Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Site Value Tax

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Key Points

- A Site Value Tax (SVT) is an annual property tax based on the value of land, excluding the value of any development.
- This paper gives an overview of SVT and the merits and challenges that exist around the implementation of such a tax.
- A key attribute of a SVT from a housing policy perspective relates to the fact that it applies to both developed and undeveloped parcels of land - unlike the Local Property Tax – thus creating a disincentive for the hoarding of undeveloped land. Similarly, it does not act as a disincentive to investment by a property owner in retrofitting their home, for example.
- A key challenge relating to a SVT is that valuation of undeveloped land is complex and it is difficult to implement.
- This paper references some of the other countries in which such a tax on land exists.
- Other alternatives, including a reformed vacant site levy and a zoned land tax are also examined briefly.

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1. Introduction

The Commission on Taxation and Welfare has been asked in the terms of reference to consider the appropriate role for the taxation and welfare system in achieving housing policy objectives and to include an examination of the merits of a Site Value Tax.

As part of this, it is recommended the Commission examine the merits, challenges, impacts and sustainability of a Site Value Tax, drawing on experiences of countries who have implemented such a tax and comparing such a tax with the current arrangements including the Local Property Tax. This paper gives an overview of SVT and the merits and challenges that exist around the implementation of such a tax in an Irish context. We also highlight some further questions to inform the Commission's future work in this area.

2. Executive summary

A Site Value Tax (SVT) is a recurring tax on the land or site value of a property, without regard to the value of any building or improvements on that land.

The SVT gained popularity at the time of the last Commission on Taxation, and has been proposed by many organisations for a number of years. In 2009, Ireland did not have a property/land tax and the Commission on Taxation recommended the introduction of a property tax based on the market value of property, which was subsequently introduced in 2013 in the form of the Local Property Tax (LPT). Both Commissions on Taxation in 1985 and 2009 favoured property taxation based on market value, citing *inter alia* significant difficulties in communicating to homeowners and landholders the nature of the taxation charge that is involved and the benefits that would accrue from that change.

LPT provides a sustainable source of revenue to local authorities and it is relatively easy to administer, with the latter being the main reasoning behind its ultimate adoption over a SVT. A SVT, however, has many theoretical merits that a property tax does not. A SVT does not act as a disincentive to investment in property and it discourages the hoarding of land. This paper will assess the merits and challenges associated with a SVT, with reference to literature that exists in the Irish context and with reference to jurisdictions who have implemented such a tax.

The remainder of the report will be structured accordingly. Firstly, the concept of a SVT will be introduced, followed by reference to the SVT in the previous Commission on Taxation's report. The merits and challenges in an Irish context will be explored in the subsequent section. An overview of the tax in other jurisdictions will be given in the Section 5. Section 6 will assess the SVT in the context of the existing local property tax. The final section will give a brief overview of alternatives to a SVT, which could be implemented with a view to stimulating supply.

3. What is a Site Value Tax?

A Land or Site Value Tax (SVT) is a recurring tax on the value of land alone, excluding the value of any residence, building or improvements on that land. This is sometimes called the unimproved value of the land. Land is valued based on proximity to public services, infrastructure, population centres and amenities, factors which are inseparable from the value of the site itself. A SVT is often regarded as a payment to the local community in return for access to these attributes.

This form of taxation is distinct from other property taxes and commercial rates. In Ireland the Local Property Tax (LPT) is charged on the market value of residential properties and commercial rates are levied based on the rental value of business properties. A tax on the market value of a residential property is more commonly seen in other jurisdictions that have implemented a property tax.

The economic rationale behind a SVT is that it does not affect economic decision-making, or in practical terms, it does not act as a disincentive for property-owners to invest in their property. Another important rationale for a SVT is that it discourages land hoarding by placing a recurring payment on un-developed land zoned for residential use and on derelict sites. However, many assessments of the merits of such a tax have pointed to implementation difficulties in the Irish context. Access to vital data on the undeveloped value of land has been lacking in the past, making the SVT an impractical form of property tax.

3.1 Reference to a Site Value Tax by the previous Commission

The Commission on Taxation 2009 considered, but ultimately did not recommend, the implementation of a land or site value tax. While they highlighted that there is a strong economic rationale for land value taxation, they believed that it was not a pragmatic approach to the restructuring of the property taxation system at the time. The Commission noted that there are very difficult hurdles to be overcome in moving to the valuation system that would be required to implement a land or site value tax system. They also believed there would be significant difficulties in communicating to home-owners and land-holders the nature of the taxation charge that is involved and the benefits that would accrue from that change. The Commission however did propose a recurrent tax on zoned development land, which they noted is consistent with many of the principles of a land or site value tax.

The 2012 report of the Inter-departmental Group on the Design of a Local Property Tax (the "Thornhill Group") examined the basis of assessment for the Local Property Tax (LPT), including both the taxable value of the property option and a SVT. The report also favoured the use of market value of residential properties as the basis of assessment to ensure that valuations were evidence based, understandable and acceptable to the public.

This paper will examine the SVT in the context of these recommendations, providing an update on how some of the implementation challenges may now not be as insurmountable, while highlighting where some of the Commission's concerns remain.

4. Merits and challenges in an Irish context

4.1 Merits

Proponents of a SVT maintain that it offers a more economically efficient alternative to other forms of property taxes and a fairer way to tax residential property, while simultaneously promoting the use of land and discouraging speculation.

In terms of efficiency, a SVT does not create a disincentive for a property-owner to invest in their property, as the tax liability is not dependent on the market value of the property[1]. For example, investment in retrofitting would be discouraged under a residential property tax as it would increase the market value of the property. Likewise, investment by landlords in their property would not be discouraged under a SVT. From the perspective of promoting population density, a SVT can also encourage more efficient use of scarce land as it is typically based on the area of land upon which development takes place and not on the value of the separate units on a given parcel of land.

From a fairness perspective, a SVT is a charge that is proportionate to the provision of public amenities in a given location and residents and landowners who benefit the most from these public goods should pay more.

From a current policy perspective, a SVT might be desirable as, unlike taxes on developed residential property only, it creates a disincentive for landowners to hoard, encouraging the activation of land for

[1] All taxes will affect economic activity to some degree. A SVT creates fewer distortions relative to other property taxes.

efficient use. Under a SVT, owners of land zoned for residential use and vacant/derelict sites would face a recurring land tax, which would act as an incentive for them to make a return on the land. Similarly, the purchasing of land for speculative purposes would also be discouraged.[2] Existing mechanisms to encourage optimal land use, such as the vacant site levy, require extensive oversight and physical inspection regimes to facilitate changing use and on-going development; a SVT would avoid such extensive oversight as it would simply apply to the value of underlying land based on existing planning. The National Competitiveness Council have advocated for a SVT that would replace commercial rates and the vacant site levy on the basis that it would create a streamlined system that taxes all land, regardless of purpose, equally[3]. The OECD propose the introduction of a SVT on all forms of land including commercial property, and maintain that current commercial rates act as a distortionary levy that inhibits firm growth.[4] The National Economic and Social Council (NESC) argue that a SVT on development land would have less distortionary effects than other forms of taxation, promote improved land use, and ensure greater fairness by recovering some of the value added to land by public investment and services. NESC propose that the SVT does not apply to agricultural land.[5]

4.2 Challenges

The SVT has many attractions and could potentially act to increase housing supply by incentivising more efficient use of land. However, challenges exist around its implementation, relating to the databases and methods that would be used to obtain a land value distinct from the value of the land plus the building. A Tax Strategy Group paper published by the Department of Finance in 2010[6] came to a similar conclusion as the 2009 Commission on Taxation. While a SVT was possible to implement, it found that the relevant State Agencies were in broad agreement that developing the necessary infrastructure (a central database and administrators) for effective administration would be time-consuming and costly. There would also continue to be issues regarding the communication of the basis on which the tax applies. It is useful, at this point, to highlight some of the proposed pathways to a SVT that have been advocated for since the last Commission, while outlining some of the challenges that come with these proposals.

Advocates of a full SVT propose the use of the Property Registration Authority of Ireland (PRAI) database (landdirect.ie), which gives detailed information on a property's folio relating to the size of

[2] Ronan Lyons (2011) - Residential Site Value Tax in Ireland
[3] National Competitiveness Council (2015) – Ireland's Competitiveness Challenge 2015
[4] OECD (2018) – OECD Economic Surveys – Ireland
[5] NESC (November 2020) - Housing Policy: Actions to Deliver Change
[6] Tax Strategy Group (2010) - 10.09 Taxation of Property

the site, the owner, electoral district, floor plans etc. However, this database does not have information on property values or other relevant data. Data sources from the Revenue Commissioners on property transactions (which now constitutes the CSO's Residential Property Price Register), and information on local authority zonings (myplan.ie) from Department of the Environment, Climate and Communications could be collated and matched to build up a rich database on each property in the PRAI.[7]

With regards to valuation of land, Ronan Lyons proposes the use of a hedonic price regression methodology[8], which estimates the average price of a class of property by characteristic i.e. number of rooms, bathrooms, house type, size, location etc. for each electoral district. The difference between the average price of a two-bedroom semi-detached house, for example, and the cost of constructing that type of house (using SCSI data) then leaves you with the land value.[9] However, there would likely be public acceptability concerns surrounding the payment of a tax based off an economic regression model. The Commission on Taxation 2009 alluded to the significant efforts that would be required to communicate the exact basis on which land is valued. The market value of a property is more tangible and communicable and is now well understood by the public following the introduction of the Residential Property Price Register in 2011.

Collins and Larragy[10] propose a simplified valuation methodology, that would charge different square metre rates according to where the land is located grouped by: Dublin city (€0.85 per m^2), Dublin county (€0.75 per m^2), large non-Dublin town councils (€0.65 per m^2), small non-Dublin town councils (€0.55 per m^2) and rural (flat rate of €100 per annum). The PRAI database would provide information on the square metre area of each property. Apartments would be taxed based on the land in which they are built and on a separate per-unit basis. While this is a more easily comprehensible valuation regime, issues of fairness might arise in an instance where two residents on equally sized parcels of land, but with unequal access to services in Dublin city, for example, have the same tax liability.

There has continued to be on-going debate in relation to SVT since the adoption of the LPT due to the role that land supply and prices play in the housing market. NESC have recently recommended the introduction of SVT as a form of land-value capture in the context of the housing supply shortage. The

[7] There remains large deficits in this database particularly in Dublin, where significant levels of properties remain unregistered. An updated PRAI would also need to take account of disputes around land ownership etc.

[8] This methodology uses a large sample of properties of all types and estimates, on average, what each component of a property adds to the price. For example, it can estimate the value added to a property of an additional bedroom, controlling for other factors, or the value added of being within a kilometre of a Luas stop for example.

[9] Ronan Lyons/Identify Consulting (2011) – Residential Site Value Tax in Ireland

[10] Collins and Larragy (2011) - A Site Value Tax for Ireland: approach, design and implementation

LPT was introduced in an entirely different context, with the ultimate goal of raising sustainable revenues. NESC suggest that there might be more of an appetite to overcome the challenges associated with a SVT in the current climate and they also recommend that if a SVT is not introduced, it is worth considering extending the existing LPT to development land[11].

5. International evidence

Site Value Taxes are not as widespread as property taxes. Limited examples exist with Denmark and Estonia as well as provinces in Australia and some US states among those who have adopted site/land value taxes. However, it should be noted that a number of tax exemptions exist for small or principal private residences in some of these jurisdictions.

Denmark has four distinct property taxes – a land, property, non-primary residence and commercial property tax, all of which are collected by local government. A property tax in some form has existed in Denmark for nearly half a century. Today, the land tax is based on a valuation by a designated valuation board of the value of the land alone and is collected twice a year. The valuation is based on the best economic use of land, disregarding the existing buildings and present use of the land. The land valuation should include site drainage, sewerage and road access. Valuations are formed based on a model that incorporates use of land and vacant site value sales data in the area among other factors and appeals can be made to the valuation board by the landowner. In 2002, two per cent of property valuations were appealed, of which 6,000 ended up being arbitrated formally, with ten ending up in the Courts system. The rate ranges between 1.6 and 3.4 per cent, depending on municipality and a reduced rate applies to agricultural land of 1.4 percentage points. It is estimated that the land value tax costs €20 million to administer per year in Denmark, approximately 1.5 per cent of total revenues collected on average (€1.3 billion). Municipal land tax has represented 2.5 per cent of total revenues in Denmark over the last decade.[12]

Estonia introduced a land tax in 1993. A rate of between 0.1 and 2.5 per cent applies to the taxable value of land annually (depending on type of land) and revenues are distributed to local government. An exemption for residential and commercial land exists up to 0.15 hectares (1,500 sqm) in densely populated areas and 2 hectares elsewhere. A combination of sales comparison method, capitalised earnings method and cost method are used to determine the square acreage value, and a map of land

[11] NESC (2020) – Housing Policy: Actions to Deliver Change
[12] Muller (2015) - Development of Danish Evaluation Systems

values in different districts is published for transparency. Land valuations can be appealed. Between 2000 and 2020, the land value tax has accounted for 0.9 per cent of total tax revenues in Estonia.[13]

The Australian province of New South Wales, has a land value tax. There is, however, an exemption for principal residence. Land tax is calculated based on the combined value of all land owned above a threshold, which is revised each year. In 2021, the threshold stands at AU$755,000 (c. €479,000).

The Mirrlees Review of the UK tax system in 2010 also advocated for a site value tax[14]. The group recommended replacing both business rates and stamp duty land tax on business property with a land value tax for business and agricultural land. This recommendation was subject to confirming practical feasibility, including overcoming the practical difficulty of valuing land separately from the buildings on it. The UK has not to date adopted this recommendation.

6. Site Value Tax and the Local Property Tax

This section will compare the merits of a SVT against the Local Property Tax (LPT). The LPT came into effect in 2013. It is a tax based on the self-assessed market value of a residential property and does not apply to development land, agricultural land or commercial property. The last Commission on Taxation recommended its introduction on a number of bases. Firstly, a recurring tax on immovable property is a sustainable source of revenue for the State, unlike transient transaction-based Stamp Duty revenues - the abolition of which was recommended by the previous Commission for purchasers of principal private residences. Secondly, a tax on property is less economically distortionary than a tax on transactions. Thirdly, the LPT is relatively easy to administer and collect with a notably high compliance rate. Finally, Ireland was one of the few developed countries at the time that did not have a property tax, and broadening the tax base in line with other countries was a logical next step. In 2019, LPT revenues amounted to €473.5 million (0.8 per cent of total tax revenues).

A review of the LPT was carried out by Don Thornhill in 2015.[15] Submissions were received in the public consultation advocating for a change in the valuation basis to a land value basis. Thornhill noted that the market value of the property contains the site value (plus improvements) and on this basis did not see reason to adopt a new valuation metric for the LPT. A 2019 review of the LPT rejected a SVT concluding that the ‘arguments for SVT are outweighed by the likely difficulties in ensuring acceptance by taxpayers, i.e., arriving at values that are evidence based, understandable and acceptable to the

[13] Statistics Estonia
[14] Mirrlees Review, Tax by Design, Ch 16 The taxation of land and property, September 2011
[15] Don Thornhill (2015) – Review of the Local Property Tax

public in addition to complexities and uncertainties in the valuation effort necessary to put an SVT in place.'[16] However, it is important to note that this review focused on the operation of the LPT, and SVT was only considered on that basis.

Table 1 below provides a comparison of the relative *theoretical* merits of the current LPT and SVT across a number of characteristics.

Table 1: Comparison of relative merits of a SVT and the LPT

	SVT	LPT
Neutrality	+	-
Revenue sustainability	+	+
Achieve objective: increase supply	+	
Administrative cost	-	+
Vertical equity	?	+

Note: '+' denotes positive attribute, '-' denotes negative attribute, no value denotes neutral and '?' denotes that effects are unclear.

Note: based on the LPT in its current form. Updates in valuations/bands and additional rates do not affect these rankings.

From a neutrality perspective a SVT is more favourable. As the tax liability relates to the location only (the value added to the land by the services and infrastructural support supplied by government or public utilities), it has no effect on the decision of the owner to invest in the property. Payment of LPT is based on the market value of the property and, as such, acts a disincentive for the owner to invest in the property. It is worth noting that no empirical evidence exists to support this theoretical claim – valuations have not increased since the introduction of LPT, making such an exercise unfeasible (a new valuation date will occur for the first time on 1 November 2021, with valuations reviewed every four years thereafter). From a revenue sustainability perspective, both a SVT and the LPT are taxes on immovable land/property, making both a virtually permanent source of revenue with lower distortionary effects than other forms of taxation. It should be noted that proponents of a SVT argue that land values are less volatile than market property prices. From the perspective of increasing supply, a SVT is preferable as it creates a disincentive to hoard land and to engage in speculation, and it can act as an incentive to increase the density of dwellings. The LPT does not apply to development land and as such it is neutral in this regard – it does not discourage nor encourage increased supply of housing. One of the key attributes of the LPT is the associated low administrative burden. It is based on the self-assessed market value of a property. In 2019, it had a 97 per cent compliance rate and only

[16] Department of Finance (2019) - Review of the Local Property Tax

818 valuations were increased due to self-correction or Revenue challenges. As previously discussed, a SVT would require a significant upfront infrastructural investment.

In terms of vertical equity, LPT is considered relatively progressive in the sense that a higher rate applies to higher property values. However, from an income inequality perspective, it is regressive (although deferred payments for lower income residents are available, plus interest). Furthermore, no allowance is made in respect of outstanding related property debt. Similarly, the SVT does not take into account the income of the dweller. While not explicit in a SVT, large landowners in well-serviced areas would be relatively asset rich and would pay more accordingly. It is unclear if they would pay more as a proportion of their wealth, however and much would depend on the future design of a SVT.

7. Alternatives

It is worth examining the possible alternatives to a SVT. While there are many variants of property taxes, this section will give a brief overview of the Vacant Site Levy (VSL) and a Zoned Land Tax.

The VSL was introduced in 2015 legislation as a means to increasing the supply of housing by creating a disincentive for owners of vacant sites to keeping their property inactive. The levy was payable for the first time in respect of the 2018 calendar year at a rate of 3 per cent and increased to 7 per cent for subsequent years. The levy is payable until development commences. This process requires considerable resources and active physical inspection regimes. Local authorities are required to compile a register of vacant sites in their council area and charge according to the market value of the site. However, the VSL has been relatively ineffective in achieving its goal. A recent analysis of the VSL shows that just four of 31 local authorities collected revenues totalling €882,000 from 181 sites in 2019[17]. At the time of writing only €21,000 has been collected in respect of 2020, however additional liabilities are due for payment[18]. Furthermore, only 17 local authorities had active registers of listed sites with assigned market values. The analysis recommends a more centralised administration of the VSL as it was found that there were interpretational issues as to what constitutes a 'vacant site'[19] and many local authorities do not have sufficient resources. The analysis also finds that approximately 18,000 units could be added to the housing stock as a result of a successful implementation of the levy, according to local authorities.

[17] Parliamentary Budget Office (2020) – Challenges in implementing and administering the Vacant Site Levy
[18] Parliamentary question, 15 June 2021
[19] The Urban Regeneration Act 2015 defines the vacant site here. In 2018, amendments were made to VSL provisions to clarify what constitutes 'vacant or idle' land in efforts to prevent circumvention of the levy. See Circular PL 06/2018

The previous Commission on Taxation recommended that a Zoned Land Tax (ZLT) be introduced instead of a SVT as it would be consistent with the aspects of a SVT aimed at increasing supply, while avoiding some of the implementation issues. Owners of land zoned for all types of development would face a recurrent tax where the land is not being developed and subsequently sold. It was recommended that the tax should not be applied immediately after it had been rezoned, but that a reasonable timeframe would be allowed, for planning permission to be granted for example. This type of a tax would, unlike the VSL, apply up until the point of sale, whereas a VSL is currently charged until development commences. The Residential Land Availability Survey 2014 identified 17,434 hectares of undeveloped residential land with a potential for 414,712 dwellings (116,705 dwellings in Dublin).[20] Furthermore, this analysis does not include zoned land for mixed use. A public consultation was held in 2015 on the potential of taxation measures to encourage the development of zoned and serviced land. On considering the outcome of the public consultation and the introduction of the VSL it was determined that a new separate tax on zoned land would not be introduced at that time. [21]

8. Proposals for the Commission – forward looking

This briefing note has outlined some of the merits and issues relating to a Site Value Tax with reference to the previous Commission's recommendations, the international context and in the context of the Local Property Tax. Some key questions to take away from this note:

- If a SVT were to exist, would a SVT replace, or coexist with, the LPT allowing it to be focused on development, vacant and derelict land?
- Is a SVT necessarily the most effective tax to address the shortfalls of the LPT (i.e. housing objectives)? Is it the optimal route to addressing land hoarding and capture increases in land value?
- Are the challenges surrounding a SVT insurmountable in the context of a changed property market (from 2013) and to what extent are these challenges less significant now (e.g. data, implementation etc.)?

[20] Department of Housing, Local Government and Heritage (2020) – Residential Land Availability Survey 2014
[21] Department of Finance (2015) Report on Tax Expenditures (see page 25+)

Appendix: Current recurring taxes on land and property

Table 2: Comparison of current recurring taxes on land and property

	Local Property Tax	Commercial Rates[22]	Vacant Site Levy
Year introduced	2013	Present rating system - 2001	2018
Type of property subject to charge	Residential property	Commercial and industrial properties	Residential and regeneration land
Rate(s)	0.18% on valuation bands up to €1 million (with Local Adjustment Factor +- 15%) 0.25% on value above €1 million	The annual rates bill for a commercial premises is assessed by applying the Annual Rate on Valuation (ARV) to the valuation of the property concerned to obtain the amount payable in rates. The ARV is set as part of the budgetary process in the local authority and the valuation is determined by the Valuation Office.	3% in 2018, 7% from 2019
Basis of taxation	Market value of property	Annual rental value	Market value of vacant site
Revenue raised €	€480 million in 2020	€1.4 billion in 2017	€882,000 in 2019[23] €21,000 in 2020[24]
Number of units registered	Approx. 1.9 million properties	Approx. 147,000 in 2017 and 2018	181 sites in 2019 280 sites in 2020
Administration	Revenue	Local Authorities	Local Authorities

[22] Department of Housing, Local Government and Heritage, An Overview of Commercial Rates in Local Authorities, December 2018.
[23] Parliamentary question, 17 September 2020
[24] Parliamentary question, 15 June 2021