
- Pre-letting expenses are generally not allowable, other than property fees incurred before the first rental and certain pre-letting expenses on vacant residential property. Expenses incurred in between lettings are also generally not deductible.
- If deductible expenses exceed the rental income then the **rental loss** can be carried forward for offset against future rental profits. Rental losses cannot be offset against non-rental income from the current year or income from a prior year. If a landlord has rental income from more than one Irish property the profit or loss from each property is aggregated to arrive at the net rental loss or profit for the year.
- **Capital allowances** can be claimed at a rate of 12.5% of the cost of furniture and fittings over an eight year period. No deduction against rental income is allowed for the capital cost of the property.
- **Rent a Room relief** provides an income tax, USC and PRSI exemption on income from renting a room in a private home, up to a maximum income limit of €14,000. This threshold was increased from €12,000 in 2017 in recognition of rising rents. The scheme was introduced in Finance Act 2001 as an incentive to encourage individuals to let rooms in their principal private residence in order to bring about an increase in the availability of rental accommodation, particularly for the student sector. The relief is not available to parents in respect of payments from their children for accommodation in the family home. The level of income exempted under the scheme plus the number of claimants for the period 2014 to 2018 is set out below.

**Table 6 – Rent a Room relief cost and claimants 2014 to 2018**

Year	2018	2017	2016	2015	2014
<b>Cost (€m)</b>	30.9	29.1	33.3	35.4	29.5
<b>Claimants</b>	14,850	14,900	16,450	16,950	15,100

*Source: Revenue Commissioners*

Landlords are not entitled to charge **VAT** on residential lettings.

Income from providing **short-term guest accommodation** (for example through an online accommodation booking site) is not considered rental income. Such income is taxable as either “other income” where the income is occasional in nature, or, as trading income where there is an ongoing business such as a bed and breakfast or a guesthouse. This income is liable to income tax, USC and PRSI and the amount of deductions and reliefs available can differ depending on the nature of the income. Rent a room relief is not available in respect of a room used to provide short-term guest accommodation. Short-term accommodation is generally subject to VAT at a reduced rate (13.5%) and applies to activities such as the letting of a room in a hotel or guesthouse. The provision of student accommodation is exempt from VAT.

Owners of rented residential properties are liable to the **local property tax**. A deduction is not available for the cost of LPT against taxable rental income.

The same computational rules to calculate taxable rental income are generally applied to both individuals and companies. Income earned by **Irish resident companies** (and non-resident companies with an Irish branch or agency) from the letting of Irish residential property is liable to corporation tax at the non-trading rate of 25%.

- Certain companies may, in addition, be subject to the 20% **close company surcharge** in respect of undistributed rental profits. Close companies are companies controlled by the directors or by five or fewer participators. The close company surcharge is intended to prevent companies from accumulating rental profits and to encourage distributions of profits to the shareholders, which will then be liable to income tax at the individuals’ marginal rate.
- A **non-resident company which does not have a branch or agency** in Ireland will be subject to income tax on any income derived from sources in Ireland, including rental income. Income tax is charged at the standard rate of tax (currently 20%). Close company rules do not apply to non-resident companies.

The taxation of institutional investment in residential property through funds and REITs is covered in Section 5.

## 4.2 Renting – tenant perspective

Tenants of rental properties are not liable to the **local property tax** unless there is a long-term lease greater than 20 years.

The **rent tax credit** was a tax credit available to tenants of private residential property if they were renting on 7 December 2010. This relief was phased out on a tapered basis and ceased with effect from 2018.

If a tenant's **landlord is not tax resident** in Ireland then the tenant is obliged to withhold income tax at a rate of 20% from the gross rent and remit this to Revenue. The tenant must complete an end of year form (Form R185) and provide this to their landlord as evidence of the tax withheld. The landlord can then claim this amount as a tax credit on their tax return. Withholding is not required where the landlord appoints a collection agent on their behalf who is based in Ireland.

## 4.3 Social housing – welfare support

Social housing support is housing provided by a local authority or an approved housing body to people who are assessed as being unable to afford housing from their own resources. Housing support can be provided in a number of ways:

- A rented tenancy in a property owned and managed or leased by the local authority or approved housing body
- Housing Assistance Payment (HAP) where a local authority will make a monthly payment to a private landlord, subject to terms and conditions including rent limits, on a HAP tenant's behalf
- Rental Accommodation Scheme (RAS) tenancy where the local authority arranges leases with private landlords for homes
- Specific accommodation for homeless people, older people and Travellers.

Local authority housing is allocated according to eligibility and need. Applicants for social housing support are assessed by local authorities based on particular income criteria. The applicant must also

demonstrate that the household does not have suitable alternative accommodation. The following guidelines apply in relation to the income criteria<sup>23</sup>:

- The income of all adults aged 18 years and over included in a social housing application is assessed when determining whether an applicant household meets the income requirements.
- Income is based on a calculation of the applicant's preceding 12 months' net average income. Net income is the relevant assessable gross income, less income tax, USC, PRSI and any Additional Superannuation Contribution.
- Assessable income includes employment income (e.g. wages, overtime, bonuses, etc.), self-employed income, investment income and both occupational and social welfare pensions. Other types of social welfare payments are generally excluded.
- There are three maximum income thresholds that apply to different housing authorities, although housing authorities may set a lower limit if appropriate. Housing authorities in Band 1 (e.g. Cork and Dublin City) can set a net income threshold ranging from up to €35,000 for a single person or up to €42,000 for a household with three adults and four children. In Band 2 (e.g. Limerick and Waterford) the threshold ranges from €30,000 to €36,000 while in Band 3 (e.g. Carlow and Galway County) this ranges from €25,000 to €30,000.

**Rent Supplement** is a means-tested social welfare payment for tenants of private rented accommodation who cannot afford to pay the cost of their accommodation from their own resources. Introduced in 1977, this rent payment is administered by the Department of Social Protection (DSP).

- Rent Supplement's role is to provide short-term support to those who have become temporarily unemployed and require income support to meet their tenancy cost whilst they seek alternative employment.
- The amount of Rent Supplement provided is subject to a maximum limit. The amount is decided by the amount of rent payable on the tenancy, household size and the location of the residence. The DSP can make additional Rent Supplement payments above rent limits when this is deemed necessary.
- Recipients of the payment are expected to contribute towards their rental costs, with a minimum contribution of €30 per week for single persons and €40 per week for couples.

---

<sup>23</sup> See [Social Housing Support: Household Means Policy](#) and [Social Housing Support: Table of Income Limits](#)

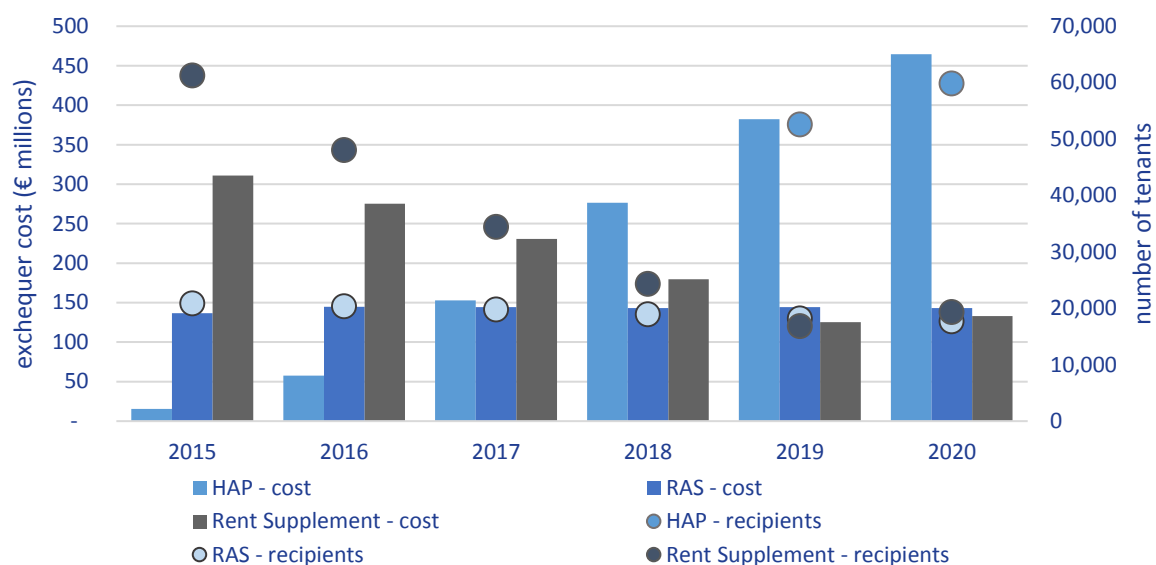
- Normally rent supplement is not available to individuals in full-time employment or who are self-employed and working 30 hours or more a week, or where a spouse/partner engages in similar hours of employment. An exception to this rule was made during the Pandemic.
- Rent Supplement payments are made either weekly or monthly to the tenant and are fully exempt from income tax, USC and PRSI.
- It is illegal for landlords to refuse rent supplement.

Under the **Rental Accommodation Scheme (RAS)**, local authorities draw up contracts with landlords to provide housing for an agreed term for people with a long-term housing need. The local authority pays the rent directly to the landlord. The tenant may contribute to the rent depending on income level and pays this contribution to the local authority rather than to the landlord. In general, people who are getting Rent Supplement for more than 18 months are considered for RAS. Tenants who take up full-time employment can stay in the RAS scheme. It is intended that the HAP will eventually replace RAS.

Introduced in 2014, the **Housing Assistance Payment (HAP)** is a form of social housing support provided by local authorities for people who have a long-term housing need.

- In the past individuals who were eligible for social housing support and were on the local authority's housing list could apply for the Rent Supplement, however, this is gradually being replaced with the HAP. HAP is available to individuals who are working full-time.
- Under HAP, local authorities make a monthly payment to a landlord on a tenant's behalf. This is subject to terms and conditions including rent limits. HAP recipients are responsible for finding their own accommodation in the private rented sector.
- The tenant must pay a weekly contribution towards the rent to the local authority based on household income and ability to pay. It is calculated in the same way as the rent paid by a tenant of a local authority owned property.

Figure 6 presents HAP, RAS and Rent Supplement figures from 2015 to 2020 by number of recipients and exchequer cost. The HAP has replaced the Rent Supplement as the most popular housing support, with nearly 60,000 tenants receiving the HAP in 2020. Similarly, it is the most costly of the payments, amounting to €464 million in 2020, compared with a cost of €355 million on nearly 53,000 tenancies in 2019. Rent Supplement expenditure and the number of recipients has declined in recent years, with 19,304 recipients in 2020 at a cost of €133.1 million. The cost and take-up of the RAS have been relatively low and constant over the period (approximately €143-€144 million per annum in the last five years). There were approximately 17,000 RAS tenancies in 2020.

**Figure 6: HAP, RAS and Rent Supplement, by cost (left axis) and numbers of tenants (2015-2020)**

Source: Source: Department of Housing, Local Government and Heritage

Note: data on HAP recipients only available for 2019 and 2020

The **Repair and Leasing Scheme** was established with the aim of harnessing the potential of vacant properties to be used for social housing. The scheme provides the costs of necessary repairs to a suitable building to be met upfront by the approved housing body (AHB) or local authority. The property owner then enters into a lease arrangement with the local authority or AHB and the value of repairs are offset against the rent paid to the local authority over an agreed period within the lease.

The **Mortgage Interest Supplement (MIS)** closed to new entrants from January 2014, and was wound down over a 4-year period, ceasing on 31<sup>st</sup> of December 2017. The MIS provided short-term support to help applicants pay mortgage interest repayments.

## 5. Institutional investors in housing

Investment in the Irish property market can take many forms, either through direct ownership of land and property or via company structures and funds. Following the financial crisis institutional investment in Irish property through use of various collective investment structures has grown considerably and the tax status of IREFs and REITs in particular has attracted attention.

The volume of total investment by institutional investors has coincided with a significant increase in apartment output in recent years. CBRE have reported<sup>24</sup> that the level of forward commit investment by institutional investors (i.e. the provision of capital to fund the construction of new dwellings) totalled €2.07 billion in 2019 and 2020 and the annual number of apartment units constructed has risen from over 1,100 in 2016 to over 4,000 in 2020 (representing a 245 per cent increase in the annual number of units completed nationally).

As with investment funds generally, tax occurs primarily at the level of the investor rather than within the fund, but in the case of IREFs there is a withholding tax on distributions to investors.

The **Irish Real Estate Funds (IREF)** tax regime was introduced in Finance Act 2016 to address concerns raised regarding the use of collective investment vehicles by certain non-resident investors to minimise their exposure to Irish tax on Irish property transactions. IREFs include investment vehicles where at least 25% of the value of the undertaking is made up of Irish real estate assets.

As a fund, IREFs are taxed under the gross roll-up basis meaning that tax arises only at the investor level upon the unit holder receiving a distribution from the fund. Prior to 1 January 2017, Irish funds operated a 41% exit tax on payments to Irish individuals while no exit tax was operated on payments to non-resident investors. From 1 January 2017, IREFs must deduct a 20% withholding tax on certain property distributions to non-resident investors, with exemptions for certain collective investment vehicles such as pension funds and life assurance companies. The regime provides that the profits arising to an Irish fund from Irish property remain within the charge to Irish tax.

Amendments were made by Finance Act 2019 to prevent the use of excessive debt and other payments to reduce distributable profits and to prevent the avoidance of tax on gains on the redemption of IREF units.

**Real Estate Investment Trust (REITs)** are publicly listed companies whose income is derived from the rental of commercial and residential property. The Irish REITs tax regime was introduced in 2013 and there are currently three REITs operating in the Irish property market. REITs are designed to hold rental investment properties in a tax neutral manner in order to facilitate collective investment in rental property. REITs provide broadly the same after-tax returns to investors as direct investment in

---

<sup>24</sup> CBRE, [Ireland Residential Investment MarketView Q4 2020](#)



rental property and remove a double layer of taxation at corporate and shareholder level which would otherwise apply.

An objective behind the introduction of the REIT tax regime was to attract investment into professionally managed residential property as a more professional private rental sector is viewed as a way of better serving tenants and ensuring the mistakes of the Section 23 type amateur investments are not repeated.

A key requirement of the tax regime is that the REIT must distribute 85% of its rental profits annually by way of a dividend, for taxation in the hands of the investors. This measure is designed to prevent an indefinite tax-free roll-up of property rental profits within the REIT. Distributions from a REIT are subject to Dividend Withholding Tax (DWT) at 25%, which is available as a credit against tax liabilities.

Finance Act 2019 made further amendments to the taxation of REITs by extending the obligation to deduct DWT to include distributions of the proceeds of capital disposals. The net capital proceeds must be either reinvested in the REIT or paid to shareholders as dividends within the scope of DWT. A provision providing a relief from CGT on ceasing to be a REIT was limited to apply only after a minimum term of 15 years of REIT status. Finance Act 2019 also provided for the introduction of a “wholly and exclusively” test when calculating the REIT profits available for distribution. This test was introduced to ensure that inflated costs, such as inflated management fees, cannot be used to reduce distributable profits.

A **section 110 company** is an Irish resident special purpose vehicle (SPV) that gets its name from section 110 of the Taxes Consolidation Act 1997. Introduced in the early 1990s, it is designed as a tax neutral regime to improve Ireland’s offering as a location for securitisation transactions in the financial sector. Securitisation allows banks to raise capital and to share risk and, by providing a repackaging and resale market for corporate debt, it lowers the cost of debt financing.

Property assets such as land and buildings are not qualifying assets and cannot be held by section 110 companies. These companies can however hold loans and other financial assets that derive their value from Irish land and buildings. During 2016, concerns arose in relation to the use of the regime by international investors to reduce their Irish tax liabilities in respect of investments into Irish property-backed assets. To address this, the legislation was amended by Finance Act 2016. The changes restricted the use of the section 110 regime to minimise Irish tax liabilities on certain debt transactions which are secured over, or derive their value from, an interest in Irish land e.g. mortgages on Irish houses. Companies engaged in a ‘specified property business’ are treated as having a separate

business from any other business the company may carry on and, with certain exceptions, no interest above a reasonable commercial rate of return is deductible in computing the taxable profits of that part of the business. The effect of these changes was to ensure that profits made on Irish property transactions are taxable at the 25% rate of corporation tax.

## **5.1 Recent changes to the stamp duty treatment of institutional investors**

Normally stamp duty on residential properties is 1% on values up to €1 million and 2% on any excess. In response to concerns about the bulk purchase of homes by institutional investors, the Dáil passed a Financial Resolution on 19 May 2021 imposing a stamp duty charge of 10% on the multiple purchase of ten or more residential units. The 10% rate also applies to cases where a person acquires ten or more units on a cumulative basis over a 12-month period. Once triggered, the 10% rate will apply to all houses acquired in that twelve month period, including the first nine purchases. The new measures will also apply where multiple purchases of residential units are made indirectly through shares or units of investment funds.

The higher rate of stamp duty is intended to provide a significant disincentive to the practice of multiple purchase by institutional investors of large parts of, or indeed whole, housing estates before they reach the market, thus denying first-time buyers an opportunity to purchase a home.

Multiple purchases by Local Authorities, Approved Housing Bodies, and the Housing Agency will be outside the scope of this higher stamp duty charge. An exemption is also available for the multiple purchase of apartments. The rationale for this is that apartment developments face significant viability challenges such that any additional cost burden could have negative consequences on the supply of high-density urban housing.

## **6. Commission on Taxation 2009**

A significant proportion of the Report of the Commission on Taxation 2009 dealt with the taxation of property, with a key recommendation being the introduction of an annual property tax on residential property. This new tax was proposed in conjunction with a number of other reforms to tax measures on property and housing.

**Table 7 - Summary of COT 2009 recommendations in relation to housing**

Recommendation	Measure adopted	Note
Provide for an annual property tax on all residential housing units	✓	A
Stamp duty should be zero-rated for purchasers of principal private residences	✗	B
Stamp duty should continue to apply to investor purchasers of residential housing units	✓	B
A recurrent property tax on land zoned for development should be introduced	✗	C
Windfall gains from increases in land values due to rezoning decisions should be subject to an additional CGT charge	✓	D
Continue mortgage interest relief for first-time buyers (at current step down rate arrangements) and discontinue relief for other categories of buyers	✓	E
Discontinue income tax relief for rent paid on private rented accommodation	✓	F
Continue CGT exemption on disposal of principal private residence	✓	
Discontinue income tax relief for service charges	✓	G
Discontinue rent-a-room relief	✗	
Discontinue CGT exemption on the disposal of a site to a child	✗	
Discontinue stamp duty exemption on the disposal of a site to a child	✓	H
The provision of an up-to-date valuation base for all property and land in Ireland should be addressed as a priority issue	✓	I

*Source: Revenue Commissioners*

### **Notes to table**

**Note A** - The Commission recommended an annual property tax on all residential housing units, with the broad exceptions of local authority and social housing units and some other limited exceptions. The rationale for this tax was to help provide for a broader tax base and to reduce economic distortion on transaction based property taxes (such as stamp duty where tax revenues are contingent on the level and value of property transactions). The Commission advised that a property tax would provide a reliable revenue stream that cannot be avoided and would therefore provide stable revenue for the Exchequer and local government financing.

The Local Property Tax (LPT) has been in place since 2013, replacing the transitional Household Charge, which was in place for the year 2012 and the Non-Principal Private Residence (NPPR) charge on second homes, which applied from 2009 to 2013.

As part of its work, the Commission investigated the use of a Land or Site Value Tax as an alternative approach i.e. a recurring tax on the land value of a property. While it acknowledged the strong

economic rationale for such a tax, it believed that there would be practical difficulties in moving to the valuation system that would be required for implementation of such a tax.

**Note B** - The Commission's recommendation for an annual tax on residential property was not designed to be considered in isolation. Instead, it has to be considered in the context of its related recommendations on the discontinuation of stamp duty on purchases of principal private residences and its continuance for investors of residential units. The Commission believed there should be zero-rating of stamp duty for owner-occupied residential housing as stamp duty is a less stable revenue base too strongly influenced by housing market cycles compared with an annual property tax. The Commission advised that stamp duty for investors should be at a competitive rate that takes account of transaction tax rates and thresholds applicable across the EU, so as to not discourage investment in the housing market. Since December 2010, the stamp duty rates on a transfer of residential property have been 1% on the first €1 million and 2% on excess over €1 million. These rates apply to residential property irrespective of whether or not the purchaser is an investor who leases the property to tenants or if it will be owner occupied.

**Note C** - Other related proposals by the Commission included a recurrent property tax on land zoned for development where such land is not actually being developed. This was recommended as a policy tool to ensure that developers do not hoard land banks and that land is utilised in accordance with its planning categorisation. A public consultation was conducted in 2015 examining what tax measures might be taken to penalise land owners who do not develop unused zoned and serviced land. Following that public consultation and the introduction from 2018 of the Vacant Site Levy by the Department of Housing, it was decided not to have a separate property tax to encourage the development of residentially zoned and serviced land.

**Note D** - Another proposal was an additional capital gains tax (CGT) charge on windfall gains from increases in land values due to rezoning decisions. An 80% windfall tax was introduced in 2010 but abolished from 2015, as it was viewed by various parties in both the private and public sector as an impediment to land rezoning and development, as well as a disincentive to landowners to dispose of such property and discouraging home building.

**Note E** - The Commission recommended the continuation of Mortgage Interest Relief in the case of first-time buyers but proposed discontinuing the relief for those outside of this category. The Commission agreed with the National Economic & Social Council's (NESC) view that any policy which seeks to improve affordability for buyers through offering higher levels of relief is unlikely to do so and may only result in higher prices. They also noted that the discontinuation of mortgage interest relief might in the longer-term help improve the efficiency of the housing market as well as releasing

resources for other purposes. Mortgage interest relief applied to loans taken out on or before 31 December 2012, with relief phased out on tapered basis until the end of 2020.

**Note F** - The rent tax credit for private tenants was phased out on a tapered basis and ceased at the end of 2017.

**Note G** - Tax relief for service charges ceased from 2011.

**Note H** - The stamp duty exemption on the disposal of a site to a child was removed from December 2010 onwards.

**Note I** - The Property Price Register contains the date of sale, selling price and address of all residential properties purchased in Ireland since 1 January 2010. The register is compiled by the Property Services Regulatory Authority from Revenue stamp duty data.

## 7. The impact of tax interventions on the housing sector

The terms of reference for the COTW direct the Commission to have regard to the experience of previous interventions in the housing and construction market. There are various tax arrangements in the housing sector which depart from tax neutrality and are aimed at promoting housing policy objectives, such as increasing the supply of new houses, helping owner-occupiers and increasing the supply of rented accommodation.

It is widely recognised that tax interventions targeted at certain sectors need careful consideration of their implications for the wider market. Ireland's past experience with tax-based interventions in the housing sector has demonstrated that property related tax incentives which are poorly targeted or left unchecked can have distortionary and adverse impacts.

In particular, the contribution of tax reliefs to the property bubble of the 2000s and the erosion of the tax base has been highlighted in a number of reports on Ireland's banking and economic crisis<sup>25</sup>. Property tax reliefs were introduced to incentivise the construction sector and stimulate supply, however, a criticism of these schemes was that they were extended on several occasions during the property boom without sufficient analysis of the additional costs, benefits and impacts. Various tax measures and rate changes were viewed as contributory factors to inflated housing and rental prices.

---

<sup>25</sup> Regling, K. and Watson, M., (2010), [A Preliminary Report on the Sources of Ireland's Banking Crisis](#). Honohan, Patrick, (2010), [The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008](#). Houses of the Oireachtas, (2015), [Report of the Joint Committee of Inquiry into the Banking Crisis](#).

An OECD report in 2006 recommended the phasing out of the strong bias towards housing that was embedded in the Irish tax system<sup>26</sup>.

In its 2016 paper on Taxation Policy and Housing<sup>27</sup>, the Tax Strategy Group (TSG) noted that while there were certain positive outcomes of property schemes including investment in particular sectors or areas, increased supply, and a boost to the property and construction sector, there were concerns. These include equity issues (the majority of beneficiaries were high net worth individuals), non-adherence to the policy of base widening and lowering tax rates, contribution towards price inflation and the high cost of such reliefs. The TSG further noted a consequence of extensions to the schemes was increased costs, over-supply and deadweight losses.

The Department of Finance carried out a major review in 2006 on a number of tax expenditures, which resulted in many of these being eliminated or restrictions being imposed. The special property based schemes, commonly referred to as Section 23 Reliefs, which were terminated include: the urban renewal, town renewal and rural renewal schemes, the special reliefs for hotels, holiday cottages, student accommodation, multi-storey car parks, third-level educational buildings, sports injuries clinics, developments associated with park and ride facilities and the general rental refurbishment scheme. After some transitional arrangements, most of these incentives were abolished by 31 July 2008.

In its 2006 report reviewing property based tax incentives<sup>28</sup>, Indecon recommended that where there is justification for government incentives the option of direct public expenditure as an alternative to tax incentives should be considered. It also advised that any tax incentive schemes which are introduced should have a defined lifespan of a maximum of 3 years and any decision to introduce or extend a tax incentive should be informed by a formal assessment of the likely costs and benefits.

While they are not a substitute for addressing structural factors that are impeding the housing sector, well-designed and time-bound fiscal incentives can be of assistance and play a role in getting the market moving.

---

<sup>26</sup> OECD, [Ireland's Housing Boom: What has Driven it and Have Prices Overshot?](#) (June 2006)

<sup>27</sup> Tax Strategy Group (2016), [Taxation Policy and Housing](#) TSG 15/03.

<sup>28</sup> Department of Finance (2006), Indecon Review of Property Based Tax Incentive Schemes Volume 1

## 8. Proposals for the Commission – forward looking

As part of the next phase of work, the following topics are areas the Commission may wish to focus on:

- How do tax measures help supply? Should Government policy promote home ownership or renting, or ensure a balance between tenure type, or should it have any influence?
- Property represents a major source of wealth for many Irish households. Are assets such as property treated as favourably as other asset types? Is property ownership or investment adequately taxed?
- Support for renters is primarily provided via local authority measures. Should this model continue or is there a larger role for the tax or social welfare systems?
- What are the potential merits and weaknesses of a Site Value Tax (SVT)? Should a SVT replace or co-exist with LPT? What basis of valuation should be used if the tax was to be implemented?