Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Taxation of property – Influencing supply and tenure decisions

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Subject	**Taxation of property – Influencing supply and tenure decisions**
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Key Points

The accompanying paper on 'Recurrent Taxation of Immovable Property' examined revenue increasing measures to enhance the overall contribution of land and property. This paper considers wider housing policy objectives with the aim of facilitating a discussion on what role the tax system can play, if considered appropriate, in both tackling supply and influencing housing tenure decisions. In line with the terms of reference, this must be considered with a medium to long term view and on a sustainable basis. The current and historical role of the tax systems in influencing housing supply and supporting home ownership are examined and the paper poses a number of questions around what future role should the tax system continue to play in these areas.

Table of Contents

1. Introduction

The Commission has been tasked with considering the appropriate role for the tax and welfare systems in achieving housing policy objectives, including the sustainability of such a role and an examination of the merits of a Site Value Tax. It should also have regard to the experience of previous interventions in the housing and construction market and the current significant State supports for housing provision.

The government's overall objective for housing "*is that every citizen in the State should have access to good quality homes: to purchase or rent at an affordable price, built to a high standard and in the right place and offering a high quality of life.*"[1] As part of its recently published Housing for All strategy, the government has identified i) increasing new housing supply and ii) supporting home ownership and increasing affordability as two of the pathways to achieving this objective.

The Recurrent Taxation of Immovable Property paper examined revenue increasing measures to enhance the overall contribution of land and property, including further examination of a Site Value Tax. The purpose of this paper is to consider wider housing policy objectives and to facilitate a discussion on what role the tax system can, if appropriate, play in both tackling supply and influencing housing tenure decisions. This paper examines the current and historical role of the tax systems in tackling housing supply and supporting home ownership and poses a number of questions around what future role the tax system should continue to play in these areas. This paper does not consider welfare measures as they are less relevant in terms of addressing supply shortfalls, however specific welfare supports for housing provision will be discussed in future papers.

It is clear that tax measures and incentives can take a number of years to influence behavioural change in land and property, reflective of the long-term nature of construction and development and the levels of associated financial commitments. The TOR for this Commission ask it to take a medium to long-term view of issues, with a particular emphasis on providing a stable and sustainable regulatory and tax environment in order to promote increased economic activity. With this in mind, and reflecting on recent history of tax related supports targeting supply of property (both here and abroad) there appears to be strong evidence that the tax system should not be used to respond to short term or cyclical changes but rather should provide confidence to the market that the tax system and investment landscape for such activity is fair, transparent and consistent providing certainty over the longer term.

[1] gov.ie, Housing for All - a new housing plan for Ireland, September 2021

Framing the Commission's discussion

Addressing Supply

- What is the appropriate role of the tax system in incentivising housing supply? Does the Commission support on-going or further intervention and if so, in what manner (i.e. through incentives, penalties or both)?
- Do the recently announced changes contained in Housing for All (vacant land tax, land value sharing etc.) negate the need for further changes in this area?

Supporting Home Ownership

- Does the Commission support the continued use of tax supports for encouraging home ownership? If so what elements of the existing system are working and which are not (e.g. Help to Buy, stamp duty, CGT PPR exemption?
- Given reducing levels of home ownership, how does the Commission consider that inter-generational equity can be applied to this area? Does the Commission support changes to the taxation of property wealth in the interest of fairness? Does the Commission support the continued primary use of the local authority and welfare systems for assisting renters?

2. Executive summary

This paper builds on the introductory housing paper presented at COTW Meeting 4, which gave an overview of the main trends, tax charges and expenditures in relation to housing. Section 3 summarises the main tax measures in the Irish system.

Section 4 examines the extent to which the tax system could potentially play a role in increasing supply in the housing market. Firstly, an overview of tax incentives in this area are examined both from a theoretical point of view and with reference to the State's recent history with regards incentives in the construction industry. Overall, given the structural challenges that likely exist in the market, there is little rationale for tax incentives and careful consideration would need to be given before any potential incentives are to be recommended. The penalisation of sub-optimal use of property and land through the tax system is also investigated. In theory, recurrent taxation of land is efficient, supply-enhancing and equitable, and while there is scant empirical evidence on vacant land taxes, there are few adverse effects associated with a tax on land ownership where it is applied in a consistent and transparent manner. At the very least, it captures some of the economic rents that are accruing to the owners of zoned land in a period where land and property values are growing significantly. Vacant property taxes are also examined, with mixed evidence of their effectiveness in an international context. The price volatility impacts of other taxes such as LPT and the CGT exemption for principal private residences are also examined. This section aims to give a simple overview of the extent to which the tax system could play a significant role in increasing supply in the housing market.

Like many OECD countries, the Irish tax system has a large focus on owner-occupiers in particular, through various tax reliefs or exemptions. For example, the CGT and CAT dwelling house exemptions and the Help to Buy scheme favour owner occupiers when compared with other purchasers of investment property or renters. Of course, not all expenses of owner occupiers are relieved by the tax system and in the case of mortgage interest payments landlords can take a tax deduction whereas owner occupiers cannot. Section 5 of this paper looks at some of the OECD commentary on tax measures for housing, including its recommendations for improving equity in these supports. These include capping exemptions on disposals of residences, capping or removing mortgage interest deductibility, and introducing recurrent taxation of immovable property. The paper then briefly examines the current and historical features of the Irish tax system that support home ownership.

The paper concludes by posing questions to the Commission on what further work streams should be examined by the Secretariat in this space. The purpose is to get a sense of the Commission's views on whether tax expenditures are being appropriately used and targeted, if there is scope for greater efficiency, equity or simplicity in the system and how any changes proposed by the Commission could impact the State's finances.

3. Overview of tax measures in relation to housing

The main tax policy levers that have been used in relation to housing can be summarised as follows:

- Introduction of new charges (to broaden the tax base)
- Changes in the tax rate (used mainly to either encourage or discourage activity or raise revenues)
- Tax reliefs (to incentivise particular activity or alleviate the impact of tax on certain cohorts)

The following table summarises the main charges on residential property and when they were introduced. Tax is levied on disposal, acquisition or ownership of property, as well as income derived from ownership of a property.

Table 1 Timeline of main charges on residential property and land

Year introduced	Tax	Details of charge
1800s	Stamp duty Income tax	Acquisitions of property Applies to various sources of income, including rental income
1975	CGT	Disposal of chargeable assets (with an exemption for principal private residences)
1976	CAT CT	Beneficiaries of gifts and inheritances Corporation tax introduced, with rental income included in scope

1983	RPT	Residential Property Tax annual charge (abolished from 1997)
2009	NPPR charge	€200 annual charge on owners of a Non-Principal Private Residence (abolished after 2013)
2010	Windfall tax	80% windfall tax from gains on the rezoning of development land (abolished from 2015)
2011	USC	Introduced to replace the income levy and health contribution. Rental income included in scope.
2012	HC	Household Charge on owners of residential property (replaced by LPT in 2013)
2013	LPT	Recurring tax on owners of residential property
2014	PRSI	Class K PRSI charge (currently 4%) on rental income (if the income earner is aged between 16 and 66)
2018	VSL	Vacant Site Levy to encourage development of vacant sites and to reduce land hoarding
Proposals 2022+	Miscellaneous	Proposals in Housing for All for a vacant site tax to replace VSL, a vacant property tax and 'land value sharing', similar to the windfall tax on development land rezoning gains. Budget 2022 confirmed the introduction of a new zoned land tax.

The rates of **CAT and CGT** have been set at 33% since 6 December 2012. As a response to the financial crisis the rates were increased several times during the period 2008 to 2012. A 20% rate had previously applied for most of the 2000s, with Exchequer receipts from CGT notably peaking in 2006/2007 at €3.1 billion. Both CAT and CGT are currently single rate taxes, having changed from a multiple rate system for CGT in 1992 (based on how long the asset was held) and for CAT in 1999 (based on the benefit's value). Prior to the cut in rates to 20%, headline rates of up to 40% applied. Significant exemptions from CGT and CAT relate to the principal private residence (PPR).

Stamp duty on the acquisition of an Irish residential property applies at a rate of 1% on property up to a value of €1 million and 2% on any excess over €1 million. These rates have been unchanged since December 2010 and apply whether the home is being bought for occupancy by the purchaser, or to be offered for rental. Prior to this, multiple rates applied up to a top rate of 9%, with no charge if the total consideration was less than €127,000. The current rates of stamp duty on residential property are lower than the rates on non-residential property, with the Stamp Duty Refund Scheme providing a partial refund where non-residential land is subsequently developed for residential purposes. A 10% rate was introduced in May 2021 on the multiple purchase of ten or more residential units (excluding apartments), in order to deter bulk buying of residential houses and duplexes by institutional investors. This 10% rate does not apply where the residence is let back to a local authority or approved housing body for use as social housing.

In general, the policy approach to **LPT** has been to keep the base broad and rates low, in a move to a more stable and sustainable base compared with the previous reliance on the more volatile taxation of transactions. LPT rates, deferrals, exemptions and recent changes to the system are discussed in the accompanying paper on Recurrent Taxation of Immovable Property.

Historical and current tax reliefs in relation to tackling supply and supporting ownership are discussed further in the remainder of this paper.

4. Tackling supply

This section gives an overview of the literature on tax policy as it applies to the housing market from both a national and international perspective, with an aim to examine the appropriate role of tax policy in this space. The introductory paper on housing presented to the Commission (at meeting 4)

Box 1: Summary of main incentives aimed at increasing supply

Living City Initiative – An urban regeneration incentive that offers tax relief on qualifying expenditure incurred on the conversion or refurbishment of pre-1915 properties for residential and commercial properties in Cork, Dublin, Galway, Kilkenny, Limerick and Waterford cities. See here for more information.

Rent-a-room scheme – Introduced in 2001 as an incentive to encourage owners of principal private residences to let rooms in their homes. The scheme provides an exemption from income tax, PRSI and USC on rent received from tenants up to a maximum of €14,000 in a tax year. See here for more information.

Help-to-Buy – DIRT and income tax refund for first-time buyers aimed at aiding claimants in saving for a deposit for a new build, house or apartment. Relief is available up to a maximum of €30,000 of tax paid in the previous four years. See here for more information on HTB.

Real Estate Investment Trusts (REITs) – REITs are collective investment vehicles that derive rental income from commercial or residential property. Qualifying REITs are generally exempt from corporation tax and CGT on disposal of assets resulting in after-tax income from rent for shareholders in these trusts equivalent to that which would accrue to direct investment in property. Ordinarily, a corporate entity is subject to 25% tax on rental income and distributed dividends are also subject to tax (although tax treatment varies based on the location of the shareholder). Special treatment for REITs prevents double taxation. A more detailed overview of institutional investment is available in the introductory housing paper prepared by the Secretariat for meeting 4.

laid out the widely accepted view that the driver of an affordability crisis in the housing market is the shortfall in supply in recent years. Tax policy can be designed to incentivise desired activity in the presence of market failure conditions, however, past experience in this area would suggest that tax incentives can create significant distortions when they are poorly designed or not withdrawn in a timely manner. It can also be designed with the aim of creating a disincentive for actors to behave in ways that contradict the common good. Tax policies aimed at demand can be detrimental to overall affordability, however they may be warranted where a particular group cannot access the market.

4.1 Tax incentives

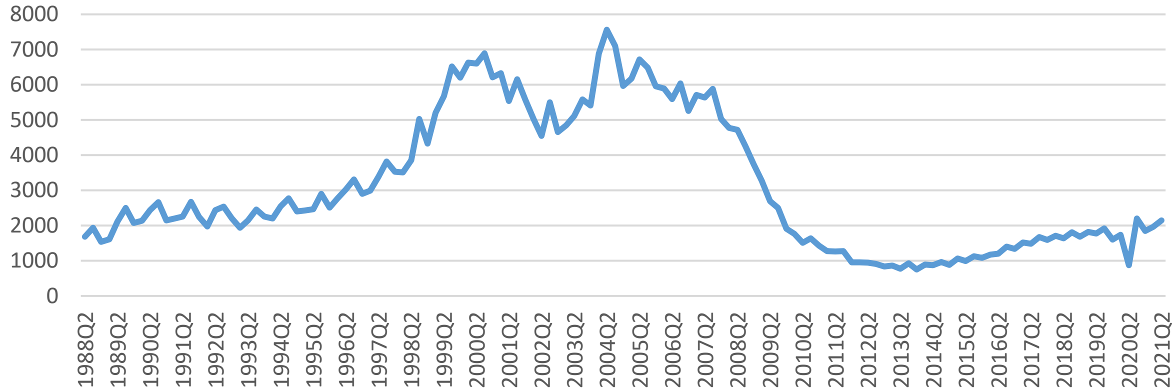
The ESRI have provided a theoretical framework against which to assess the validity of introducing various tax incentives on the supply side.[2] Issues of supply in the housing market are related to various factors including regulation and planning constraints, input cost constraints and credit constraints. The conditions created by these factors mirror outcomes similar to that of a market failure situation but do not necessarily constitute a market failure. Given that there are many potential factors leading to sub-optimal supply, examination of these factors should be explored before the appropriate role of tax expenditures in correcting these constraints is looked at. Potential issues creating restricted supply are as follows:

- **Planning system** - planning permissions for dwellings remain below 1995 levels, amounting to 2,000 permissions granted in the last quarter of data. The ESRI are not conclusive in their statement, however the low levels of planning permissions granted suggests that the system might be leading to restricted supply. Lyons' (2015) dataset on applications and rejections suggests that stricter planning systems, particularly in the greater Dublin area where prices are relatively high, might be a factor in explaining these price increases. Similarly the Irish Home Builders Association (IHBA) and others have also raised concerns regarding the complexity of the planning process[3] and the lengthy legal delays and uncertainty they suggest creates barriers for accelerating supply.
- **Finance** – legacy issues relating to the financial crisis may still exist and may be hindering potential development of housing. Availability of finance for the construction industry continues to be a challenge for projects. Available finance is heavily influenced by the viability and specific risk profile of construction projects.

[2] ESRI – Tax Breaks and the Residential Property Market, 2015
[3] IHBA - Planning Reform Necessary to Expedite the Delivery of Housing, 2021

- **Cost of building** – costs associated with shortages in raw materials, labour and land as well as increased costs associated with building regulations may be leading to lower profit margins for developers. Infrastructure deficits, particularly around water and waste treatment, are also impacting costs and timing of projects.

Figure 1: Planning permissions granted 1988-2020



Source: CSO

If planning regulations and access to finance are the key drivers of restricted supply, the ESRI argue that tax incentives aimed at developers will have limited effectiveness and will merely lead to a transfer of public funds to activities that would have taken place in the absence of the credit (i.e. deadweight). If the dominant factor is the cost of building, tax incentives could potentially lead to increased supply. However, the ESRI report notes that such constraints might better be dealt with via a review of current regulations, as opposed to the State subsidising developers for regulations imposed by the State. There is significant uncertainty around what the dominant factors might be, and caution should be exercised, informed also by Ireland's past experience with tax incentives in this sector. In conclusion the ESRI report notes:

> *"tax breaks aimed at stimulating house and apartment building should be avoided until (a) it can be conclusively shown that the "market failure" to be corrected will yield positive results without excessive unintended transfers to developers and (b) the impacts of regulations on the cost of building are properly understood and also the potential effects of any tax breaks in the context of regulatory-related costs*."

4.1.1 Ireland's past experience with tax incentives

The role of the taxation system in fuelling the credit boom prior to the financial crisis of 2008 is well documented. The OECD, Indecon and the Department of Finance's Tax Strategy Group have reflected the level of potentially harmful effects of certain tax incentives in the lead-up to 2008.

In 2005, the OECD warned that tax advantages geared towards owner-occupied property were driving dramatic increases in property prices leading to 'economic inefficiencies by drawing excessive resources into residential construction'.[4] Their paper cited the CGT PPR exemption, the lack of an annual property tax and mortgage interest relief as key drivers of prices in the period. It also critiqued stamp duty changes that placed much higher taxes on rental properties, driving up the price of rents and raising demand further for owner-occupiers who saw a stamp duty reduction in 2005. At the time, house construction per capita was among the highest in the OECD.

A review conducted by Indecon Consulting in 2005 on a number of property-based incentives suggested that many of the schemes had 'served their purpose' and that there was no case for future government incentives which 'would contribute to oversupply and represent a clear waste of scarce public resources.'[5] Following this review, Budget 2006 saw the termination (on a phased basis) of a suite of reliefs including the urban, town and rural renewal schemes, Section 23 relief,[6] Living Over the Shop relief and special capital allowance reliefs for *inter alia* hotels, holiday cottages, student accommodation and multi-storey car parks. However, much of the distortions caused by these reliefs may have already had detrimental impacts on the industry. A study on the effectiveness of the renewal reliefs found that they originally served a purpose, addressing regional dereliction.[7] However as time progressed, they became less effective at achieving their stated aim. There was a large degree of deadweight (up to 70 per cent in some cases) associated with the reliefs and the developments that occurred as a result of these incentives, that led to an over-supply of housing with high vacancy rates (so called 'Ghost estates').

NERI have also commented on the wastefulness of tax incentives, noting:

> "*A legacy of bad planning and distortion of market prices as a result of tax incentives have provided an incentive for imbalanced and disjointed housing developments – poorly serviced,*

[4] OECD – Ireland's housing boom, 2005
[5] Indecon – Indecon Review of Property-based tax incentives, 2006
[6] Section 23 Relief refers to the suite of tax incentives available to owners of rented residential property in designated areas. Expenditure incurred on the purchase, construction conversion or renovation of a qualifying property was deductible for tax purposes. Section 23 refers to the relevant section of the Taxes Consolidation Act 1997.
[7] Norris and Gkartzios – Twenty years of property-led urban regeneration in Ireland, 2011

badly connected and without proper social services and amenities. The rise of the 'Ghost Estates' in far flung locations with little or no connection to larger centres in the wake of the crash of 2008 illustrates this." [8]

In summary, tax incentives can be effective in addressing market failures where they exist. However, clear identification of a specific market failure is essential to providing a rationale for an incentive. Similarly, ongoing review of the continued relevance of the expenditure is important, as is evident from past experience. Not only can poorly targeted incentives have adverse effects on a given sector, they can lead to forgone revenue that could otherwise be used to fund capital investment. Furthermore, the Housing for All strategy has committed to €20 billion in capital investments in the next five years and has also proposed measures to increase the availability of finance. Further subsidisation of the construction sector through tax incentives is arguably not needed, or sustainable.

4.2 Penalising sub-optimal use of property

Penalising the sub-optimal use of resources such as land and buildings may be a potential avenue through which the tax system could play a role in stimulating supply. This can be done by taxing undeveloped land on a recurrent basis, taxing the windfall gain due to rezoning or taxing vacant or derelict property. Imposing taxes on the ownership of land, in particular, has fewer adverse effects than tax incentives, which can be associated with wasted revenues. However, consideration must also be given to the interaction that such taxes might have with other structural factors in the housing market. The accompanying paper on Recurrent Taxation of Immovable Property introduced some of these taxes and their implications for housing supply will be investigated here.

Taxation can be used to as a disincentive to harmful behaviour and there might be potential avenues for taxation to play in discouraging land hoarding and speculation associated with increasing land values. However, the extent to which speculation and hoarding exists in the Irish property market is not clear. Some data is available on the extent of vacancy across both land and property.

- **Residential land** - The extent of undeveloped zoned residential land in 2021 is unknown. Most recent data from 2014 suggests that there was 17,434 hectares of undeveloped zoned residential land[9] in the State with a potential for 414,712 dwellings and with over a quarter (116,705) of these potential dwellings in Dublin alone. Given the fact there have been just over 90,000 new dwelling

[8] NERI – Ireland's Housing Emergency, 2017

[9] Department of Housing, Local Government and Heritage – Residential Land Availability Survey 2014. This estimate does not include mixed-use lands.

completions in the State in the intervening period, of which over 30,000 were in Dublin, a significant portion of these lands might remain undeveloped. It is also likely that there has been an increase in the total area of land zoned for residential use since 2014. The Vacant Site Levy (VSL) is a tax on certain vacant land, however, it is widely acknowledged to be ineffective with negligible collection rates. Following the Housing for All recommendation to replace the VSL with a more practicable 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, but has not been developed for housing. Lands rezoned prior to January 2022 will not be subject to the tax until 2024 and land rezoned 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 and will be centrally administered by Revenue. However, details on exemptions are unavailable at this point. If the tax is to apply to 'serviced' rezoned land only as has been stated, an incentive to hold zoned development that is not serviced may be created. Details will follow in the Finance Bill.

- **Vacant residential property** - According to Geodirectory, in 2019, the vacancy rate of residential property was 4.7 per cent (or 94,674 dwellings). It was considerably lower in Dublin (1.3 per cent, or 7,314 dwellings), Kildare (2.2 per cent or 1,866) and Wicklow (3.2 per cent or 1,847). The highest vacancy rates were in Leitrim (15.3 per cent or 2,573), Roscommon (13.3 per cent or 3,925) and Mayo (12.8 per cent or 8,010). This suggests that while there are a significant number of vacant properties in the State, the vacancy rates in areas where supply issues are particularly acute are low. Vacancy here refers only to residential property, and commercial properties that have, for example, above-the-shop rooms are not included in this estimate. Dereliction is also not included. Data on the extent of time and nature of vacancy in Ireland will be collected in this year's LPT returns (due to be filed in November) and 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.

- **Vacant commercial property –** there is a considerably higher vacancy rate among commercial property at 13.3 per cent nationally. Out of the 211,529 commercial properties in the Geodirectory database, 28,156 are vacant. Meath has the lowest vacancy rate at 10.1 per cent of commercial properties, followed by Kerry (10.7 per cent) and Wexford (10.9 per cent). Dublin has a vacancy rate of 12 per cent, which is considerably greater than the equivalent in residential properties. City centre areas of Dublin have high vacancy rates. Dublin 2 has a vacancy rate of 13.6 per cent, while Dublin 1 has a vacancy rate of 11.3 per cent.[10] Much of vacant commercial property are vacant above-the-shop units.

- **Dereliction** – the exact extent of dereliction is not known. In theory, the VSL applies to dereliction i.e. a vacant or idle site that has 'adverse effects on existing amenities or reduces the amenity provided by existing public infrastructure and facilities'. The site must be larger than 0.05 hectares. As such, it does not apply to so called over-the-shop dereliction. In any event, the VSL is set to be replaced. LPT is charged on residential property, however, it does not apply to uninhabitable residential property. A recent Tax Strategy Group paper considered the extension of the Help-to-Buy scheme to uninhabitable or derelict properties. However, it cited definitional issues around what constituted dereliction and questioned the material impact of any potential incentive on supply.[11] The Living City Initiative is one such support that exists in this area, although it is not targeted specifically at dereliction and its effectiveness in addressing dereliction is not evident. Arguably, there is little rationale for a penalty to exist alongside an incentive.

4.2.1 Empirical evidence

There is mixed evidence on the extent to which vacant property taxes achieve what they are designed to do. An analysis of a tax on vacant housing in France reports an estimated 13 per cent decrease in vacancy rates associated with the introduction of a vacancy tax between 1997 and 2001. In 1997, vacancy rates in the municipalities that introduced the tax were approximately 6.3 per cent on average; the vacancy tax was responsible for a fall to 5.5 per cent in four years.[12] While there has been no formal analysis conducted on Vancouver's vacancy tax, introduced in 2016, the city's vacancy rate has remained stable four years after its introduction.[13] However, Vancouver has seen a relatively low average vacancy rate of 0.5 per cent in the last 5 years, and scope for a vacancy tax to reduce vacancy rates this low may be limited. Vacancies in Melbourne have not decreased since it introduced its vacant property tax. However, much like the VSL in Ireland, the tax has not been administered effectively with only 587 out of an estimated 24,042 properties subject to the tax in 2019.

To our knowledge there are no relevant studies on the efficacy or otherwise of vacant land taxes. However, the taxation of vacant land in areas where there is a serial shortage of land available for housing is a tax on economic rent and as such, has no adverse consequences on activity.

[10] Geodirectory – Commercial Property Report Q4 2019, 2020
[11] TSG – 21/02 Income Tax, 2021
[12] Mariona S. – Taxing Vacant Dwellings: Can fiscal policy reduce vacancy?, 2018
[13] Bloomberg Wealth

A Site Value Tax (SVT) has also been discussed in the context of its potentially beneficial effects on supply in Meeting 4. For similar reasons, SVT could have potentially beneficial effects on supply by reducing the post-tax gains to holding land that is increasing in value, hence reducing the incentive to hoard. Similarly, a phenomenon known as tax capitalisation may act to reduce prices whereby potential purchasers of land would factor in the present value of all future tax payments associated with the transaction and the maximum price they would pay for land would be less than would be the case in the absence of a SVT.[14] Land makes up a significant portion of the cost of new builds. The Society of Chartered Surveyors Ireland estimates that land acquisition costs account for 16 per cent of the total cost associated with a three-bed semi-detached house.[15] Increased supply and associated price reductions of land would likely lead to increased availability of more affordable homes.

4.3 Demand-side interventions

Demand-side tax incentives tend to lead to an increase in prices at any given level of supply. However, there may be legitimate reasons for such policies to exist. For example, the Help-to-Buy scheme is designed to assist first-time buyers in obtaining the deposit they need to buy or build a new home who would not otherwise be able to purchase. The refund on income tax or DIRT can be claimed against the tax paid over the previous four years. The maximum claim is the lower of €30,000, the total income tax/DIRT paid in the previous 4 years or 10 per cent of the purchase price of a new home or self-build property. A Department of Finance-commissioned Indecon Review[S] suggests that HTB may be effective in achieving its goals, however further analysis is needed. Furthermore, it has been noted that the scheme could be better targeted.[16] Over half of claims relate to properties valued above the median price in 2017 and just over 40 per cent of claimants have a loan-to-value between 70 and 85 per cent. This suggests that the majority of claimants of the scheme are purchasing relatively unaffordable homes with deposits that they would have had in the absence of the scheme. If so, the current scheme is poorly targeted towards supporting would-be first time buyers who are struggling to save for a deposit and may be leading to higher prices, as was the case with the UK's help-to-buy equity loan scheme.[17]

[14] Mirrlees et al. – Chapter 16 the Taxation of Land and Property, 2009
[15] Scsi.ie
[16] Kakoulidou T. and Roantree B. – Options for Raising Tax Revenue in Ireland, 2021
[17] Carozzi F. et al. – On the economic impacts of mortgage credit expansion policies, 2020

4.4 Effects of other property taxes

While certain taxes are specifically designed to discourage hoarding of land or vacant property, other taxes might act to reduce volatility in the market, supporting affordability.

Recurrent taxes on immovable property have been found to reduce house market volatility. An analysis by the IMF finds that property taxes in the US have a negative impact on house price volatility. A 0.5 per cent increase in property tax rates leads to a 0.5-5.5 per cent decline in house price volatility.[18] In a similar fashion, more generous taxation of property (e.g. mortgage interest deductibility) is found to lead to larger volatility in house prices, in a study conducted across OECD countries.[19] Tax capitalisation (see SVT example above) may be at play here. Cebula (2020) finds that sale prices of single-family houses are negatively affected by city and county property tax levels in Georgia, USA.[20] There is no analysis of such effects in the case of Ireland; however, increases in LPT charges could have the added benefit of reducing price volatility in the housing market.

CGT Relief on Principal Private Residences may also be having the effect of increasing house price volatility. While no studies on this particular relationship exist in the Irish housing market, a recent study on the Korean market may give some insights into the effects of differential CGT rates on prices. Equalisation of the base to which CGT applies across all districts in Seoul resulted in investors in certain districts paying higher effective tax rates than they did previously. The authors estimate that the net effect of this policy led to an approximate 10 per cent fall in house prices.[21] It should be noted that abolishing CGT relief could result in a distortion known as a 'lock-in' effect in an instance where the price of the house is rising, and particularly in the case where there is uncertainty about the future of the withdrawal of the relief.

As part of Finance Act 2009, an 80 per cent windfall gains tax was introduced with the purpose of taxing the increased value of a parcel of land after it having been rezoned with the intended effect of reducing land speculation. It was subsequently abolished in 2015. While there are legitimate reasons to tax the gain accruing to landowners by having their property rezoned, a windfall gain tax is likely to have the opposite effects to what is intended particularly if there is an anticipation that the tax will be abolished or significantly amended in the future. Similar attempts at development or 'betterment' taxes have been made in the UK over the years and subsequently withdrawn having not had the desired impact.[22] The prospect of paying a windfall tax of 80 per cent as opposed to the normal CGT

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[18] IMF - Can Property Taxes Reduce House Price Volatility?, 2016
[19] OECD – Housing and the Economy: Policies for Renovation, 2011
[20] Cebula R. - Are Property Taxes Capitalized into Housing Prices in Savannah, Georgia?, 2009
[21] Hendershott H. et al. – Announcement effects: Taxation of housing capital gains in Seoul, 2020
[22] Barker - Review of Housing Supply, 2014

rate in a number of years creates an incentive for the land to be held until the date the tax might be expected to be abolished, at the very least. An annual tax on the value of land would not have this effect, while simultaneously capturing some of the windfall gain and reducing the incentive to hold land unnecessarily. Housing for All has recommended the introduction of a land value sharing charge, which replicates many of the aspects of a windfall tax.

4.5 Conclusion

The appropriate role for taxation in influencing housing supply can be difficult to establish. However, we know that past incentives targeted at the construction sector as well as generous supports geared toward home-ownership have been wasteful and distortive in many instances. Moreover, the ESRI framework for assessing the rationale of new and existing incentives in the housing market stresses the importance of careful deliberation on any new tax incentives in the market. More evidence on the extent of some of the structural issues mentioned in the ESRI paper is needed before any incentives should be introduced. However, arguments could be made to support a role for a recurrent tax on zoned residential land to play in stimulating demand. Land is a costly input that is currently appreciating in value, with little to no incentive for the owner to sell it, restricting supply and increasing land values further. There may also be scope for a vacant property tax, although the extent to which this would increase supply in any significant way is unclear. Taxes such as the LPT and the abolition or restriction of the CGT PPR exemption may also act to dampen house-price volatility, although evidence of this relationship in the case of Ireland is non-existent.

Discussion Points for Commission

Bearing in mind the topics explored in this paper, does the Commission see a role for the introduction of further tax measures in the housing market with the specific aim of increasing supply and affordability? How best should this be achieved?

- Is there a role for new tax incentives in the housing market?
- Is there a role for taxes to play in discouraging sub-optimal use of land and property?

Does the Commission consider that incentives currently in place are achieving what they are intended to be achieving, and if not, is there scope for them to be refined, or abolished?

5. Supporting home ownership

This section discusses the role of tax policy in supporting home ownership. International research shows a strong bias in OECD countries towards supporting owner-occupied housing via the tax system, mainly via reduced taxation in the purchase of a home and through tax deductions for mortgage interest. While Ireland has removed various reliefs and exemptions from the tax system, some still exist to support the transfer of residential property in particular.

The tables below shows the value and overall number of residential property transactions in recent years, as well as a breakdown by dwelling and buyer type.

Table 2 Number and value of residential dwelling property transactions, 2010 - 2020

Year	2013	2014	2015	2016	2017	2018	2019	2020
Volume of Sales (nominal)	34,455	48,914	53,586	55,080	60,081	63,420	67,858	57,567
Value of Sales (€m)	5,796	9,123	10,539	12,003	14,371	16,102	17,620	15,308

Source: CSO, based on stamp duty executions

Table 3 Number of residential dwelling property transactions, by dwelling type and buyer type 2015 - 2020

Dwelling Type						
Year	2015	2016	2017	2018	2019	2020
New dwelling	6,938	7,657	9,817	11,780	13,524	12,357
Existing dwelling	46,648	47,423	50,264	51,640	54,334	45,210
	53,586	55,080	60,081	63,420	67,858	57,567
Buyer type						
Year	2015	2016	2017	2018	2019	2020
Household Buyer - First-Time Buyer Owner-Occupier	10,772	11,338	13,282	14,554	15,537	13,543
Household Buyer - non-First-Time Buyer Owner-Occupier	24,629	25,193	27,228	28,542	29,501	25,078
Household Buyer - Non-Occupier	11,218	10,955	10,786	10,035	9,022	6,936
Non-Household Buyer	6,967	7,594	8,785	10,289	13,798	12,010
	53,586	55,080	60,081	63,420	67,858	57,567

Source: CSO, based on stamp duty executions

5.1 International /OECD approach to supporting home ownership

OECD research has shown that residential property receives preferential tax treatment compared to other assets and cross-country comparisons suggest that owner-occupied housing receives significant support compared to other tenures.[23] For example, owner-occupied housing tends to be taxed at lower rates than those who have purchased housing and rent it out. Support for tenants in the private rental market is also, on average, more piecemeal across OECD countries. Feedback from the OECD's 2021 and 2019 Questionnaires on Social and Affordable Housing shows that people in many OECD countries who buy or own a home benefit from favourable tax treatment, in addition to grants and credit support to homebuyers. As a result, countries effectively subsidise home ownership through their tax system – meaning that the tax credits and deductions available to homeowners are higher than the taxes that are levied on the dwelling over its lifetime. [24]

Tax relief for access to home ownership across OECD countries consists primarily of tax exemptions for costs associated with the purchase of a home, as well as the deductibility of mortgage interest. Other forms of relief include preferential tax treatment of savings and advanced pension payments related to housing and other types of tax credits and deductions.

Support on the purchase of a home is often reserved for first-time buyers and in many cases require that the taxpayer resides in the dwelling as their primary residence for a minimum period of time. While there is often a maximum dwelling price that can qualify for relief, the OECD has noted that tax relief measures can be very regressive, with most measures reported by OECD countries not bound by an upper limit in taxable income and typically tending to favour better-off households. In addition, they are believed to distort incentives to invest in other tenures and/or assets and actually often put pressure on housing prices. One key area the OECD suggests policymakers explore is the phasing out of some of the tax advantages that favour home ownership and that tend to benefit higher-income groups.

In relation to mortgage interest deductibility, the OECD suggests eliminating the relief, or at least capping, or, giving relief in the form of a tax credit (as opposed to a deduction against income so as to provide the same benefit to high- and low-income earners). It believes this could ameliorate some of the negative distributional consequences and make housing taxation more progressive.[25] Ireland

[23] OECD, Policies to promote access to good-quality affordable housing in OECD countries, 2016
[24] OECD, Tax Relief for Home Ownership, May 2021. A summary of specific tax measures in various countries is listed in the appendix of the OECD report.
[25] OECD, Housing and Inclusive Growth, September 2020

removed its tax relief for mortgage interest payments on loans taken out after 2012, with relief phased out by the end of 2020.

The OECD also suggests another potential policy reform option would involve imposing a limit on the value of owner-occupied housing that benefits from an exemption from taxation on capital gains. Given that higher income households are likely to purchase more expensive homes and have more of their savings directed towards owner-occupied housing, one way of mitigating the adverse distributional effects of an open-ended exemption would be to cap this benefit. This cap could be imposed at a relatively high level to ensure that only those properties and the high end of the residential housing market are affected.[26] Ireland's exemption from CGT on the disposal of an owner occupied principal private residence is uncapped.

OECD commentary often makes reference to the fact that unlike rental property, income from owner-occupied property in the form of the imputed rental income is typically untaxed.[27] To some extent, recurrent taxes on immovable property (e.g. property taxes) replace the taxes on imputed income in many countries, but revenue from property taxes tends to be low and they are commonly based on outdated property values. In addition, if flat rates apply, property taxes may have less scope than income taxes to be progressive, and less scope to redistribute, particularly if levied at the local level. The OECD recommends that a broad-based tax concerning all residential property with higher rates on more valuable property and/or higher rates on second or third properties would have positive outcomes for efficiency and equity. Ireland does not tax imputed income from owner occupied property but has had a local property tax since 2013, with higher tax applying to higher valued homes. LPT is discussed further in the Recurrent Taxation of Immovable Property paper.

5.2 Role of Irish tax system in supporting different tenure types

While many historical incentives have been removed from the tax system, Ireland's tax regime still favours residential property in many respects. There is an exemption from a 33% CGT charge on the disposal of an owner occupied residence and reduced rates of stamp duty apply compared to acquisitions of non-residential property. Supports for renters in the private rental market are primarily delivered via local authorities and the social welfare system, based on household income criteria.

[26] OECD, Taxation of Household Savings, April 2018
[27] OECD, Housing and Inclusive Growth, September 2020

5.2.1 Current tax supports

CGT Principal Private Residence (PPR) exemption

PPR relief is available for individuals disposing of a house which was occupied by them as their only or main residence. The relief is restricted if there has been partial occupation or if the sales price has development value. The rationale for the relief is to ensure that the sale of a house, which will generally be replaced with another house, can be done on a tax-neutral basis.[28]

The Commission on Taxation of the 1980s recommended withdrawing the exemption from CGT on disposal of a private residence.[29] They considered the exemption "*further enhances the attractiveness of holding assets in the form of houses and leads to a waste of resources*". In their view, "*when real gains are realised on a house and not used to purchase another house there is no case for not taxing them*". In contrast, the 2009 Commission on Taxation recommended continuing the PPR exemption, stating "*Although the efficiency and equity of this tax expenditure is debatable, we recommend its retention in the context of our recommendation to introduce a comprehensive annual tax on residential property*". The 2009 report shows the estimated cost of the relief in 2006 was €2.44 billion, benefiting 47,340 taxpayers (at an average cost per taxpayer of €51,542). This was when the CGT rate was 20% and the Exchequer yield from CGT receipts were at their peak of €3.1 billion, reflecting the level and value of property transactions during the 2000s. The 2009 Commission separately recommended discontinuing the exemption on the disposal of a PPR occupied by a dependent relative. As noted in section 5.1 above, the OECD has recommended capping this type of exemption so as to not disproportionally benefit individuals with higher value properties.

An estimate of the current cost of this tax relief is not available. The data collected on tax returns shows the consideration received for disposals of different asset types, but not a breakdown of the base cost, enhancement expenditure, etc., in order to calculate the chargeable gains arising and therefore the tax forgone where a gain is exempted, where more than one asset disposal is reported. The total consideration reported in 2019 for disposals of PPRs was €906 million, having increased significantly in five successive years.[30] The number of PPR relief claimants and properties is unknown.

Table 4 Consideration/sales proceeds for disposals of PPRs and Other Residential Premises (€m)

Year	2014	2015	2016	2017	2018	2019
CGT exempt PPR (€m)	533	520	628	782	805	906
Other residential premises (€m)	2,724	2,862	3,413	3,890	4,281	4,506

Source: Revenue summary of CGT returns

[28] Minister for Finance, Written response to PQ 44467/15 on 10 December 2015
[29] First report of the Commission on Taxation, Direct Taxation, page 213, July 1982
[30] Revenue, Summary of CGT returns 2014 to 2019

10% stamp duty charge on bulk purchases

The new 10% stamp duty charge introduced in May 2021, outside of the normal budgetary cycle of legislation, is intended to dis-incentivise the bulk purchase of ten or more residential units by a single corporate entity or individual. The measure was introduced over concerns that institutional investors were denying first-time buyers the opportunity to buy a home, by purchasing large parts of, or entire, housing estates before they reached the market. The higher rate is intended to apply to houses and duplexes, with apartments specifically excluded so as to not impede the funding and development of apartments for the private rental sector. Residential units that are leased to a housing authority for social housing purposes are also exempt. If the measure is successful in changing investment behaviour then it should theoretically not raise much tax revenue.

In comparison, private purchasers of residential property pay stamp duty at a rate of 1% (increasing to 2% on the excess over €1 million, where the value of the house acquired exceeds €1 million).

Help to Buy

The Help to Buy (HTB) incentive for first time buyers of newly-built homes and once-off self-build homes gives a refund of income tax and Deposit Interest Retention Tax (DIRT) paid in the previous four tax years. The scheme is intended to assist individuals with funding the cost of a deposit for a new house or apartment and to help encourage the building of additional new properties. The amount of tax relief is the lesser of €30,000, total income tax and DIRT paid in the previous four years and 10% of the purchase value for the period 23 July 2020 to 31 December 2021. This increased from limits of €20,000 and 5% of the purchase value for the period 1 January 2017 to 22 July 2020. HTB does not apply to investment properties, properties valued above €500,000 or second-hand homes. The property must be occupied by the claimant as their only or main residence for a period of five years from the date it is first occupied. Over 75% of HTB claims to date have been for first-time buyer purchases of new homes and the balance for self-builds.[31] The relief was introduced in 2017 and was extended by Budget 2022 to the end of December 2022 at the current limits.

The most recent Tax Strategy Group (TSG) papers contained a review of the HTB and some interesting data on users of the relief.[32]

[31] Revenue, Help to Buy annual report 2020, March 2021
[32] Tax Strategy Group, Income Tax 21/02, September 2021

- Revenue has estimated that 26,744 claims have been approved at a total value in the order of €470 million from 2017 to the end of July 2021. The original estimated cost of the scheme was €40 million per annum.
- Some 63% of all claimants claimed an income tax refund of between €15,000 and €30,000.
- Some 58% of claimants had a mortgage loan to value ratio of 85% or more. The HTB rules require the loan must be at least 70% of the purchase value of the property.
- In terms of geographical spread, some 61% of beneficiaries were located in four counties. About 26% of claimants were located in Dublin, 12% were located in Meath and Cork respectively, and approximately 11% were located in Kildare.
- Properties valued between €226k and €300k represent 31% of all claims, with a further 34% of claims relating to properties valued between €301k and €375k.

The TSG paper also noted that by restricting the relief to new dwellings below a certain value, it was anticipated the increased demand for affordable new-builds would encourage the construction and supply of such properties. However, there are concerns that this approach could serve to increase prices against a background of constrained supply and thus undermine the policy objective. The paper further notes some potential inequities with the relief, in that it only supports first-time buyers and not other taxpayers and because those who have paid more income tax over the preceding four years benefit the most. The increasing cost of the scheme is also a concern. However, the TSG warns that there may be an expectation among developers and purchasers that this scheme is going to be extended and a withdrawal at the end of this year could give rise to market disruption and scaling back of supply by builders. The relief was extended to 2022 under the recent Budget.

CGT exemption on disposal of site to a child

Parents can transfer a site to a child without incurring a CGT liability, where the site is used to build a house which is the child's only or main residence. The area of the site must not exceed one acre and the value of the land must not exceed €500,000. The CGT exemption is clawed back and charged on the child if he/she does not build a house on that land or does not occupy the house for at least three years. The 2009 Commission on Taxation recommended discontinuing this exemption on equity grounds, so that any gain on disposal should be treated the same as the disposal of any other asset. As with the PPR exemption, the cost of this relief to the State is unknown. The consideration from disposals of a site to a child was €9 million in 2019 and €5 million or less in each of the previous five years. The number of claimants of this relief was 36 individuals in 2013, ranging from 71 to 95 claimants from 2014 to 2017 and increasing to 104 in 2018. This suggests 104 sites of an average value of €48k were transferred in 2018 on a CGT-free basis.

CAT dwelling house exemption

The dwelling house exemption from CAT applies to a PPR inherited (or gifted in limited circumstances) which has been occupied by the beneficiary as his/her main home for a specified period before and after the inheritance and he/she does not own or have an interest in any other house. There were 542 claimants of this relief in 2019 at a cost of €50.1 million.

Tax deductions for landlords against income

Unlike owner occupiers, landlords can take a tax deduction for various expenses incurred on rental properties. These include a deduction against rental income for 100% of mortgage interest payments, repairs and maintenance and the cost of any property management fees or service charges. The general principle is that a deduction is allowed for costs incurred for the purposes of generating rental income. If for example a property was only partially let then only a similar proportion of expenses incurred on that property would be deductible. Generally pre-letting expenses are not deductible, however an exception is made up to a value of €5,000 where a residential property was vacant for at least 12 months, as an incentive to landlords to return empty properties to the market.

5.2.2 Historical tax measures

Mortgage Interest Relief was an income tax relief on interest paid in a tax year on a qualifying home loan taken out between 2004 and 2012. Loans used to purchase, repair, develop or improve the home qualified. The level of relief depended on the year of purchase and whether the person was a first-time buyer or not. The estimated Exchequer cost of mortgage interest relief for the period 2004 to 2019 was €5.1 billion.[33] The most expensive year in terms of tax revenues forgone was 2008, at €706.4 million across 778,100 claimants. The most recent data available shows the cost of relief in 2019 for 381,484 claimants was €58.6 million. The relief has been phased out gradually, with reduced relief available up until the end of 2020.

Historically there were many **reduced rates and exemptions from stamp duty** on the acquisition of residential property. These included: First Time Buyers' relief, an exemption for new houses over 125m^2 in size, relief for new houses over 125m^2 in size, consanguinity relief for residential property

[33] Revenue, Costs of tax expenditures, October 2021

transfers, exemption for residential property transfers valued under €127,000 and Site to Child relief. The combined impact of these reliefs and exemptions was that an estimated 40% of all residential property transactions were exempt from stamp duty.[34] Subject to some transitionary measure these reliefs were abolished in respect of instruments executed on or after 8 December 2010.

The **Home Renovation Incentive** gave relief by way of an income tax credit on repair, renovation or improvement works on principal private residences or rental property by tax compliant contractors. The scheme was in operation from 2013 to 2018 with the aim of supporting homeowners, landlords and tenants of local authority housing, but also supporting tax compliance in the building industry by moving activity out of the shadow economy into the legitimate economy.[28] The cumulative total of tax credits available to be claimed by those who have completed qualifying works under the HRI scheme was €189.15 million at the end of 2020.[35]

Indexation relief for CGT applies for purchase costs incurred on assets during or prior to 2003. The relief works by applying a multiplier to the purchase price and other costs of acquisition, enhancement expenditure, etc. depending on the year of purchase and based on inflation. Indexation relief still applies today to disposals of assets that were acquired prior to 2004.

There is an exemption from CGT for **land and buildings purchased between 7 December 2011 and 31 December 2014,** where this property was subsequently disposed of after being held for between four and seven years. Property situated in any EEA country qualifies. Originally the exemption applied to property owned for at least seven years, but was later extended to properties held for between four and seven years, where the disposal is made on or after 1 January 2018. Partial relief is available where the property has been owned for more than seven years, with relief reduced in the same proportion that the period of seven years bears to the period of ownership (e.g. if the property is held for nine years, 7/9 of the gain will be relieved). The stated rationale for the relief was to encourage investment in Irish property at a time when the property market was at a low ebb.[28]

The only **tax support for renters** was given in the form of a tax credit against income tax. It was available to individuals who paid for private rented accommodation for use as their sole or main residence. The relief was originally introduced in 1982 to alleviate rental costs for those aged 65 and over but was subsequently extended to all age groups. The level of relief depended on marital status and age (with higher relief for those aged 55 or over). The relief was phased out on a tapered basis up until the end of 2017 and was only available to those who rented on or before 7 December 2010. The

[34] Tax Strategy Group, Taxation of Property (TSG 11/09), 2011
[35] Revenue, HRI Statistics 2013 - 2020, January 2021

cost of the scheme for the period 2004 to 2017 was €715.7 million, with a high point during this period in 2008 when the relief benefitted 222,100 renters at a cost to the State of €96.5 million.[33]

5.3 Conclusion

Section 5 of this paper covered some of the current and historic supports for home ownership, with the purpose of prompting a discussion on whether that level of tax support is appropriate or not.

Arguably, an over-generous tax regime or poorly designed interventions can distort decisions, delay investment or construction activity and drive prices. Many historical reliefs were removed due to unsustainable Exchequer costs and the distortionary impacts they had on the housing market. However, tax reliefs can play a role in providing much needed support to individuals in acquiring a home and they form part of the Government's overall long-term approach to housing. The scope of tax reliefs for housing has narrowed over the years, focusing more on supporting owner occupation and following an approach of increasing simplicity and stability in the tax system. The only tax relief for renters (the rent tax credit) was phased out due to its significant Exchequer cost. Supports for renters are generally provided via local authority and welfare measures based on income criteria and needs assessment, meaning the State's help is targeted at those who need it the most.

Discussion Points for Commission

- Does the Commission support the continued use of tax supports for home ownership? If so what elements of the existing system are working and which are not (e.g. HTB, stamp duty, CGT PPR exemption)? Would non-tax measures, such as direct expenditure options (local authority mortgages, shared equity etc.) be more appropriate?
- Given reducing levels of home ownership overall, how does the Commission consider that inter-generational and horizontal equity can be applied to this area? Does the Commission support changes to the taxation of property wealth in the interest of fairness?
- The previous Secretariat paper on housing also introduced the topic of institutional investors in housing, e.g. REITs and IREFs, and how legislation has changed in recent years in order to address certain concerns over the use of such vehicles. Does the Commission believe further work is required in this space and what impact could any changes have on the supply of residential housing?

The Secretariat welcomes instruction from the Commission on what further work should be carried out on housing, including what recommendations by Commission members for long-term, sustainable reform, if any, could be examined in more detail.