



Potential reforms of the Local Property Tax

CONFIDENTIAL AND NOT FOR WIDER CIRCULATION FOR DECISION

Subject	Potential reforms of the Local Property Tax
Author	Commission on Taxation and Welfare Secretariat
Version	Final
Date	4 February 2021

Directions required

This paper outlines potential reforms to the Local Property Tax (LPT) that have been discussed by the Commission to date. The policy objective for these reforms would be to raise revenue, or to encourage more productive use of vacant or derelict land. The proposals are as follows:

1. Increase the yield from LPT via central rates/bands
2. Increase the charge for vacant properties
3. Increase the charge for second properties
4. Reduce LPT exemptions
5. Introduce a LPT charge for uninhabitable properties.

If there is general support for these proposals then a second consideration is how detailed a written recommendation by the Commission on each change to the tax system should be. What are the guiding principles or specific details that should accompany the reform proposal?

Members are also invited to raise any other proposals that should be considered as part of LPT reform.

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

Table of Contents

1.	Introduction	3
1.1	Areas of general consensus	3
2.	Options for reform of LPT	4
2.1	Increase the yield from LPT via rates / bands	4
2.2	Increased charge for vacant properties	5
2.3	Increased charge for second properties	6
2.4	Reduce LPT exemptions	7
2.5	Introduce a charge for uninhabitable properties	8
3.	Conclusion.....	9
Appendix 1	Distribution of properties by valuation band.....	11
Appendix 2	Multiple property owners	12

1. Introduction

The local property tax (LPT) together with other tax issues relating to housing were considered at meetings 4, 9 and 11 of the Commission in 2021. These discussions were supplemented by the Secretariat across a number of related briefing papers titled *Introductory paper on housing*, *Site Value Tax*, *Recurrent Taxation of Immovable Property* and *Taxation of property – influencing supply and tenure decisions*. LPT has also been discussed in the context of the taxation of wealth and the balance of taxation.

This paper aims to reflect the observations to date from members and the suggestions for potential reforms to the LPT system. The proposals outlined are not exhaustive and they do not represent final recommendations. The purpose of the discussion at Meeting 17 will be to identify areas of consensus, with the intention of facilitating further constructive discussion and debate in order to aid the Secretariat in drafting formal recommendations on LPT reform.

1.1 Areas of general consensus

1. While acknowledging that it is an imperfect system and irrespective of how you categorise LPT as a tax, there appears to be agreement among members that LPT is largely a successful tax in terms of design, compliance and administration.
2. LPT (and property taxes more generally) should be seen as a stable and efficient source of future revenue and LPT is an effective, although not perfect, means of taxing wealth in Ireland.
3. Overall members have indicated broad consensus to endorse this recurring tax on residential property in its current form, and that the Commission should recommend an increase in the overall yield collected from LPT over time.
4. Members also endorsed the prospect of enhancing and modifying LPT to potentially encourage activation of derelict and vacant properties for residential use where possible and also potentially increasing LPT yield by including a higher charge for non-principal private residences.

This paper outlines the options raised so far for achieving these aims, together with some issues to consider before such reforms are recommended.

2. Options for reform of LPT

This section lists the various proposals discussed by members to date on how LPT could be reformed. When reading each proposal members are asked to consider firstly whether or not they are in support of the proposal. If there is general support for such a proposal among the Commission then a second consideration is how detailed any written recommendation by the Commission on this proposal should be.

2.1 Increase the yield from LPT via rates / bands

Previous Secretariat papers and Commission meetings have considered the level of LPT receipts (€552 million in 2021¹) relative to other taxes, with members highlighting potential scope to increase the yield from this recurring tax on residential property.

If the Commission was to make a recommendation on increasing the yield from LPT, what policy levers should be used to achieve that increase and how detailed should that recommendation be? The levers could include:

- Rate and valuation band changes
- Increased charge for vacant properties (see section 2.2)
- Increased charge for second properties (see section 2.3)
- Reduced exemptions (see section 2.4).

It is not expected that the Commission will design rate or band changes, but it is useful to note the various ways the rates and bands could be modified:

- With regards to changing the rates of LPT, this could involve an increase in some or all three LPT rates (currently 0.1029% of the first €1.05 million of market value of the property, 0.25% of the portion between €1.05 million and €1.75 million, 0.3% of the portion above €1.75 million). More rates could be added to introduce more progressivity.
- Furthermore, the local adjustment factor could be modified so that Local Authorities are restricted in decreasing the basic rate, or allowed a higher increase of the rate (beyond 15%). Alternatively the ability of Local Authorities to adjust the basic rate could be removed. This type of measure would of course have implications for the budgetary control of Local Authorities.

¹ Revenue, [Headline Results 2021](#)

- With regards to the valuation bands (currently 20)², these could be narrowed or the number of bands adjusted in order to lower the entry point to a higher LPT rate.

Members have indicated at meetings that the level of property taxation should be increased, while also cautioning that tax rates should not be so high as to encourage non-compliance. It is not envisaged that the Commission's recommendations would specify a particular percentage or figure for rate and band changes, but it may wish to be clear on a range or baseline that it deems reasonable, or unreasonable as the case may be.

Another consideration is whether an increase in LPT liabilities should apply evenly or progressively depending on the property valuation. The distribution of properties by valuation band is shown in Appendix 1. In the case of 2021 returns, over 85% of properties liable to LPT in 2021 were initially valued below €250,001 (based on 2013 valuations, see Appendix 1). Increases in the LPT charge would likely need to factor in potential changes to the payment deferrals available to those who could face financial hardship by the change (for example the LPT 2022 reforms were accompanied by an increase in the deferral income thresholds and a reduction in the late payment interest rate).

2.2 Increased charge for vacant properties

Residential properties that are suitable for use as a dwelling are currently liable to LPT even if they are not occupied. A potential reform to LPT could be to have a higher charge for vacant properties. There were 90,158 dwellings recorded as vacant in Q4 2021 according to a recently published GeoDirectory report, with much higher vacancy rates in Connacht compared to residences located in Leinster counties.³

The Housing for All strategy notes that the 2022 LPT returns are being used to gather data on vacant residential properties, to inform a decision on the introduction and potential design of a new vacant property tax. The 2022 LPT returns were due to be filed by 12 January 2022 and the Department of Finance will be analysing data from the returns once available from Revenue. The stated timeframe for delivery on this commitment is the second quarter of 2022.⁴ While LPT data is informing the design of a new vacant property tax it is not yet clear what the design and structure of the proposed tax may be or if the intention is to introduce it as part of the LPT system.

² Revenue, [Local Property Tax](#)

³ [GeoDirectory Residential Buildings Report Q4 2021](#), 18 January 2022

⁴ Minister for Finance, [Parliamentary question 62719/21](#), 16 December 2021

This does not preclude this Commission from making a recommendation on the introduction (or not) of a vacancy surcharge to the existing LPT framework. Such a charge would potentially be collected as part of the current LPT system rather than requiring the design of a new tax regime.

A surcharge could operate as a fixed euro charge or at an additional tax rate above standard LPT rates. Consideration could also be given to having progressive fixed charges or tax rates, depending on factors such as the reason for the vacancy or length of time the property has been vacant.

The rationale for such a charge would be to encourage productive use of housing stock rather than it being relied upon as a sustainable source of revenue. A vacancy charge would be intended to discourage speculation or hoarding of property, however it is of note that a property could be vacant for other reasons. This could include properties which become vacant owing to the long-term illness of the owner, refurbishment work or pending the grant of probate for a deceased person's estate.

2.3 Increased charge for second properties

Another suggested proposal raised by Commission members as part of previous discussions is the potential introduction of an increased LPT charge for owners of multiple properties. Such a charge was discussed in the context of increasing overall revenue from LPT as a form of wealth tax and increasing vertical equity. Such a measure could be introduced through LPT as an increased tax that could apply to all houses not occupied by the owner as their principal private residence. Alternatively the tax could apply to all houses where the owner has multiple properties.

When LPT was being designed, there was a recommendation in the 2012 Thornhill report⁵ for the €200 non-principal private residence (NPPR) charge to *“be absorbed into, and aligned with, the LPT as a separate supplemental tax in addition to the LPT at the existing level applying to non-principal private residences”*. This recommendation was not ultimately adopted.

The most recent Revenue data available shows that of the 2022 LPT returns filed as of 6 January 2022,⁶ over 1.1 million property owners had fully filed returns for 1.4 million properties. Of these, there are 151,100 multi property owners (nearly 14% of all owners), in addition to 959,600 single property owners. These figures will increase once all 2022 returns are filed. Data is not yet available on the number of properties this is in relation to. According to 2021 LPT returns there were around 181,000 owners of two or more properties, covering 573,000 properties (see Appendix 2). Nearly 70% of multiple property owners held two properties. Revenue estimate that an additional €100 charge on

⁵ Report of the Inter-Departmental Group, [Design of a local property tax](#), 2012

⁶ Revenue, [LPT data for 2022](#). This reflects returns filed as of 6 January 2022.

second or more properties would raise €50 million, whereas an additional €100 charge on every NPPR would raise €23 million.⁷ The latter estimate suggests there are 230,000 NPPRs as of 2021. Revenue's estimates are based on 2021 LPT returns and May 2013 valuations.

An increased LPT charge for second homes could be introduced as a fixed euro charge in addition to the normal LPT liability, or a separate set of rates and/or valuation bands could apply to non-owner occupied residences.

Multi-property owners may hold those properties for rental purposes, or as a holiday home, or for occupation by a relative, etc. The Commission may wish to consider the scope of a charge on second homes, whether or not it would only apply to NPPRs of the owner and whether there should be any permissible exemptions e.g. if a second home was used for any particular purpose, or unable to be occupied as the PPR of the owner under certain circumstances.

2.4 Reduce LPT exemptions

The cost of LPT exemptions as a percentage of LPT receipts has been less than 3% in the last number of years, with a cost to the Exchequer of €14.3 million in 2020. LPT was reformed for the 2022 tax year, including the abolishment of certain exemptions from the tax. The following exemptions from LPT expired on 31 December 2021:

- New or unused property purchased from a builder or developer
- Builders or developers with properties built but unsold
- Properties in unfinished housing estates
- Property purchased as a home in 2013.

Of the 1.836 million properties declared in 2021 LPT returns, there were around 49,000 claims for exemption.⁸ Of the 1.4 million properties declared in 2022 LPT returns filed up to 6 January 2022, 1.377 million of these are liable to the tax. Approximately 15,000 properties are exempt and 10,000 are eligible for deferral. The table below shows the basis for exemptions claimed to date.

⁷ [Revenue Ready Reckoner](#), November 2021. The estimate for second homes includes properties owned by Local Authorities, approved housing bodies and commercial landlords. The estimate for NPPRs is based on properties indicated as such by owners in LPT returns.

⁸ Revenue, [LPT statistics for 2021](#), 6 January 2022

Table 1 LPT exemptions claimed

Exemption (Note 1)	Number of properties	%
Charity/Public Body owned and used for special needs accommodation	8,520	56.8%
Properties unoccupied for an extended period by an ill or infirm liable person	1,725	11.5%
Residence of a severely incapacitated individual	1,590	10.6%
Pyrite damaged (Note 2)	1,050	7%
Fully subject to commercial rates	810	5.4%
Defective concrete blocks grant scheme	735	4.9%
Registered nursing home	375	2.5%
Properties owned by charities for recreational activities	150	1%
North-South implementation bodies	45	0.3%
Total	15,000	100%

Source: Revenue, LPT data for 2022 (as of 6 January 2022)

Note 1: Information on each of these exemptions is available on Revenue's website - <https://www.revenue.ie/en/property/local-property-tax/exemptions-apply-2022-2025/index.aspx>

Note 2: The pyrite exemption applies for a fixed period of six years. The exemption is being phased out and will not be available to property owners who meet the current eligibility conditions after 22 July 2023.

Are there any exemptions listed which the Commission feels should be abolished, or restricted?

2.5 Introduce a charge for uninhabitable properties

Members have raised concerns over the social and economic impacts of dereliction. A property that is derelict to such an extent that it is uninhabitable and that is not in use as a dwelling is not currently within the scope of LPT (as distinct from residential property that is within the scope of the tax but granted an exemption). One proposal could be to introduce a charge to LPT on derelict properties, or alternatively, as part of another tax charge e.g. a new Site Value Tax or Derelict Sites Levy⁹ reform.

To be chargeable to LPT currently, a property must come within the meaning of a "residential property" on the liability date (i.e. 1 November in each year). A residential property is not liable for LPT if it is uninhabitable or unsuitable for use as a dwelling on the liability date. What constitutes an uninhabitable property is not defined and is determined based on the facts and circumstances of each case. Revenue has published guidance¹⁰ on what constitutes a residential property or not for LPT purposes, and notes that what constitutes an uninhabitable property can be a very subjective matter that is likely to elicit widely varying opinions from different people.

⁹ This levy currently applies only to derelict sites (including dwellings) situated in urban areas that are listed on the Derelict Sites Register.

¹⁰ Revenue, [LPT - Meaning of a residential property](#), December 2021

LPT is declared under self-assessment and therefore where a person does not consider that he or she is a liable person in relation to a property, there is no requirement to value the property or to file a return.¹¹ As there is no requirement to file a return in respect of a property that the owner determines is not a residential property, there is limited data therefore on the potential yield from extending the charge of LPT to uninhabitable properties. Geodirectory has recently reported that there were 22,096 residential units classified as derelict in December 2021, a net decrease of 7.3% since December 2016.¹² The report noted a concentration along the west coast of Ireland, with just over a third of all derelict dwellings located in Mayo, Donegal and Galway.

A base broadening measure could be the extension of the LPT charge to properties that are uninhabitable or not suitable for use as a dwelling. The Commission may wish to consider if such a change would be appropriate in the context of the original intention of the LPT or if such an expansion in scope is warranted as a base broadening measure and consistent with LPT as a form of wealth tax. Questions would also arise as to how such a charge should apply, whether in line with the current LPT system, or at higher rates or different valuation bands given the lower market value of such properties and in order to encourage productive use of housing stock.

Alternatively, it may be more appropriate to bring derelict and uninhabitable properties within the charge of another tax, for example as part of discussions by the Commission on a potential new Site Value Tax. The interaction of this charge with the current Local Authority Derelict Sites Levy would also need to be considered.

3. Conclusion

This paper outlines a range of potential reforms to LPT, many of which were proposed in previous discussions of the Commission. The primary purpose of the reforms are intended as revenue raising measures, supporting the Commission's view of LPT as a stable and efficient source of future revenue and an effective means of taxing wealth in Ireland. Other reforms are also presented as a potential way to encourage activation of vacant or derelict housing stock.

Members are asked to form agreement on the areas of general consensus presented and consider the following questions to aid the Secretariat in drafting formal recommendations on reforming LPT:

1. Are members in favour of recommending any of these specific proposals?

¹¹ Revenue can however issue a notice requesting the property owner file a return, which must be complied with. Revenue also encourages property owners to seek an opinion from Revenue in cases of uncertainty.

¹² [GeoDirectory Residential Buildings Report Q4 2021](#), 18 January 2022

2. If members are in favour of recommending some or all of these proposals, how detailed should a recommendation by the Commission be in relation to each reform?
3. Are there alternative proposals that should be considered?

The measures outlined are summarised as follows:

Measure	Potential details to include in proposal
Increase yield from LPT via bands/rates	<ul style="list-style-type: none"> • Should the same increase apply to all properties or be targeted depending on the value of the property? • Does the Commission wish to suggest any changes to the local adjustment factor? • Should an increase in LPT be introduced on a phased basis?
Introduce charge for uninhabitable properties	<ul style="list-style-type: none"> • What form should the charge take? <ul style="list-style-type: none"> ○ Extend LPT charge* ○ Include in another charge e.g. Site Value Tax, Derelict Sites Levy <p><i>*this would involve extending the LPT charge to non-residential properties, or a change to the definition of a residential property for LPT purposes</i></p>
Increase charge for vacant properties	<ul style="list-style-type: none"> • Should the charge be targeted depending on the reason for or length of vacancy?
Increase charge for second properties	<ul style="list-style-type: none"> • What form should the charge take? <ul style="list-style-type: none"> ○ Charge on NPPR of owner ○ Multi-property owners charged on all properties ○ Fixed charge or higher rates depending on value
Reduce level of LPT exemptions	<ul style="list-style-type: none"> • Which of the current exemptions from LPT should be reduced or abolished, if any?

Appendix 1 Distribution of properties by valuation band

Table 2 Distribution of properties by LPT valuation band in 2021, plus the LPT liability payable

	Valuation Band €	Number of properties *		LPT liability € **
1	0 – 100,000	436,800	27.3%	90
2	100,001 – 150,000	438,400	27.4%	225
3	150,001 – 200,000	334,400	20.9%	315
4	200,001 – 250,000	161,600	10.1%	405
5	250,001 – 300,000	78,400	4.9%	495
6	300,001 – 350,000	46,400	2.9%	585
7	350,001 – 400,000	30,400	1.9%	675
8	400,001 – 450,000	20,800	1.3%	765
9	450,001 – 500,000	14,400	0.9%	855
10	500,001 – 550,000	9,600	0.6%	945
11	550,001 – 600,000	6,400	0.4%	1,035
12	600,001 – 650,000	4,800	0.3%	1,125
13	650,001 – 700,000	3,200	0.2%	1,215
14	700,001 – 750,000	3,200	0.2%	1,305
15	750,001 – 800,000	1,600	0.1%	1,395
16	800,001 – 850,000	1,600	0.1%	1,485
17	850,001 – 900,000	1,600	0.1%	1,575
18	900,001 – 950,000	1,600	0.1%	1,665
19	950,001 – 1,000,000	1,600	0.1%	1,755
20	Over €1m	3,200	0.2%	1801 +
		1,600,000	100%	

Source: Revenue, [LPT statistics for 2021](#), (data updated as of 6 January 2022)

*This table shows the distribution of 1.6 million properties by their valuation band, based on values as at 1 May 2013. Local Authority owned properties are excluded, as are properties not returned but where exemptions or deferrals are in effect and properties where mandatory deduction at source has been applied.

** LPT liabilities in 2021 were payable at 0.18% on the mid-point of the valuation band. Properties valued over €1 million were charged on 0.18% on the first €1 million and 0.25% on the excess above €1 million. This was further subject to the local adjustment factor set by Local Authorities.

Appendix 2 Multiple property owners

Table 3 Number of single and multi-property owners, 2022

Number of properties owned	Number of owners	
1	959,645	86.4%
2	105,517	9.5%
3-5	37,764	3.4%
6-10	5,554	0.5%
Over 10	<u>2,221</u>	<u>0.2%</u>
	1,110,700	100%

Source: Revenue, [LPT data for 2022 \(as of 6 January 2022\)](#)

Table 4 Multiple property owners in 2021

Number of properties owned	Number of persons (000s)	Persons (%)	Number of properties (000s)	Properties (%)
2	126.5	69.9%	253.1	44.2%
3 to 5	44.4	24.5%	154.2	26.9%
6 to 10	7.2	4.0%	51.8	9.0%
11 to 20	1.9	1.0%	26.8	4.7%
21 to 50	0.7	0.4%	21.1	3.7%
51 to 100	0.2	0.1%	11.6	2.0%
101 to 200	0.1	0.1%	8.9	1.6%
201+	0.1	0.1%	45.6	8.0%
	181.1	100%	573.1	100%

Source: Revenue, [LPT statistics for 2021](#), (as of 6 January 2022)

There are around 181,000 individuals and other entities that are designated liable persons for two or more properties (covering 573,000 properties). Properties owned by Local Authorities and approved housing bodies are excluded from this analysis.