Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Recurrent Taxation of Immovable Property

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Subject	**Recurrent Taxation of Immovable Property**
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Key Points

- Recurrent taxation of immovable property concerns the annual taxation of immovable property such as land, residential and commercial buildings.
- Such taxation is broadly seen to provide a sustainable source of revenues as it tends to be immobile and annual taxation of such property makes it more reliable than transactional property taxes such as Stamp Duty, CGT and VAT on properties.
- Recurrent taxation on immovable property tends to be less harmful to economic growth and is effective as a means of taxing wealth in Ireland.
- Ireland derives a relatively low share of total revenues from immovable property on a recurrent basis.
- There are currently three recurrent taxes on immovable property in Ireland: Commercial Rates, Local Property Tax and the Vacant Site Levy.
- This paper explores options for increasing revenues from these taxes, as well as investigating the potential for new taxes on immovable property that is not currently taxed.
- This paper explores the implications of introducing a recurrent tax on zoned development land and agricultural land.
- Site Value Tax is also revisited, with various potential scenarios and associated practical issues investigated.

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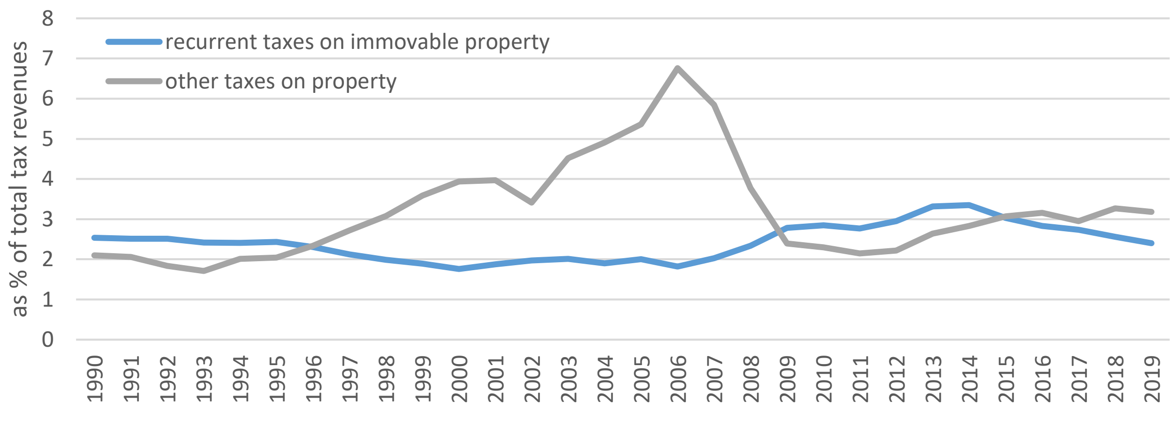
1. Introduction

The terms of reference for the Commission on Taxation and Welfare ask members to consider the appropriate role for the taxation system in achieving housing policy objectives and to include an examination of the merits of a Site Value Tax. This consideration should include reviewing the sustainability of any measures introduced. At meeting 4 of the Commission in July the Secretariat presented papers on both Housing and Site Value Tax. These papers introduced existing taxation practices on land and property and previous assessments of SVT. Discussion at the meeting centred on consideration of the objectives of tax and welfare in addressing short-term issues such as housing supply, and longer-term issues around land and property as a revenue source were also discussed.

The purpose of this paper is to focus on the sustainability of tax revenues from recurrent taxation of immovable property and consider potential options for reform in this regard. Recurrent taxation of immovable property concerns the taxation of land or buildings that are generally residential, commercial, industrial or agricultural in nature on an annual basis. While many of the potential reforms outlined here could indirectly have positive effects on the supply of housing, a separate paper will address the specifics of how the tax and welfare system could appropriately address the Government's housing objectives.

Figure 1: Irish taxes on property as a share of total tax revenues (%), 1990-2019



Source: OECD

Note: 'Recurrent taxes on immovable property' are 'taxes levied regularly in respect of the use or ownership of immovable property (land and buildings)'. 'Other taxes on property' are the sum of inheritance and gift taxes and 'taxes on financial and capital transactions' (which include taxes on the issue, transfer, purchase and sale of securities, taxes on cheques, and taxes levied on specific legal transactions such as validation of contracts and the sale of immovable property. They exclude capital gains taxes. See footnote 3 for further details.

Note: OECD figures include social security contributions in total tax revenues

Immovable property can be taxed in two ways; on a recurrent basis or on the transfer of property. Recurrent taxes on immovable property are widely considered to be among the least volatile and most sustainable of taxes. Buildings and land are not mobile like many other tax bases and as such can be relied upon as a recurring source of tax revenues. From an economic perspective taxes on land in particular, are among the most favourable as the supply of land is fixed and cannot be withdrawn from the market, unlike labour or capital whose supplies tend to be relatively sensitive to taxes. Recurrent taxes on property can also act to reduce price volatility in the property market business cycle.[1]

Non-recurrent or transactional forms of taxation of property (e.g. stamp duty receipts) derive from the value of the property at the point of acquisition or disposal.[2] Both the level of transactions and associated values of the assets being traded tend to be pro-cyclical in nature; they tend to increase in a boom and decrease in a downturn. This can lead to an exponential growth in revenues associated with the rise of transactions and a similar sized fall in these revenues, as can be seen in Figure 1. In theory, transactional taxes also distort economic behaviour.

Figure 1 shows recurrent taxes on immovable property and other property taxes such as stamp duty. In the five years prior to the financial crisis, taxes from property transfers/transactions increased by 176 per cent (from €1.29 billion to €3.56 billion). Between 2007 and 2010, this same revenue source fell to €1.07 billion, or by 226 per cent.[3] In recent years recurrent and non-recurrent taxes account for a similar proportion of total revenues; 2.4 per cent (€1.9 billion) and 3.2 per cent (€2.5 billion) respectively in 2019.

The 2009 Commission on Taxation recommended the abolition of stamp duty on principle private residences[4] on the basis of its pro-cyclical nature, to be replaced with a recurrent tax on residential property and a zoned land tax on development land.

Table 1 gives a breakdown of immovable property types that are currently taxed on a recurrent basis, as well as those that are not. Some of these property types are classified according to how they are taxed e.g. 'vacant sites' are only a type of property for the purposes of the Vacant Site Levy.

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[1] Blöchliger et al. – The Stabilisation Properties of Immovable Property Taxation: Evidence from OECD countries (2015)

[2] See the OECD classification of taxes and interpretative guide for further details.

[3] These figures are a proxy for transactional taxes such a Stamp Duty, VAT on new builds and CAT-related transactions. They exclude CGT, but include some other types of financial transactions taxes. As such, they are likely to only approximate the size of transactional taxes associated with immovable property.

[4] The Commission recommended discontinuing stamp duty on residential properties purchased for occupation by the owner, but continuing stamp duty for investor purchasers of residential property and for acquisitions of commercial property.

Table 1: recurrent taxation by property type

Type of property	Recurring tax	Specific tax
Residential property (habitable)	✓	Local Property Tax
Vacant and uninhabitable residential property	×	
Vacant sites	✓	Vacant Site Levy
Undeveloped zoned land	×	
Commercial and industrial property	✓	Commercial rates
Agricultural land	×	

The *Housing for All* strategy published on 2 September 2021 recommends a number of changes to the tax system, with an aim of increasing the supply of housing and associated affordability. Some of these actions are also relevant to this paper as they may potentially have impacts for future streams of revenues from immovable property. Among these is a proposal to introduce a development levy similar to the now abolished Windfall Tax on Rezoned Land, which imposed a capital gains tax rate of 80 per cent on land that was rezoned for residential use, when sold[5]. It is anticipated that this 'land value sharing' initiative will require property owners who experience a non-realised capital gain, due to their land being rezoned for residential purposes, to pay a proportion of the capital gain which occurs between the point at which the land is rezoned to when planning permission is granted to the State. Details on how the levy will apply have not yet been published. The expected timeline for this measure is Q4 2021.

The strategy also proposes the introduction of a new tax to activate vacant land for residential purposes to replace the Vacant Site Levy as part of the Plan's 'use it or lose it' principle. Following from this recommendation, Budget 2022 includes a Zoned Land Tax that will be charged from 2024, details of which are covered in this paper. Similarly, the Plan also includes an action to introduce a provision for Local Authorities to remove the vacant commercial premises exemption.

A Vacant Property Tax is also being considered. The Local Property Tax returns in November 2021 will now provide data on vacancy levels in residential property, which will be used to assess the merits and impact of introducing a vacant property tax. Details of this tax are due to be finalised by Q2 2022. From a data perspective, a new national zoned housing land register will be developed to give insight into the current use of sites in development zones.

The Housing for All document does not contain estimated yields from the introduction of these policies. Furthermore, these policies are not primarily intended as revenue-raising measures. The

[5] The windfall tax was repealed in Finance Act 2014 as it was seen to be acting as an impediment to land rezoning, land development and redevelopment and to land sales for development.

Zoned Land Tax announced as part of Budget 2022 has been set at a rate of 3% and may apply to c. 8,000 Hectares or c. 50 per cent of existing zoned land.[6]

Following discussions at Meeting 4, the Secretariat has recognised that there is broad agreement amongst Commission members on the efficacy of the Local Property Tax as a means of raising revenue from residential property. This paper will examine options to increase revenues from this tax. It will also give insight into the Commercial Rates system and some of the anomalies that exist around it. Options for reform will also be explored for Commercial Rates. This paper will then examine how both undeveloped lands zoned for development and agricultural lands could potentially be brought into the tax base. Currently, such lands are not subject to a recurring tax.[7] Before these taxes are investigated, the merits of a Site Value Tax will be revisited, as this tax is specifically referenced in the Terms of Reference. Firstly, however, insight will be given with respect to recurrent taxation on immovable property in an international context, to see where Ireland stands in comparative terms.

2. Recurrent immovable property taxes in an international context

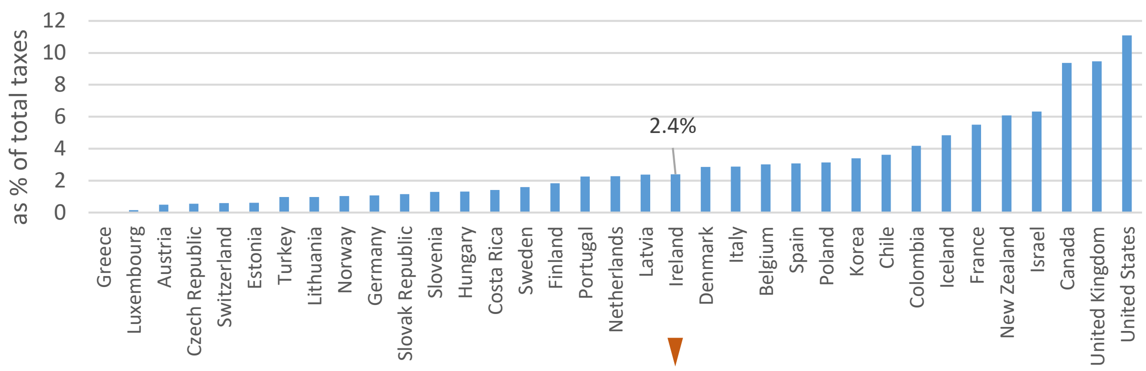
The recurrent tax burden on immovable property varies considerably across OECD counties in 2019, ranging from 0.16 per cent of total taxes in Luxembourg to 11.09 per cent in the UK (see Figure 2). Ireland sits mid-table in terms of the tax burden on immovable property on a recurrent basis or 16th highest. As a share of total Irish revenues in 2019, recurrent taxes on immovable property account for 2.4 per cent. Countries such as Austria, Luxembourg and the Czech Republic collect a very low share of tax revenues via recurrent immovable property taxes; the opposite is the case for the US, UK, Canada and New Zealand. Unlike other English-speaking countries, Ireland extracts a relatively low share of the taxes from immovable property on a recurrent basis. In the EU-28, Ireland has the 11th highest tax burden on immovable property on a recurrent basis.

Historically, Ireland has collected below average recurrent tax revenues on immovable property as a share of total revenues. The recurrent tax burden on immovable property converged on the OECD average during the financial crisis; however, this is due to a greater fall in total tax revenues than a significant increase in recurrent immovable tax revenues in Ireland, which tend to be relatively a-cyclical. The gap between the EU-28 average and Ireland is approximately one percentage point between 2007 and 2018.

[6] Irish Independent Oct 13

[7] The Vacant Site Levy is ineffective in taxing land zoned for development, and this is recognised in the Housing for All strategy which envisages the introduction of a new vacant site tax.

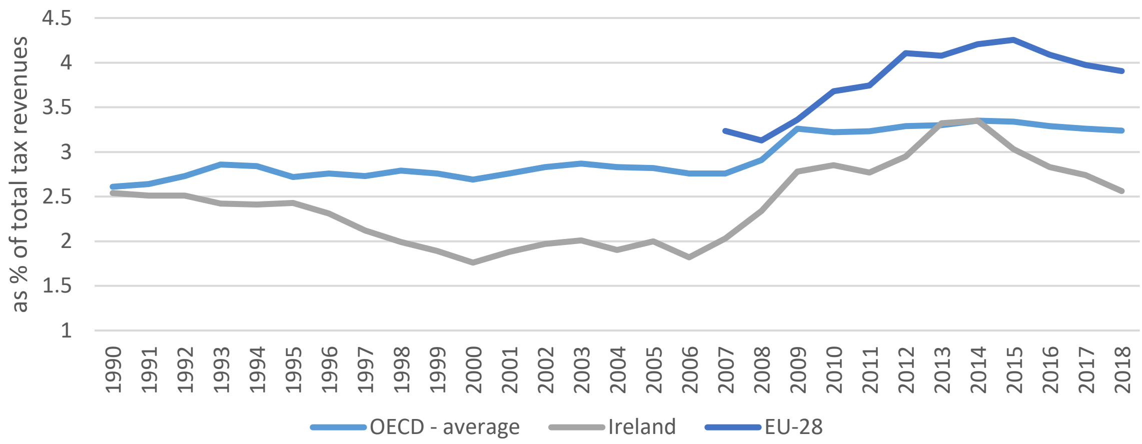
Figure 2: recurrent taxes on immovable property (as % of total taxes), 2019



Source: OECD

Note: 'Recurrent taxes on immovable property' are 'taxes levied regularly in respect of the use or ownership of immovable property (land and buildings)'. OECD figures include social security contributions in total tax revenues

Figure 3: recurrent taxes on immovable property as a share of total revenues (%), 1990-2019



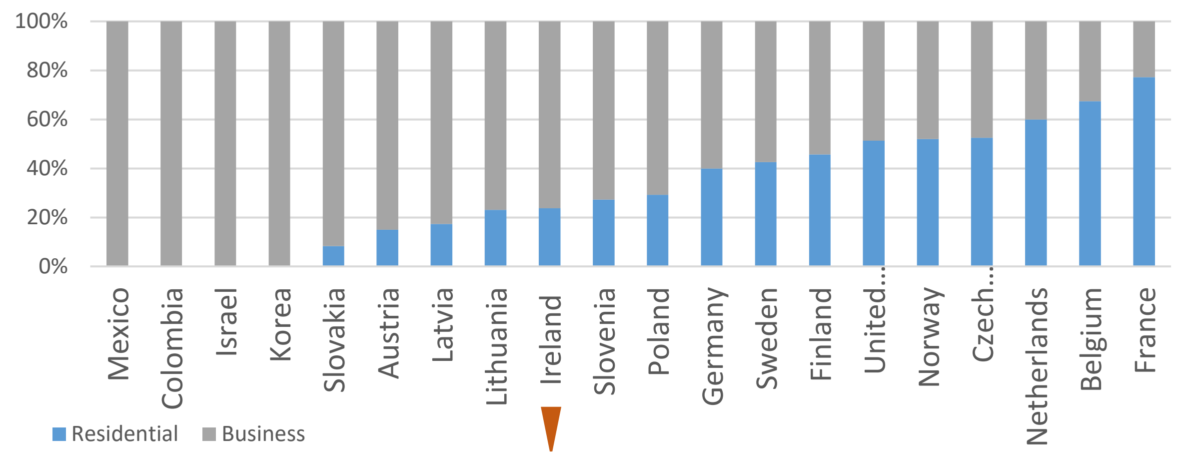
Source: OECD and Eurostat

Note: Eurostat data only available from 2007

Note: both Eurostat and OECD include social security contributions in total taxes

Recurrent immovable property taxes fall disproportionately on businesses in Ireland in an OECD context, accounting for 76 per cent of such taxes paid in 2017. Comparatively, however, this is not uncommon and eight countries have higher tax burdens on businesses. Conversely, taxes on residential properties in France and Belgium represent 77 and 67 per cent of total recurrent immovable property taxes.

Figure 4: recurrent taxes on businesses and households (% of recurrent immovable property taxes)



Source: OECD

2.1 International property tax regimes

Recurrent taxes on immovable property are seen in the majority of OECD countries, with very few exceptions.[8] The majority of countries tax both land and buildings. The amount on which the tax is levied, i.e. the tax base, is often the 'cadastral value' (e.g. Italy, Spain, Belgium), which is a monetary value assigned to a property that is typically based on historical land registry records. This imperfectly approximates the market value but tends to be less than the actual market value.

The Czech Republic has separate building and land taxes with separate rates; the latter is taxed at municipal level.[9]

In Sweden, a municipal charge applies to the owner of a building such as a house or an apartment and leasehold land. A separate tax also exists on undeveloped land.[10]

In France, property taxes exist on developed and undeveloped land.[11] Properties are assessed on their notional or imputed rental value. Taxable properties for the purposes of the developed land tax include permanent constructions (residential properties) or business assets, transport routes and land immediately necessary for such constructions. A property tax on undeveloped land is applied annually on owners of undeveloped land of any nature (including agriculture). A separate residence tax applies to sufficiently furnished residential premises including gardens, garages and private parking spaces.

[8] See Annex Table from Chapter 3, Reforming the tax on immovable property, Fiscal Federalism 2016 (OECD, 2016) for a useful comparison across different regimes.
[9] Globalpropertyguide.com
[10] Skatteverket.se
[11] Ministere de l'Economie - Overview of the French Tax System , 2016

However, this tax is currently being phased out and will be abolished in its entirety by 2023.[12] Second homes will remain under the charge of the residence tax. It applies to whoever is using the property at the time. A vacant residential tax is applicable in rent pressure zones.

Japan levies two distinct recurring property taxes on land, buildings and depreciable business assets. The fixed asset tax is calculated based on the assessed value of all land and houses.[13] A separate City Planning Tax applies to all land and buildings located within certain urban areas, and funds local urban centres. It is applied at a lower rate than the fixed asset tax. The taxable value of the building on the land is determined by reference to the cost of replacement, including depreciation for the years in use, while the value of the land is determined with reference to sales of similar tracts of land.[14]

Ireland and Italy are unique as both have property taxes that apply solely to buildings and surrounding gardens.[15] Italy exempts the principle private residence from property tax, while all OECD countries tax secondary homes. Undeveloped and agricultural land are often subject to tax but tend to be subject to reliefs or reduced rates. Only three OECD countries levy a pure land tax (i.e. Site Value Tax): Denmark, Estonia and Australia (in New South Wales only). These taxes relate to the unimproved value of land i.e. the charge to tax is independent of the buildings on it. Denmark, however, has a tax on both the unimproved value of land (administered at municipal level at a higher rate than on property) and a separate national property tax, which is based off the taxable value of the aggregated value of the real estate and land.[16] Conversely, Estonia solely taxes land; however, an exemption of up to 0.15 hectares for residential land (1,500 m^2) is available in densely populated areas.

Throughout the OECD, commercial immovable properties are taxed based on rental values. Some countries, such as Japan, levy a recurrent tax on other capital property such as machinery.

[12] French-property.com
[13] Bureau of Taxation - Guide to Metropolitan Taxes 2020, 2020
[14] Worldbank.org
[15] For the purposes of the LPT, the property in question is the building along with any gardens, yard, driveway, etc. up to one acre in area.
[16] OECD - Taxation in Agriculture, February 2020

Table 2: tax rates on residential property in the Euro Area - 2019 (%)

	Maximum statutory rate (%) on residential property (transactional)		Recurrent property implicit tax rate (%)*
	Property transfer	**Capital gains**	
Estonia	no	income tax rate	no
Malta	5	8	no
Austria	3.5	30	0.03
Luxembourg	10.5	income tax rate	0.07
Lithuania	no	income tax rate	0.08
Latvia	22	20	0.1
Germany	6	30	0.13
Slovenia	2	25	0.16
Slovakia	no	income tax rate	0.169
Ireland	**2 (high rate of Stamp duty)**	**33 (capital gains tax)**	**0.18**
Cyprus	8	20	0.22
Finland	4	34	0.29
Spain	10	23	0.34
Portugal	8	29	0.36
Italy	9	20	0.41
Netherlands	2	no	0.6
Belgium	12.5	16.5	0.69
Greece	3.1	suspended	0.77
France	5.8	36.2	1.35

Source: Prammer, 2020[17]
** this is an implicit rate, equal to tax revenues divided by total dwellings stock*
Note: this is an indicative guide to effective rates across countries. Tax bases and methods of calculation differ across and sometimes within countries making direct comparison difficult

3. Broadening the tax base

There are two ways that revenues can be increased via recurrent taxation on immovable property: through increasing rates and/or removing exemptions under current regimes; or by introducing new forms of recurring taxation on property that has heretofore not been subject to a recurring tax. This section will discuss the latter, including a Site Value Tax, which is called out specifically in the Terms of Reference.

3.1 Recurrent taxation of land

As was discussed in the previous section, it is commonplace to tax both land and buildings across OECD countries. Most countries tax these forms of property at different rates, with land usually bearing a lower tax burden.

The Vacant Site Levy (VSL) is the only recurring property tax that applies to land. It applies to all residential land of over 0.05 hectares (500 square metres) 'situated in an area in which there is a need

[17] Prammer - Immovable property: where, why and how should it be taxed, 2020. Based on 2014 LPT rate.

for housing', where the 'site is suitable for the provision of housing' and where the 'site or the majority of the site, is vacant or idle'. It does not include land on which a person's home and garden sits.[18] It also applies to regeneration land where the site or the majority of the site is vacant or idle and where the site being vacant or idle has adverse effects on existing amenities. The tax base here is both open to interpretation and has proven small in practice. Qualification for the vacant site register requires local authority officials to inspect individual lands. Each local authority is given the autonomy to administer the tax based on their own calculation of the market value of sites. The VSL is due to be replaced by a Zoned Land Tax.

3.1.1 Taxation of zoned development land

An alternative to a VSL could entail a recurrent centrally-administered tax on the market value of land zoned for development that is currently not being developed[19]. Such a charge could be collected by Revenue and distributed to local authorities, akin to the LPT. It could be self-assessed or valuations could be performed by the Valuation Office. A centrally-administered tax could be more cost-effective and would be less open to interpretational differences that exist among the 31 local authorities who currently administer the VSL. Revenues from such a tax could potentially outweigh those of even a fully-operational VSL, as it would apply to all undeveloped zoned land. It would also capture some of the value increases attributed to land owners whose lands become re-zoned. While commencement of development or the selling of units on such land would erode the tax base, these same properties would subsequently be subject to LPT, or Rates in the case of commercial property.

Such an initiative would require the ongoing maintenance of an undeveloped zoned land database, similar to the database from 2014 compiled by the Department of Housing, Local Government and Heritage.[20] According to this database, there were 17,434 hectares of residential zoned land (allowing approximately 414,000 residential units to be built). *The Housing for All* strategy contains a proposal to introduce a national register of zoned lands, which would include potential housing yield/capacity on such lands in 2022.

A 'back of the envelope' calculation for the Greater Dublin area (Dublin, Meath, Wicklow and Kildare) and regional centres of Cork, Galway and Limerick only suggests that there was €11.04 billion worth of undeveloped residential development land in 2014.[21] An annual property tax at the revised LPT

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[18] Urban Regeneration and Housing Act 2015 Section 5

[19] The *Housing for All* strategy recommends the introduction of a similar tax as part of the 'use it or lose it' principle. The previous Commission on Taxation also recommended the introduction of such a tax.

[20] Dep. HLGH - Residential Land Availability 2014 , February 2015. This database only contains data on residential lands; mixed zoned lands may be used for residential purposes but are not assessed here.

[21] Secretariat calculations based off the average value of total transactions in development land sold in 2015 (€4.6 million) from Cushman and Wakefield's report (which is based off transactions in these counties alone)

central rate (0.1029 per cent) would have yielded €11.36 million across these counties (the D/HLGH report identified 2,412 development lands in these counties). A rate of 5 per cent (in between the 3 and 7 per cent rates for the VSL) could have yielded €551.7 million in these counties from residential development land alone.

Following the Housing for All recommendation to replace the VSL with a more workable alternative, a Zoned Land Tax is being introduced as part of Budget 2022. It will apply to land that is zoned residential or mixed use and suitable for residential development and is serviced (i.e. has access to required services, roads, water, waste infrastructure etc.), but has not yet been developed for housing. Lands zoned prior to January 2022 will not be subject to the tax until 2024 and land zoned after January 2022 will have a three year lead-in time. The rate will be set at 3 per cent of the market value of the land; the tax will be self-assessed and will be centrally administered by Revenue. The Government have stated that it is not intended as a revenue-raising measure. The details of exemptions are to be published as part of the Finance Bill. However, the requirement for a liable parcel of land to be 'serviced' and the nature of the exemptions required will need to be examined further when assessing the effectiveness of this new tax.

3.1.2 Agricultural land

Agriculture is the only for-profit activity that remains outside the charge of Commercial Rates, following the very out-dated 'Griffith Valuation' method of valuation of agricultural lands having been deemed unconstitutional in 1984. Approximately half of OECD countries have a recurrent tax on agricultural land, and the majority of those who do levy a tax on agricultural land give preferential treatment to such land. Valuation of land is generally based on land registry (often called cadastral) values, which tend to be lower than the market value of land. [22]

If a recurrent tax on agricultural land were to be introduced, it could be implemented in a similar fashion to how LPT is currently administered, with the market value used as the basis for taxation. Tax rates would be the same across counties to avoid some of the current anomalies that exist in the Commercial Rates system. Approximately 65 per cent of all land (45,160 km^2) in the country is agricultural land, while 11 per cent is forestry (7,740 km^2). However, much of this agricultural land might not be suitable for use as agricultural land (i.e. on a flood plain) and market values of such land

multiplied by the total amount of residential development lands that were identified in the Residential Land Availability Report 2014 in these counties. It should be interpreted with caution. The numbers of zoned development lands is likely to have diminished in the intervening period and the average value of development land has doubled between 2015 and 2019 (from €4.5 million to €9.6 million)

[22] OECD – Working Paper on Agricultural Policies and Markets, Taxation in agriculture, 2019

may not be available. Similarly, taxation of agricultural land that is not of good quality might be perceived as unfair, although quality -all else considered- should be reflected in the market value. No official costings of an agricultural land tax exist to our knowledge.

However, a 'back of the envelope' estimate of potential revenues can be calculated. Teagasc and the Society of Chartered Surveyors Ireland[23] produce national average land values per acre for both good and poor quality lands.[24] Good quality land was valued at €9,281 per acre on average in 2020, while the average value of poor quality land was €5,900; however, a breakdown of the proportion of good and poor quality lands is not given. Assuming that there is a 50-50 split of good and poor land in the State, the total market value of all 11,159,279 acres of agricultural land in the State is €85.26 billion. Applying a flat rate of 0.1029 per cent (the LPT rate) to this market value yields €87.74 million. The CSO estimate that the average size of the 137,500 farms in Ireland was 79 acres in 2016. Based on a 50-50 split of good/poor quality farms, an average farm would pay €621. An agricultural tax based on market values (updated every 4 years), as opposed to the outdated valuation that existed in the Agricultural Rates system would be fairer and transparent. Similarly, this may be more publically acceptable than the flat Farm Tax rate of £10 per acre, which does not account for characteristics of the land such as quality. Income deferral thresholds could be introduced for cases where the owner of land has low income. Consideration would be needed to be given with regards to the interaction between an agricultural land tax and Rates, if they were to be proposed for agricultural buildings (See Section 4.2).

3.1.3 Site Value Tax

A Land or Site Value Tax (SVT) is considered to be the most efficient form of property tax from an economic perspective. Land, irrespective of whether there is a building on it, has a value that is determined by its location and the owner cannot reasonably affect the value. Furthermore, there is a fixed supply of land in the State, and as such, a tax on this asset should not distort economic activity in theory. It has been argued that an arbitrarily high tax on land is efficient and a recurrent tax on the most 'immovable' of all classes of property offers a highly sustainable source of revenues. Both the LPT and Commercial Rates systems are designed as sustainable sources of finance for local Government with a basis of assessment levied on the value of the properties concerned rather than on the pure value of the land on which the buildings stand.

A SVT in a world with no zoning or planning laws would apply to all land at a fixed rate. However, planning and zoning laws are essential to ensuring an appropriate mix of developments and are key

[23] SCSI/Teagasc – Agricultural Land Market Review & Outlook 2021, 2021

[24] Poor quality land has poor percolation quality and is often wet underfoot - unsuitable for tillage farming, growing potatoes or growing grass for silage.

to the strategic development of communities. As such, different rates would likely apply to land depending on its categorisation from a zoning perspective.

If a SVT were to be introduced, it could potentially be administered by Revenue and valuation of lands could be undertaken by the Valuation Office, a body that already has significant experience in valuation techniques of properties and land. However, designing and implementing a new apparatus to facilitate SVT would likely be a costly and complicated exercise. A number of datasets on various household characteristics would need to be collated as part of the process and significant drawbacks in relation to the valuation exercise, which conceptually separates the buildings on the site from the site remain. These were covered in detail in the previous Secretariat paper at meeting 4. However, significant strides have been made in this area since the last Commission on Taxation.[25] One of the benefits of a SVT over the current Vacant Site Levy and other zoned development land taxes is that it would tax all owners of land. Self-assessment for qualification for reliefs for various types of land (e.g. agricultural and developed residential land) could be incorporated to avoid the need for an ongoing database of undeveloped zoned land or a vacant site register. This would also allow larger burdens to be placed on potential land hoarders, should it be desired.

SVT was introduced as part of the initial discussion on Housing in Commission meeting 4.[26] At that meeting it was agreed that SVT would be considered further by the Commission to establish the merits, challenges, impacts and sustainability of the introduction of a SVT in Ireland.

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[25] For example, the CSO only established an official national house price index in 2011. The Department of Housing, Local Government and Heritage now have a centrally published database on land zoning and planning permission details, which both give colour to property characteristics. Geodirectory gives each address in the State a unique geocode and identifier. As of 2012, the Property Services Regulatory Authority keep a register of all property transactions since 2010, using administrative data on stamp duty returns. The Property Registration Authority now makes data on plot sizes readily available; however, data for Dublin property sizes is currently scant.

There are a number of options for consideration if a SVT were to be introduced in Ireland. The merits of each will be discussed below:

- A SVT that would replace all recurrent taxes on property
- A SVT that would co-exist with both LPT and Commercial Rates
- A SVT that would replace the LPT and co-exist with Commercial Rates
- A SVT that would replace Commercial Rates and co-exist with LPT

A SVT that would replace all existing recurring taxes on property (i.e. LPT, Rates and Vacant Site Levy) would likely lead to a significantly different distribution of liabilities than currently exists. Establishing new charges for all properties (commercial, residential and land) to make up a similar or higher level of revenues as both the LPT and Rates systems currently do could lead to significantly different liabilities being paid across property owners. The shift from a valuation mechanism primarily linked to market values to one which separates the value of buildings on the site from the site could also create difficulties from a transparency and acceptability perspective. Transition to an SVT would likely have to take into account income of taxpayers who might happen to be asset rich but income poor. Income threshold deferrals, similar to those currently in place for LPT might be one way of mitigating against this issue however, the cost of such deferrals and the impact on the existing tax base would need to be considered from a revenue-raising perspective. The LPT is widely considered to be an effective tax from an administrative and revenue sustainability perspective and replacing it might not be wise or necessary (as indicated by Commission members). If a SVT were to be introduced alongside a LPT one could be levied at a lower rate with further reductions/exemptions for principle residence land, if this were desired.

Another case for retaining the LPT (along with a SVT) relates to the fact that dwellings are currently given preferential treatment by the tax system over other consumption goods/services.[27] VAT is generally only charged on new property (hence value-added) and given the extremely durable nature of housing as a consumption good (houses can last hundreds of years), the VAT charge of 13.5 per cent on new houses arguably understates the value that generations of occupiers will derive from the continued use of these properties. For this reason, LPT could be seen as a VAT on the consumption of

[27] Housing can also be seen as an investment asset, where preferential treatment toward an owner-occupier also exists. Principal private residences are not subject to CGT or imputed rent taxes. Landlords pay CGT on disposal, LPT on ownership and income tax on rents. Ultimately, these additional costs to landlords can be passed on to the tenant.

the *flow of services* that one derives from a dwelling and should legitimately continue alongside any charge on land.

As will be discussed in greater detail in Section 4.2 the Commercial Rates system is relatively resource intensive from an administrative point of view, has lower compliance rates and is inequitable as it taxes similarly valued properties at varying rates. Replacing the current Rates system with a SVT on commercial property would be positive from an economic perspective, due to the fact that the SVT is not a tax on an economic input. The accountable persons for payment of the tax would fall on landowners rather than commercial tenants. As Rates account for the largest proportion of local authority receipts, any amendment to the system would need to address the redistribution of funds that might occur as a result of a transition to SVT which would likely be considerable. Consideration would also need to be given to the role of local authorities in the process, as they currently have significant influence over Commercial Rates payments.

A SVT on all land could also co-exist alongside both the LPT and Commercial Rates systems. However, properties subject to Rates would likely have to be exempt or subject to reliefs, given the proportionately larger share of revenues that commercial properties currently contribute. Similarly, for the reasons outlined above, while the co-existence of an LPT alongside a SVT (residential inclusive) can be justified, imposing both a SVT and Rates on commercial property may not be a viable option, and replacing Rates with SVT would be preferable, were a SVT for commercial property to be introduced.

A SVT on all land, save developed residential (or even Principal Private Residential) land and commercial land could also be considered (effectively SVT on agricultural and undeveloped land). It would likely be the least complex to administer and from a political economy perspective would be easier to introduce. This scenario, however, would be very similar to that of a market value of land-based apparatus (similar to that of the LPT) and such a proposal might be better served by investigating a development land tax and separate agricultural tax instead.

There are few exercises estimating the likely rates and yields associated with the introduction of a SVT on residential lands. Ronan Lyons conducted such an exercise in 2010 as part of a proposal to introduce a SVT.[28] This is quite an outdated costing (2011), estimated prior to the introduction of the LPT. The proposal put forward the case for a single property tax (the SVT) that would also replace

[28] See Appendix 2 for more details on Lyons' proposal

Commercial Rates. A threshold of 5 per cent of projected total revenues in 2015 was used as the minimum revenues that would be generated by the SVT; in 2010, 5 per cent of projected revenues equated to €2.85 billion for 2015. Lyons envisaged that roughly half of this would come from those subject to Commercial Rates (which amounted to €1.36 billion in 2010). The remaining €1.4 billion would be raised through a residential SVT (both developed and undeveloped). The interim SVT proposed by Lyons would raise €1.25 billion if levied on all 2 million households in the country in the 2011 Census - an average of €625 per household. This 2 million households figure does not include development lands; if these were included, the average burden would be reduced on households.

Lyons does not go into detail on how the SVT would replace Commercial Rates, however, a similar exercise to that explained in Appendix 2 could be carried out on such properties. The Valuation Office already estimates rental values of commercial properties by area to obtain a rateable value. A similar process of ranking property rents (or implied property prices) across districts could be extended to lands on which commercial and industrial activity takes place. Further investigation into the practicalities of introducing a SVT for commercial premises is needed.

The SVT is the best form of taxation from an economic perspective and these merits have been highlighted by the Secretariat. The 2009 Commission on Taxation also recognised this point. Ultimately, however, it was decided that the challenges to implementing a SVT outweigh these benefits. While significant strides have been made in the interim - particularly with regards to data on household and land characteristics - some data gaps remain e.g. landdirect.ie has insufficient data on plot size in Dublin, in particular. Consideration would need to be given to how a new tax on property would be communicated, how costly the effective implementation of such a tax would be and what impact it might have on existing yields from both LPT and commercial rates.

4. Reforming existing recurrent taxes on immovable property

There are three recurrent taxes on immovable property in Ireland, each of which are levied on an annual basis: the Local Property Tax (LPT), Commercial Rates and the Vacant Site Levy.[29] This section will give a brief overview of existing recurrent taxes on immovable property in Ireland, and some potential options for reforming these taxes will be examined.

[29] This paper uses the term 'taxes' for ease of reference, although it is acknowledged that local authority rates and levies are not strictly classified as such.

4.1 Local Property Tax

The Local Property Tax (LPT) was introduced in 2013 following a recommendation from the Commission on Taxation to introduce an annual property tax on residential property that would act to broaden the tax base and provide a relatively sustainable revenue source to the State.[30] The LPT was the first recurring tax on all residential property since the Residential Property Tax (introduced in 1983) was abolished in 1997, although a transitionary Household Charge of €100 was in place in 2012 prior to the LPT's introduction. A separate charge, the Non-Principal Private Residence Tax, was a €200 charge on property that was levied on every non-principal private residence and existed from 2009 to 2013.

The LPT is a self-assessed tax based on the market value of residential property on a specific valuation date. From an administrative perspective, the LPT is a successful tax with a compliance rate of 96 per cent in 2020, a rate that has remained stable in recent years. LPT is charged on the owner of the property (other than in the case of long-term leases greater than 20 years where the tenant is charged) and liabilities are associated with valuation bands, as opposed to actual market values.

A residential property is defined as any building (or part of any building) which is used, or is suitable for use, as a dwelling. It does not apply to development land or farmland. For valuation purposes, a residential property also includes amenities such as a yard, garden, driveway and a garage and other lands associated with the property up to an acre. A property is not liable to LPT if it is not suitable for use as a dwelling (and unoccupied). Criteria such as a sound roof, sanitary facilities, water and electricity supplies are considered in assessing the property's habitability status for LPT purposes.

The Finance (Local Property Tax) (Amendment) Bill 2021 was signed into law in July 2021. In effect, the revised LPT will have further broadened the tax base to include properties that were not previously subject to the tax i.e. properties built after 1 May 2013. The number of properties brought into the tax net amounts to 100,000, or a 5 per cent increase on the current base. An updated revaluation based on November 2021 prices will also be introduced for properties that were subject to the original LPT. The Bill also provides for new properties to be brought into the tax base every November and revaluations will take place every four years. Given the significant increase in residential property values since 2013, bands above €262,500 have been broadened by 75 per cent, with the result that the majority of taxpayers will see no change to their LPT charge. The Department of Finance estimate that 11 per cent of current LPT payers will see decreases in their liability, while 53 per cent will face no change. Approximately 33 per cent will see increases of up to €100 annually.[31]

[30] Commission on Taxation Report – 2009 (page 160)
[31] Gov.ie

The new LPT has a revised rate structure. The original LPT tax was levied at 0.18 per cent of the mid-point of a value band up to €1 million in value; the balance was taxed at 0.25 per cent. The revised LPT has a lower mid-point rate of 0.1029 per cent on the first €1.05 million, 0.25 per cent on the value between €1.05 million and €1.75 million and a rate of 0.3 per cent on the remainder above €1.75 million. Local Authorities will retain the ability to exercise the use of the Local Adjustment Factor, which allows the increase/decrease of the central rates by 15 per cent from central rates in a given council area.[32] In 2021, three local authorities have reduced rates: Fingal (by 10 per cent), Dublin City Council (by 15 per cent) and South Dublin County Council (by 15 per cent). Conversely, 22 local authorities have increased rates (between 5 and 15 per cent) and six have opted for retained central rates. The original and revised LPT bands and rates can be seen in Appendix 1.

For illustrative purposes, a property valued at €900,000 will face an effective rate of 0.105 per cent (or a liability of €945). A property valued at €1.4 million will face an effective rate of 0.132 per cent (€1,846) and a property worth €3 million will be taxed at an effective rate of 0.219 per cent of the value of the property (€6,580).[33] Gross income deferral thresholds have also been increased to €18,000 from €15,000 for a single owner and €30,000 from €25,000 for a couple;[34] a 20 per cent increase. Individuals who qualify for deferral of LPT can defer payment until their financial circumstances improve or the property is sold, however accumulated liabilities must eventually be paid together with interest.

A number of exemptions are to be abolished or amended. The exemption for the vacation of a property on the basis of the owner being ill or infirm no longer requires that the property be unoccupied. This property can now be occupied during the period of the owner's vacancy for the property to be eligible for exemption. Properties that were completed by a builder/developer and held as trading stock prior to May 2013 were exempt from LPT on the basis that they remained unoccupied. This exemption is being terminated in relation to years after 2021. A similar 'ghost estate' exemption is to be terminated for years after 2021. The exemption for first time buyers who purchased their properties in 2013 is also being terminated. Finally, owners of exempt properties are now required to file returns.

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[32] Details of recent LAF available here

[33] The LPT is a progressive tax from a wealth perspective as the average effective rate rises with the market value of the property. The LPT approximates a wealth tax on Irish residents. According to the CSO's Household Finance and Consumption Survey, in 2018, 59 per cent of net household wealth is in the main residence, while other real estate property and land accounts for 29 per cent of the value of net wealth. See Lydon et al., (2021) for more details.

[34] A couple includes a married couple, civil partners and certain cohabitants.

While not directly relevant to total tax revenues collected, the manner in which LPT revenues will be distributed is set to change. The equalisation fund as part of the current LPT is to be abolished. The current LPT provides for 20 per cent of all local authority receipts to be redistributed, via the equalisation fund, to local authorities that do not have a sufficiently large residential base. Counties Donegal, Tipperary and Mayo are the greatest beneficiaries of the fund. The Thornhill Report (2015) recommended full local retention on the basis that it increases transparency and local accountability.[35]

The revised LPT return will contain a section that will be used for the 'compiling of statistical information in relation to residential properties in the State which are not in use as a dwelling'.[36] The LPT form will now query the form's returnee on the following:

a) whether the residential property concerned is in use as the liable person's sole or main dwelling;
b) whether the residential property concerned is in use as a dwelling on the valuation date;
c) where the residential property concerned is not in use as a dwelling on the valuation date, the period prior to the valuation date during which it was not so used; and
d) where the residential property concerned is not in use as a dwelling on the valuation date, the reason why it is not so used.

It is expected that this data will give some insight into the nature and extent of vacancy in residential properties across the State. Minister for Finance, Paschal Donohoe has indicated that Budget 2022 will not feature a vacant property tax, as data will not have been collected on these properties in order to make a judgement on the scale and revenue streams such a tax would bring into the Exchequer.[37] However, the Housing for All strategy contains a recommendation to collect data on vacant residential property with a view to introducing a Vacant Property Tax by the second quarter of 2022.

Table 3 presents LPT revenues since its introduction in 2013. In recent years, LPT revenues have remained stable in absolute terms, falling marginally as a share of total tax revenues.

Table 3 - LPT revenues in € and as % of total tax revenues

	2013	2014	2015	2016	2017	2018	2019	2020
LPT receipts (€m)	318	491	469	463	477	482	473.4	480
LPT receipts as % of total tax revenues	0.6%	1.1%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%

Source: CSO total tax revenues; Revenue Commissioners

[35] See the Report here
[36] Finance (Local Property Tax) (Amendment) Act 2021
[37] Irish Times

4.1.1 Options for Reform to LPT

It is estimated that the revised LPT will yield more than the current regime in absolute terms (€560 million) but a similar amount as a share of total projected tax revenues in 2022 (0.8 per cent).[38] The central aim of the revised LPT was to update the tax base to reflect house price changes and new builds since 2013 and to ensure recurring revaluations. Given that just over 100,000 houses have been built since 2013,[39] along with significant increases in house prices, the estimated increased yield as part of the revised LPT is modest (€560 million in 2022 as opposed to an expected yield of €495 million in 2021[40]), owing in large part to the reduced central rate as well as widened valuation bands.

LPT Rebase and Rates

The following section presents estimates of changes to the original LPT regime, as analysis has not yet been carried out on a Revised LPT baseline. In 2019, an interdepartmental group tasked with reviewing the LPT explored various scenarios that could be pursued in reforming the LPT.[41] In a scenario where the original LPT is revised to reflect a rebasing of property values in line with November 2019 prices, with no changes to bands or rates, estimated revenues amount to €729 million in 2020. Approximately 55 per cent of properties would see an increase of between €101 and €300 in LPT liability, while 12 per cent would an increase of over €500.

An increase in LPT rates could also yield significantly more receipts. Estimates produced by the Revenue Commissioner's *Revenue Ready Reckoner* suggest that a 15 per cent increase in rates set by local authorities in 2021 would increase revenues by €72 million in 2021.[42] This estimate is also based off a baseline of the original LPT central rates and valuation bands, and would be greater if it were to include properties built since 2013.

Multiple property owners and an NPPR Surcharge

A surcharge on non-principal primary residences (NPPR) could also be considered as a means to increasing yields from LPT. Out of the 1.9 million properties liable to LPT in 2020, 435,500 (23 per cent) were the second (or more) properties of 177,000 individuals/entities.[43] Revenue estimate that an

[38] Projected revenues based on the Economic & Fiscal Outlook 2022 – Department of Finance (2021)
[39] CSO
[40] Revenue Commissioners – Ready Reckoner Budget 2021, November 2020
[41] Interdepartmental Group - Review of Local Property Tax, April 2019
[42] See Local adjustment factors for 2021. Local authorities have the power to reduce or increase the central rates of 0.180 and 0.25 per cent by 15 per cent. An increase of the 0.18 per cent rate by 15 per cent is 0.207. The majority of local authorities have increased rates in 2021, however, all but one Dublin local authority have reduced LPT rates from the base rate in 2021.
[43] Revenue Commissioners - Local Property Tax statistics 2020, July 2021

additional charge of €100 on NPPR (primarily rental properties and holiday homes) would yield an additional €24 million.[44]

Vacant Property Surcharge

A surcharge on vacant properties that could be considered to be vacant for an extended period of time for speculative reasons in areas that have acute supply shortfalls was discussed at Committee Stage of the revised LPT.[45] The LPT return filed by taxpayers in November 2021 will include questions on the reason for a property's vacancy on the date of filing as well as details on the period of vacancy. Data from December 2019 provides a breakdown of the occupation, vacancy and holiday home rates of just over 2 million residential buildings.[46] Across the State, the vacancy rate is 4.7 per cent (94,674 dwellings) while the holiday home rate is 2 per cent (40,287 dwellings). In Dublin, the vacancy rate is considerably lower with 1.3 per cent of dwellings vacant in the county, or 7,314. This is a year-on-year increase in the vacancy rate of 0.2 percentage points. Vacancy rates are highest in counties Leitrim (15.3 per cent), Roscommon (13.3 per cent) and Mayo (12.8 per cent). This gives an idea of the quantity of dwellings that could potentially be the subject to a vacancy surcharge; however, perceptions of unfairness might arise if properties are deemed vacant due to reasons other than speculation or hoarding. It is envisaged that the administrative data collected as part of the next LPT return will give more insight into the nature of vacancy across the State. The *Housing for All* strategy has indicated that active consideration be given to the use of this data for the purposes of a vacant property tax.

Uninhabitable Exemption

Uninhabitable residential property is currently not subject to LPT. 'Uninhabitable' refers to an unoccupied house that is unsuitable for use as a dwelling. An owner of such property is required to provide supporting evidence from architecture or engineer reports, or photographs to show that the building is unsuitable for dwelling. There must be evidence of criteria such as an unsound roof, no sanitary facilities, no access to water supply and no electricity supply connected. From the point of view of the owner of a property, it is might be considered fair that they do not have to pay their local

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[44] Given that 435,500 dwellings are second or more properties, an additional €100 charge on all of these properties would yield €43.55 million annually. Revenue's Ready Reckoner estimates an additional €100 on NPPRs, which are based on properties indicated as such on the LPT return.

[45] Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach - General Scheme of the Finance (Local Property Tax) (Amendment) Bill 2021: Discussion 7th July 2021

[46] GeoDirectory – GeoView Residential Buildings Report Q4 2019, January 2020. Note: data for 2019Q4 is used as later data may be skewed by temporary Covid-19 related displacement of the population. Residential properties exclude derelict properties.

authority for the provision of services that their property does not currently benefit from (i.e. access to water and electricity). However, the current exemption may be acting as a disincentive for the activation of residential properties for habitable use. Data on the location of uninhabitable properties would be insightful. If the bulk of these uninhabitable properties were in rural areas where there is relatively little demand for housing, the tax yield from their inclusion in the tax base would likely be insignificant and could be perceived as unfair, given the relatively low demand for properties in such areas.

Equity/Fairness

Greater LPT liabilities arising from increased rates and growing house prices (properties will be revalued every 4 years as part of the revised LPT) would lead to significantly higher tax liabilities across the board. This would likely bring about concerns around equity, as increases would affect those on lower incomes more acutely, despite the fact that the average tax rate rises more quickly with value in the revised LPT than it did in the original LPT – i.e. it is more progressive. By increasing the deferral thresholds by 20 per cent, the revised LPT recognises the fact that many asset-rich but income-poor households will face proportionately larger liabilities. These thresholds would likely have to be increased in line with further revisions to the LPT to allay some of the equity issues and fairness concerns that come with a tax on the primary residence.

Charge on housing equity

Another concern around fairness relates to the fact that dwellers are currently required to pay LPT on a home that they do not own in its entirety, and any future increases may have to take account of this. Donal de Buitléir has highlighted the fact that the withdrawal of Mortgage Interest Relief[47] from the income tax code leaves those with interest payments on their home at an unfair disadvantage. In the absence of interest relief, his view is that the 'correct treatment in principle' would be to provide for a reduced LPT burden based on the dweller's housing equity.[48] In simple terms, this could entail the provision of an offset against the assessable market value for any outstanding debt on the home. Any move to reduce the taxable value of a property by outstanding debt absent any offsetting measures would, however, decrease tax revenues collected and could introduce complexity in the administration of the tax e.g. due to a need to regularly recalculate the LPT liability as the mortgage is

[47] Mortgage interest relief was available for loans taken out on a qualifying property between 1 January 2004 and 31 December 2012. The relief was ceased at the end of 2020 on a tapered basis.
[48] De Buitléir – Chapter 1, Irish Tax Policy in Perspective, Irish Tax Institute

repaid. Similarly, incentives may arise for owners to increase mortgage debt; however, the cost of this additional finance is likely to exceed any resultant benefit at current levels.

Valuation basis

While the base used for the LPT is the market value of the property, other potential bases exist. These could include floor space and construction cost, for example. The basis for charging LPT could also be a quality of property indicator, such as number of bedrooms, windows, detached or terraced, area of garden etc. that would charge property owners based on material metrics, as opposed to simple market value. This could mean, for instance, that an owner of a large house outside Dublin would pay a similar bill to an owner of a small terraced house in the Dublin city centre.[49] The Thornhill Report (2015) considered other options of valuation but recommended that market value be kept as the tax base due to its tangible and transparent nature.[50] Market value is an all-encompassing base that takes into account many of these characteristics as well as benefits that come with residing in a certain location. In addition, no costing of such proposals exists.

This Section presented a non-exhaustive list of potential changes that could be made to the LPT regime. Any costings should be interpreted with caution, as they are based on the 2013 LPT regime.

- Changes to the valuation base date
- Changes to rates
- Surcharges on NPPR, multiple properties and vacant properties
- Uninhabitable properties
- Changes that could allay equity and fairness concerns coupled with increased charges including a charge on home equity.

4.2 Commercial Rates

Commercial Rates represent the largest single source of revenues for local authorities. In 2018, Commercial Rates (henceforth Rates) accounted for 32 per cent of the budgets of all local authorities, with charges for good/services and government grants/subsidies both representing 30 per cent and LPT revenues representing 8 per cent.[51] This percentage can vary between local authorities with Rates

[49] See Michael McDowell – Irish Times , Sep 2021
[50] Thornhill – Review of the Local Property Tax, 2015
[51] Interdepartmental Review of the Local Property Tax, 2019

accounting for 54 per cent of total income in Fingal County Council and just 14 per cent in Leitrim County Council in 2016.[52] Residential and commercially dense local authorities receive a relatively large share of their income from user charges, Rates and LPT income. The share of Rates in budgets across local authorities has remained stable in recent years, however, it has increased as a share of local authority funding since 2006 when it represented 27 per cent of local authority income.[53]

Revenues from Rates were nearly three times the size of LPT revenues in 2019. Rates revenues have been increasing in recent years in absolute terms; in 2019 Rates collected amounted to €1.4 billion (2.2 per cent of total tax revenues). However, Rates income as a share of total tax revenues has been falling.

Table 4 - Commercial rates revenues in € and as % of total tax revenues

	2013	2014	2015	2016	2017	2018	2019
Commercial Rates revenues (€m)	1,296	1,325	1,345	1,318	1,342	1,388	1,426
Commercial Rates revenues as share of total tax revenues	3.0%	2.8%	2.6%	2.5%	2.4%	2.3%	2.2%

Source: CSO total tax revenues; Revenue Commissioners

Rates are an annual charge levied by a local authority on the occupier of business properties in its jurisdiction. In the case of unoccupied property, it is the owner who is charged, although vacant property rebates and exemptions are available.[54] The Valuation Office values the properties and the local authorities collect the rates based on the rateable valuation of the business multiplied by the Annual Rate on Valuation (ARV). The ARV for a given local authority is generally determined by reference to the total shortfall in local authority income, divided by the cumulative total of all valuations of rateable premises in the local authority.

$$ARV = \frac{shortfall\ in\ Council\ income}{\sum net\ annual\ valuations}$$

$$Rate\ payable\ by\ business\ owner = ARV\ \times net\ annual\ valuation$$

[52] Department of Housing Local Government and Heritage - An Overview of Commercial Rates, 2018
[53] Turley and McNena - Local government funding in Ireland: Contemporary issues and future challenges, 2019
[54] Under current rules, councils cannot charge full commercial rates to the owners of vacant business properties so long as a valid reason is provided. However, this is under review.

This methodology results in significant volatility in ARV rates and there are quite substantial differences between ARVs across county councils with Dún Laoghaire/Rathdown having the lowest ARV in 2020 at 0.1731 and Kerry County Council having the highest rate at 79.25. Within counties, the rate has varied in the past decades, usually decreasing in recent years, for example, Westmeath Council's rate has dropped from 52.27 in 2010 to 0.194 in 2020. However, some have increased; Mayo County Council's ARV was 68.76 in 2010 and is 78.42 in 2020.

Table 5 - Range of Annual Rates of Valuations in 2020

	Min	Max
Local authorities (2020)	0.1732 (Dún Laoghaire-Rathdown)	79.25 (Kerry County Council)
2010-2020	0.144 (Fingal 2012-2017)	80.35 (Kerry 2010-2014)

Source: Valuation Office

The *Valuation Acts 2001 to 2020* set in train a national revaluation process (beginning in the early 2000s) of all commercial and industrial properties in the State, the first of its kind since the middle of the 19th Century. It is envisaged that this process will bring the rateable value (the tax base) into line with contemporary rental values and subsequent revaluations are to take place every five to ten years in accordance with the *Valuation Act 2001*.[55] The revaluation is due to be completed in its entirety in 2022. It is anticipated that upon completion of the process, ARVs will be below one and any significant variation will be due to local authorities' financing needs. In 2010, 26 local authorities had an ARV greater than one; in 2020, eight authorities have rates above one. The reduction in the number of ARVs greater than one reflects the progressing valuation process i.e. the tax base for properties is now much higher for the bulk of properties as they are updated to today's rental values, and ARVs are reduced to compensate for this. The Valuation Office state that the purpose of the revaluation programme 'is to bring more equity, fairness and transparency into the local authority rating system for non-domestic property'.[56]

The valuation methodology used by the Valuation Office is based on the annual market rent a given property might be expected to pay and as such, varies across property usage and location. Data on local rents are collected from Rates payers and the Revenue Commissioners and a hypothetical square metre net annual value is derived for each property by use (i.e. retail, office, industrial). This value is

[55] A second round of revaluations is underway in certain Dublin local authorities that now have an out-dated valuation, with new valuations due to be published and payable from 2022.
[56] Valuation Office (p. 6) – Annual Report 2020, 2021

then multiplied by the square metre value of the property in question, to obtain the property's Net Annual Valuation (NAV).[57] Different uses within properties are valued differently. For example, a storage area or a car park space is valued at a lower square metre NAV, while front-of-house retail zones have higher square metre values. Certain properties' rateable value is determined with reference to both turnover and rental values (e.g. licensed premises, service stations, nursing homes), while some particular premises such as pharmaceutical plants are assessed by reference to the cost of rebuilding the property. Where a business owner is the owner of the property, the property is assessed as if it were a rented property. In 2018, Rates payers were charged approximately €9,465 on average.

The process of modernising the Commercial Rates system has been slow. Indeed, the Commission on Taxation 2009 noted this in their Report where it was recommended that the process be expedited. However, over a decade later, the process remains to be completed. The exact cost of these delays is not readily available.

However, the slow pace of the revaluation of refurbished/extended properties and the valuation of new properties has resulted in non-trivial amounts of forgone revenues for local authorities. In 2018, 7,417 properties were awaiting processing, an increase of 1,500 applications on 2016. Based on 2016 applications, it is estimated that approximately €23.5 million is lost annually due to the slow pace of revisions of valuations.[58] While new buildings await valuation (which are typically the subject of about 20% to 30% of applications) the businesses in these premises do not pay Rates and as a result may have an unfair trading advantage over other businesses. In recognition of this issue, the Valuation Office has since outsourced the processing of 5,700 revision applications, on a one-off basis.[59] More recent data on the cost of delayed revisions is not available.

In December 2018, the Department of Housing, Local Government and Heritage published *An Overview of Commercial Rates in Local Authorities*. Average collection rates of Rates across local authorities were 83, 84 and 86 per cent in 2015, 2016 and 2017, with significant variation in collection rates across local authorities. Donegal, Laois and Louth all had a collection rate of between 74 and 75 per cent in 2017, while Fingal and Kilkenny councils exhibited collection rates of 96 and 95 per cent.

[57] Each property's NAV can be seen on the Valuation Office Map. Properties that have not yet been revalued under the Valuation Act 2001 have much lower valuations.
[58] Department of Housing Local Government and Heritage (DHLGH) - An Overview of Commercial Rates in Local Authorities, December 2018
[59] Valuation Office – Annual Report 2020, 2021

The *Local Government Rates and other Matters Act 2019* introduced a provision for minimum charges for vacant premises (i.e. vacant properties cannot be fully exempt), which replaced the previous legislation whereby up to 100 per cent relief for vacant premises in county councils and 50 per cent in city councils could be granted. 'Vacancy' refers to a property which is unoccupied for repairs or additions, where the property is pending demolition or re-development or because the liable person is for *bona fide* reasons unable to obtain a suitable tenant at a reasonable rent. The Act also provided for the application of interest payments on unpaid Rates. Vacancy relief amounted to €106 million in 2017. *Housing for All* references plans for legislation to enable Local Authorities to remove the Rates vacancy refund for vacant properties, if they choose to do so. The expected timeline for this action is Q1 of 2022.

Rates arrears are also a significant portion of forgone revenue for local authorities. Closing arrears as of December 2017 amounted to €272 million. While overall arrears are significant this does represent a decrease on previous years (2016**:** €297m, 2015**:** €337m). Over €13 million of the debt at the end of 31 December 2016 was aged four years or older and it is noted that typically it can be more difficult to collect debt the older it becomes.[60]

A waiver on Rates was announced in May 2020 in recognition of the fact that businesses were forced to close as a result of the Covid-19 Pandemic, and expired at the end of September 2021. The Government allocated €900 million to local authorities across 2020, to compensate for revenues lost due to the waiver. Budget 2022 announced the extension of the waiver until the end of 2021 for certain sectors that are not yet fully open (hospitality, arts and certain tourism related sectors).

Exemptions

A number of property classes are not subject to Commercial Rates.[61] These include land, buildings or *parts* of buildings used for the purposes of:

- Agricultural, horticultural, forestry, turf bogs/turf banks or sport.
- Community sport premises solely (non-profit), but not including parts of the building used for the sale/consumption of alcohol or used directly/indirectly in the generation of income.
- Farm buildings
- Any domestic premises
- Public religious worship

[60] DHLGH - An Overview of Commercial Rates in Local Authorities – December 2018
[61] Valuation Act 2001. A number of amendments were made via the Valuation (Amendment) Act 2015

- Caring for sick persons, for the treatment of illness, as a maternity hospital, caring for elderly or disabled and early childhood (only not-for-profit or mainly/wholly Exchequer funded)
- Burial grounds and crematoriums (not-for-profit only)
- School/university/institute of technology/college used exclusively by the institution for the provision of educational services. Properties must be not-for-profit or wholly/mainly Exchequer funded and must make educational services concerned available to the general public.
- Museums/galleries/libraries/parks/national monuments which are open to the general public and which are not established/maintained for the purposes of making a profit.
- Department or Office of State, Defence Forces or An Garda Síochána
- Buildings occupied by a member of either Houses of the Oireachtas/European Parliament used exclusively for constituency office purposes, however, head office/any office occupied by a political party is not exempt.
- Health Service Executive premises and Irish Water networks
- Community Halls
- A charitable organisation or a body that is not established and the affairs of which are not conducted for the purposes of making profit and whose purpose is to the conservation of the natural and built endowments in the State
- Societies established for the advancement of science, literature or the fine arts and not-for-profit
- Buoys, beacons or lighthouses

The 2009 Commission on Taxation recommended the restructuring of the Rates system that existed at the time to bring a number of exempt properties within scope of charges. Part-rating was recommended for B&Bs, guesthouses and self-catering accommodation (due to the relative seasonality of these activities), third-level institutions (based on commercial activities being conducted on their property) and community halls, where significant commercial activity takes place in such facilities.[62] They also recommended the abolitions of exemptions for all land/buildings occupied by the State.

Guesthouses and 'apart-hotels' are now fully rateable. However, some residential properties that are used for commercial purposes, such as bed and breakfast establishments and holiday cottages are fully chargeable to Local Property Tax, and are not subject to Rates. 'Mixed hereditaments' are

[62] See page 437 of Commission on Taxation Report 2009.

properties such as shops, pubs and crèches that are also used for residential purposes. The non-residential part of the property is chargeable to Commercial Rates.[63] It is unclear why a distinction exists between mixed hereditaments and properties used for B&B's (which tend to be lived in by the owners). Amendments have not been made to Valuation Acts 2001-2020 to part-rate third-level institutions or community halls. Similarly, State properties remain outside of the scope of Rates.

The Commission recommended continuing the exemption for agricultural land and farm buildings, but did not give a rationale for this. It did however recommend the introduction of Rates on agricultural farm buildings that are owned by a body corporate. The Valuation Acts 2001-2020 have not been amended to distinguish between exemptions for corporate and non-corporate agricultural buildings; as such, all agricultural buildings remain exempt from Commercial Rates.

4.2.1 Options for reforming Commercial Rates

The Commercial Rates system has a number of anomalies. There are significant differences in both rates and the charges that apply across local council boundaries, and even across councils in which the revaluations have already occurred. For example, Dublin City Council has an ARV of 0.268 (based on 2011 valuation date), while neighbouring Fingal County Council has a rate of 0.1732 (based on a 2017 valuation date). Similarly, as the ARV is determined by shortfalls in local authority income from year-to-year (a process known as 'striking the rate'), charges on premises are a function of the ARV, and properties with identical valuations may face significantly different charges based on where they are situated. For example, in 2020, two 190m^2 retail premises each have an identical rateable valuation of €23,100 in Carlow Town (valued in 2015). Carlow Town straddles the Laois-Carlow border. Shop A is located in Carlow, while Shop B is located in Laois. While both properties are deemed identical for valuation purposes, Shop B will pay €5,121.27, while Shop A will pay €5,939.01 (a 16 per cent higher charge).[64] This difference is purely a function of the local authority's budget.

Similarly, the same premises can face substantial variation across years. An office space of 198m^2 has a rateable valuation of €55,440 in Dún Laoghaire Rathdown County Council (last valued in 2005). In 2019, the occupier of this office was liable to €9,275.11; in 2020, this same premises would have been liable to €9,602.21 (a 3.5 per cent increase). This variation is due to a change in the ARV from 0.1673 to 0.1732, and not due to a change in the rateable value of a property.

Thus, the Rates system contradicts some of the principals of a good tax system; namely certainty (for the taxpayer across years) and horizontal equity (across similar valued tax bases). If revenues from

[63] Revenue Commissioners – Residential properties fully subject to commercial rates, 2017

[64] The Commercial rates charge for Shop A (Carlow) for 2020 is: 0.2571 x €23,100 = €5,939.01. The charge for Shop B in Laois is 0.2217 x €23,100 = €5,121.27

Rates were to be increased across the board to account for greater shares of revenues in local authorities (and thus reduce reliance on government grants), a more equitable and certain system would likely be required if such a proposal were to be accepted by business owners. Businesses - and SMEs in particular - argue that the tax burden on businesses is very high, and disproportionate to both the provision of local services to which they have access, and to the burden on owners of residential properties and land.[65] Furthermore, from an economic standpoint, the taxation of business property is, at least in theory, inefficient and artificially supresses the use of property as an input into the production process.[66] Indeed, a tax such as Commercial Rates might indirectly affect tax revenues by acting as an impediment to the growth of commercial activity which itself generates taxation. A tax on commercial land would be comparatively neutral. The merits of a land-based tax such as a Site Value Tax are discussed further in Section 2.3. The following section will explore some revenue raising options associated with the Commercial Rates system.

Exemptions

Removing exemptions for certain classes of property could raise more revenues. There are two significant omissions from the charge to Rates: agricultural buildings and land and State-occupied properties. Agricultural land was historically liable to Rates; however, an exemption was introduced following a 1984 Supreme Court ruling that the method of assessment at the time was arbitrary and unconstitutional, dating back to the Poor Relief (Ireland) Act 1838. In an attempt to replace the Rates on agricultural land, a Farm Tax was introduced in 1986 which levied a £10 per acre tax on the occupiers of farms over 150 acres, with proceeds going to local authorities. However, it too was abolished, one year later.[67] Any attempts to extend the base to agricultural land would need to ensure the system is based on an up-to-date set of property values and applied on a consistent basis to avoid a repeat of any constitutional challenges. The Commission on Taxation 2009 recommended extending rates only to buildings that were occupied by incorporated agricultural entities. This recommendation has not been adopted. A scenario where agricultural land is taxed is examined in Section 2.1.

The Commission also recommended expanding the Rates system to State-occupied properties. However, removing the exemption for State-occupied property would not increase overall revenues, as the State makes a contribution to Local Authorities 'in lieu of rates' (which itself comes from the Exchequer) and any potential increase in revenues from State properties would be met with a corresponding reduction in grants from the Exchequer. The Commission recommended this change on the basis of greater certainty and control for the local authority funding base.

[65] Turley and McNena, Local government funding in Ireland: Contemporary issues and future challenges, 2019
[66] Mirrlees et al. – Tax by Design, Chapter 16, 2011
[67] lawsociety.ie

Administration

Another source of potential forgone revenues from Rates relate to the administration of charges to properties. As was noted, collection rates are low, at 86 per cent in 2017. The Local Government Management Agency (LGMA) Debt Management Project Group was formed in 2014 and set target collection rates for each local authority. Rates arrears in 2017, amounted to €272 million, half of which related to unpaid Rates in 2016, 21 per cent related to 2015 and 29 per cent related to previous years.[68] The *Local Government Rates and Other Matters Act 2019* legislated for the imposition of interest on unpaid Rates. Data does not exist on collection rates following this legislation and consideration will need to be given to how best collection Rates might be increased.

In 2019, there were approximately 28,000 vacant commercial properties in the State, or 13.3 per cent of total commercial properties. The highest vacancy rate was in Sligo (18.9 per cent) and the lowest vacancy rate was in Meath (10.1 per cent), while Dublin has a vacancy rate of 12 per cent. Unfortunately, data is not available on the nature or extent of vacancies. The criteria for qualifying for vacant property relief is justified on the basis that commercial properties temporarily cease commercial activities periodically (e.g. to find new tenants, are abolished and redeveloped or refurbished). In 2017, €106 million was written off as a result of vacant property relief across the State. Since 2019, however, minimum charges exist on vacant properties, which should reduce forgone revenue from commercial properties, and could potentially have an impact of reducing vacancy in buildings where the landlord is not actively looking for new commercial tenants.

Revisions to new or refurbished properties have also been costly with €23.5 million in forgone revenues associated with the backlog of not-yet revalued properties in 2016. In the intervening period, the workload to process revisions has been subcontracted to expedite the process. This should lead to less forgone revenue in future years. However, consideration might be given to expanding the resources of the Valuation Office to ensure that revisions can take place in-house on a regular basis, as backlogs are costly.

[68] DHLGH - An Overview of Commercial Rates in Local Authorities, December 2018

This Section presented a non-exhaustive list of potential areas in which the Commercial Rates system could be reformed with an aim to increasing revenues from commercial properties.

- Making Commercial Rates more equitable and certain
- Reducing the number of exempt properties
- Increasing collection rates
- Increasing revenues from vacant premises
- Increasing capacity of the Valuation Office to process new/refurbished property valuations

4.3 Vacant site levy

The Vacant Site Levy (VSL) is the only recurring tax on land in the State, and was introduced as part of the *Urban Regeneration Act 2015.*[69] While the administration of the levy sits with local authorities, its primary function is to influence the behaviour of the taxpayer to activate vacant land for more socially optimal use. A site[70] is deemed vacant if, in the case of residential land, it is situated in area in which there is a need for housing, is deemed suitable for the provision of housing and the site, or the majority of the site is vacant or idle. A site is vacant in the case of regeneration land, where the site or the majority of the site is vacant or idle and where the site being vacant or idle has adverse effects on existing amenities, or has adverse effects on the character of the area. The levy applies to the market value of the site and is levied at a rate of 3 per cent for those on the VSL register in 2018 and at 7 per cent from 2019 onwards. Revenues collected amounted to €882,000 in 2019 and €21,000 (so far) for 2020. The Site Value Tax paper circulated by the Secretariat highlights some of the interpretive challenges that local authorities have had in relation to what constitutes a vacant site, with many local authorities citing lack of resources to administer the levy. Unlike the easy-to-administer self-assessed LPT, the VSL requires local authority officials to inspect sites, which is both resource intensive and open to judgement. Furthermore, the VSL is a recurrent tax on immovable property but the extent to which it provides a sustainable source of revenues is questionable; the stock of properties and land do not decrease, whereas vacant sites would tend to decrease if the levy were to have its intended effect. Of course, the previously vacant sites would come under the charge of LPT or commercial rates were the land to be activated.

[69] See the Act here
[70] Any area of land exceeding 0.05 hectares (500 square metres) that does not include a person's 'home'

Following the Housing for All recommendation to replace the VSL with a more workable alternative, a Zoned Land Tax is being introduced as part of Budget 2022.

5. Conclusion

This paper examined the state of play with regards recurrent taxation of immovable property in Ireland today. The Terms of Reference asks the Commission to examine how best the tax and welfare system 'can support economic activity and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.' In order to ensure there are sufficient resources to meet future needs, tax revenues will need to increase broadly in line with expenditure needs. Recurrent taxes on immovable property are relatively neutral (i.e. they have limited effects on employment and growth), relatively non-volatile and are sustainable. As such, this paper explores particular avenues for increasing revenues from the current tax base (i.e. residential and commercial properties) as well as broadening the base, via structural changes to the current systems or introducing new taxes on other forms of property that have heretofore remained outside of the tax base.

A number of options exist to increase LPT revenues, including increased rates, surcharges for certain types of properties or reducing the width of bands in line with the original LPT. Commercial Rates have low collection rates and forgone revenues are substantial, owing to collection arrears, a slow revision process and high forgone revenues associated with vacancy relief. Scope for increasing revenues from commercial properties would likely include increasing efficiencies in these areas.

Finally, while both the LPT and Commercial Rates are imperfect, they are well established. Replacing one, or both, with a new tax creates complexity for taxpayers and significant investment in a new apparatus. Imposing a SVT on current LPT payers is likely to be politically unpalatable, notwithstanding the merits of such a proposal as outlined in this paper. Replacing the Commercial Rates system with a SVT would make sound economic sense and would be more horizontally equitable, however, the costs and implementation of such a change would have to be considered. If it is the view of the Commission to introduce a SVT, consideration will need to be given to how wide the tax base will be and to what extent, if any, it should complement current regimes. Options are also presented to introduce zoned development land and/or agricultural land taxes. This paper has listed some of the merits and trade-offs relating to such scenarios. Consideration should also be given to the *Housing for All* commitments and how the Commission's proposals might interact with same.

Discussion Points for Commission

- Does the Commission support the introduction of a new tax on immovable property? If so, what should it apply to and how should it interact with existing taxes (e.g. LPT and Commercial Rates)?
- LPT, as currently designed, exhibits structural elements of both a tax on wealth and a housing services tax. Is the Commission satisfied with the current design? If not, what changes could be considered?
- The existing Commercial Rates system is highly complex with significant variations in both rates and charges that apply across local council boundaries. Rates also represent the largest income source for Local Government and yields c. €1.4bn annually. What is the view of the Commission in relation to level of changes required to the Rates system?

Appendix 1 LPT Valuation Bands

	Current LPT Band Structure (2013-2021)			Revised LPT structure				
	Band	Charge	Rates	Band	Charge	Revised Rates		
1	0 – 100,000	90	0.18%	1 -200,000	90	fixed		
2	100,001 – 150,000	225	0.18%	200,000 -262,500	225	fixed		
3	150,001 – 200,000	315	0.18%	262,501 - 350,000	315	0.1029%		
4	200,001 – 250,000	405	0.18%	350,001 -437,500	405	0.1029%		
5	250,001 – 300,000	495	0.18%	437,501- 525,000	495	0.1029%		
6	300,001 – 350,000	585	0.18%	525,001-612,500	585	0.1029%		
7	350,001 – 400,000	675	0.18%	612,501 - 700,000	675	0.1029%		
8	400,001 – 450,000	765	0.18%	700,001- 787,500	765	0.1029%		
9	450,001 – 500,000	855	0.18%	787,501 – 875,000	855	0.1029%		
10	500,001 – 550,000	945	0.18%	875,001 – 962,500	945	0.1029%		
11	550,001 – 600,000	1,035	0.18%	962,501 – 1,050,000	1,035	0.1029%		
12	600,001 – 650,000	1,125	0.18%	1,050,001 – 1,137,500	1,190	0.1029% (on 0-€1.05m)	0.25% (on balance)	
13	650,001 – 700,000	1,215	0.18%	1,137,501 – 1,225,000	1,409	0.1029% (on 0-€1.05m)	0.25% (on balance)	
14	700,001 – 750,000	1,305	0.18%	1,225,001 – 1,312,500	1,627	0.1029% (on 0-€1.05m)	0.25% (on balance)	
15	750,001 – 800,000	1,395	0.18%	1,312,501 – 1,400,000	1,846	0.1029% (on 0-€1.05m)	0.25% (on balance)	
16	800,001 – 850,000	1,485	0.18%	1,400,001 – 1,487,500	2,065	0.1029% (on 0-€1.05m)	0.25% (on balance)	
17	850,001 – 900,000	1,575	0.18%	1,487,501 – 1,575,000	2,284	0.1029% (on 0-€1.05m)	0.25% (on balance)	
18	900,001 – 950,000	1,665	0.18%	1,575,001 – 1,662,500	2,502	0.1029% (on 0-€1.05m)	0.25% (on balance)	
19	950,001 – 1,000,000	1,755	0.18%	1,662,501 – 1,750,000	2,721	0.1029% (on 0-€1.05m)	0.25% (on balance)	
20	Over €1m		0.25% on balance	1,750,001+	2,830+	0.1029% (on 0-€1.05m)	0.25% (on €1.05m-€1.75m)	0.3% (on balance)

Appendix 2 Site Value Tax proposals

Ronan Lyons' 'interim' Site Value Tax

Relative average property prices across the country are estimated using a hedonic price model. This allows for average prices for all property types (e.g. a two-bed detached house) to be estimated by electoral district. Construction costs of these properties are then deducted to get an approximate of the land component of properties by type and electoral district. A weighted average price by property type is then calculated for each district to obtain an average district level value.

These district-level average property price rankings are then used to rank electoral districts according to where they sit relative to the State-average. There are ten bands, with districts in the top decile by property price in Band 1 and those in the lowest decile in Band 10. Data from residential development land sales are used to give a lowest price per acre of development land in Band 10 (close to €20,000 per acre in Leitrim, Longford and Roscommon per acre) and an upper limit for per acre values in Band 1 (districts in south Dublin city range from €1 million to €10 million per acre in 2011). A flat rate of 2 per cent is levied on the acreage of the property owner's land – which is itself a function of relative property prices across the country.

Table 1A: per acre band values for Ronan Lyons' interim SVT

Likely site values and potential interim SVT charges by value band		
Band	per acre lower bound	per acre upper bound
1	€2,000,000	€10,000,000
2	€1,000,000	€2,000,000
3	€500,000	€1,000,000
4	€300,000	€500,000
5	€200,000	€300,000
6	€100,000	€200,000
7	€50,000	€100,000
8	€40,000	€50,000
9	€30,000	€40,000
10	€20,000	€30,000

Source: Lyons (2010)

A number of potential exemptions/deferrals based on means and for types of land are proposed. He also proposes a deduction for owners of developed land and households would apply for this deduction. This could be used to place a higher per acre burden on undeveloped land, for example.

Lyons proposes that a full SVT would be more detailed, taking into account proximity to services such as Luas stations, schools and medical centres for example.

An illustration of some of the charges a household might be expected to pay across county Limerick is provided.

Limerick city-centre, one-bed terraced, two storeys: This property has no back garden and the plot size is 25 square metres (0.006 of an acre). There are no other properties on the site, so this property owner would contribute the full amount for the site. It is in the 'Market' electoral district and like most of Limerick City it is in Band 5 of site values. A 2 per cent tax is levied per acre on the lower value of the band (i.e. €200,000), and based on the acreage of this property the annual liability of €24.

Limerick suburban three-bed, semi-detached, two storeys: this property is situated in the 'Singland B' electoral district (also Band 5). The plot size is 121 square metres (0.03 acres) and consists of a front and back garden. A SVT of 2 per cent on this property translates into an annual payment of €120.

Adare, County Limerick, four-bed bungalow: Situated in rural Limerick in the 'Adare South' electoral district (Band 4). It sits on 0.5 acres of land. At a rate of 2 per cent per acre, this equates to a liability of €3,000 per year.

Mícheál Collins and Adam Larragy's interim SVT

Collins and Larragy proposed the introduction of a SVT in Budget 2013 that would replace the Household Charge (the Household Charge applied to 2012 only, and was replaced with the LPT). The authors acknowledged that a full SVT, using an appropriate method of valuation of sites would need to be established. In the interim, an SVT with varying per square metre charges based on the level of urbanisation was proposed. Services provided to a household are broadly correlated with the location in which that house is situated, therefore, a household living on a large plot in Dublin City Centre would have a higher liability than the owners of a similar sized plot in a small town. Accordingly, the authors proposed the following per square metre rates across varying degrees of urbanisation:

Table 1B: per metre^2 charges by spatial category

Spatial Category	Rate per metre squared	Area
Urban - Dublin	€0.85	Dublin City Councils
Urban - Non-Dublin	€0.75	Non-Dublin City Councils
Urban - Large	€0.65	Large Town Councils (>10,000 pop.)
Urban - Small	€0.55	Small Town Councils (<10,000 pop.)
Rural	€100 flat charge	Rural County Councils

Source: Collins and Larragy (2010)

This proposal would yield at least €300 million (in accordance with the Government's Memorandum of Understanding with the EU/IMF at the time) in its first year of operation (2013), averaging approximately €175 per residential site (developed and undeveloped). This proposal does not factor in commercial or agricultural lands, but the authors do recommend that a SVT would ultimately replace Commercial Rates.