

The New Property Tax

The Government has announced the introduction of a residential property tax from 1 July, 2013 in place of the household charge. The new tax follows the Report of the Interdepartmental Group on Property Tax which has been published.

The new tax will improve the equity of our tax system. The fiscal privileges given to owner-occupied housing have had serious consequences – discriminating against tenants, pushing up the price of houses and contributing to the excessive investment in housing which was a direct cause of the current domestic crisis. The new property tax is an important step in removing these distortions.

Furthermore, raising a tax on property wealth will do significantly less damage to the labour market than a comparable increase in income taxes. And since property is immovable, it will be harder to evade than income tax.

The design of most aspects of the property tax is correct. Basing the property tax on self-assessed market value rather than the theoretically attractive site value is a pragmatic decision which is very much in line with international practice.

The proposal to allow local authorities the flexibility to vary the rate by up to plus or minus 15 per cent from the national rate may go some way to dealing with the intractable issue of local government finance which has bedevilled us since the early 1970's and may prove transformative for local democracy.

Assigning responsibility for the collection of the charge to the Revenue Commissioners is also a good decision as are the proposed methods of making payments easier for those liable. This removes for most people a particular problem with the old rating system where rates were payable in two relatively large instalments – a situation which led Sean Lemass to observe that “people pay their taxes in sorrow but their rates in anger”.

Finally, the recommendation to allow those on low incomes to defer the property tax to be collected at some convenient time in the future is a good one. The alternative of an income related waiver scheme would be very

difficult to implement effectively and fairly which would soon bring any such system into disrepute.

While the introduction of the property tax as recommended will improve the fairness of the tax system, the proposed system is not ideal.

While the property tax removes the inconsistency between the tax treatment of those who rent and those who own their property, it fails to properly account for any outstanding mortgage debt. Given that mortgage interest relief for income tax purposes will no longer be available for new purchases from 2013 and for existing owners from 2018, it would be appropriate to allow mortgage debt as a deduction from the market value of the house. While correct in principle such an approach would also deal with the current issues of those in mortgage difficulty. The proposal to limit the deferral to those with incomes below €25,000 (after deduction of 80% of mortgage interest) may not deal fully with the problem. However, given the relatively low rate of property tax this may not be very significant.

The proposed treatment of rented property also constitutes a case of double taxation in cases where the landlord is returning the rent for income tax purposes. Ideally the new property tax should be allowed as a credit against income tax due on the property. At a minimum the property tax should be allowable as a deduction in computing rental income.

Given the imperative to restore fiscal stability, additional tax measures are essential. The new property tax is a tax measure which has the lowest impact on employment and as such is to be welcomed.