Foundation of Fiscal Studies Annual Conference

The Fiscal Treatment of Property in Ireland

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Structure of Presentation

- Introduction
- I. Taxation of property
- II. Property-related reliefs from taxation
- III. Property-related Tax Incentives
- IV. Conclusion

- Factual position rather than discussion of policy

Supplementary Budget: 7th April 2009

- "We need to broaden our tax base…".
- "We will remove unjustified reliefs and ensure that capital is taxed in a fair manner….".
- "Many of these reliefs were abolished in 2006 by my predecessor. Today I will continue this process by reducing those tax expenditures that can have an impact this year".

- Government intention to continue to remove unnecessary reliefs and shelters from the tax system in successive budgets.
- As an initial step, Property Reliefs restricted.

Supplementary Budget: Property-related changes

- Limited tax relief on interest for mortgages and loans on residential rental properties to 75%.
- Abolished 'special' 20% rate for trading profits from residential development land and restricted the treatment of trading losses.
- Terminated property-related accelerated capital allowance schemes in the Health Sector (private hospitals & registered nursing homes).
- Mortgage Interest Relief for principal private residences available for the first 7 years of the mortgage.
- Broadening of the tax base:
  - increased capital taxes to 25%:
    - Capital Gains Tax (CGT)
    - Capital Acquisitions Tax (CAT)
  - Reduction in CAT thresholds

Property-related reliefs from taxation: Context and Challenge

- OECD: "Ireland has some of the most generous tax provisions for owner-occupied housing".
- Ireland is the only country to allow tax relief on rent, mortgage interest payments, capital gains and capital acquisitions, while not applying an annual property tax.
- Significant untaxed base & system very supportive of property.

I Taxation of property in Ireland

- Property Tax
- Quasi-Property Taxes
  - Local Authority Rates
  - Development levies
- Transaction Taxes
  - Stamp Duty
  - Value Added Tax (VAT)
- Taxation of Gains – Capital Gains Tax
- Taxation of Inheritances – Capital Acquisitions Tax

Property Tax

- No comprehensive property tax at present
- But, Budget 7th April – Fiscal Outlook:
  "In 2011, the target … to raise up to an additional €1.5bn. Options to raise this may include…a form of property tax".
- Commission on Taxation
- Learn from lessons of Residential Property Tax (RPT)

Quasi-Property Taxes: Local Authority Rates

- Primary Valuation of Ireland (Griffith's Valuation): 1846-64
- Rates are based on two main elements:
  - Rateable valuation (tax base) of a property
    - determined by the Commissioner of Valuation
    - based on net annual letting value of a property.
  - Annual rate on valuation (tax rate)
    - determined by Local Authority as part of its budgeting process
    - sets the commercial rates payable by ratepayers (person in occupation).
  - Levied on fixed commercial property, not a charge for services rendered.
- Domestic Rates abolished in 1978

Quasi-Property Taxes: Development Levies

- Established: Planning and Development Act 1964
- Contribute to cost of Local Authority provision of infrastructure and services which facilitate development.
- Commercial and Residential Development Levies
- 2007: €866m paid.
- Income has increased by almost 500% over 1987 - 2007.
- Significant fall in recent years: decrease in construction
- No prescribed method for calculation - Local Authorities required to satisfy themselves that "the basis for determining the charge can be justified or supported".
- Significant variations in calculation and imposition: €7 per m^2 (Donegal) to €123 m^2 Dublin City.

Transaction Taxes: Stamp Duty

- Residential & Commercial Property Conveyances.
- Long-established: also on other economic activities.
- Major source of revenue, but recent decline in tandem with construction/property downturn.
- Subsequent, structural exposure for Exchequer.

- VAT is charged on the sale of new houses at the reduced rate of 13.5%.
- No VAT charged on the sale of second-hand houses, but VAT on associated costs.

Stamp Duty: Details

- Residential
  - Not payable on new houses below 125m^2
  - 2 Rate Bands with an exemption
    - First €125,000 exempt
    - Next €875,000 (7%)
    - Excess €1,000,000 (9%)
  - All first-time buyers (FTBs) of houses exempt
- Commercial
  - 6 Rate Bands with first €10,000 exempt (1% - 6%)

Taxation of Gains - Capital Gains Tax (CGT)

- Introduced in the Capital Gains Tax Act 1975.
- Charged on the value of the capital gain of an asset at the time of disposal.
- Property, but also other assets.
- Level & number of rates amended over time.
- Budget 1998: reduction from 40% to 20%.
- Recent Budgets: 20% increased to 25%.
- Significant exemptions from CGT.

Taxation of Inheritances: Capital Acquisitions Tax (CAT)

- Introduced 1976, replaced estate duty.
- Includes gift tax, inheritance tax and discretionary trust tax.
- Property, but also other assets.
- Group thresholds & overall rate: amended over time.
- Low rate of 20% & exemption of family home.
- Recent Budgets: 20% increased to 25%.

II Property-related reliefs from taxation: Main Types

- Mortgage Interest Relief (MIR)
  - Interest paid by owner occupiers
- Interest Relief for Investors
  - Interest on residential & commercial property
- Stamp Duty Exemption
  - First-time buyers & new houses below 125m^2
- Capital Gains Tax (CGT) exemption
  - Several areas
- Capital Acquisition Tax (CAT) exemption
  - Several areas

Property-related reliefs from taxation: Other Areas (1)

- Special Regime for rented accommodation
  - Business type offsets are allowed to landlords e.g. capital allowances for furniture, repairs, etc
  - Offsets only apply to the Irish rental income
- Special Tax Rate for Development Land
  - 20% Corporation and Income Tax rates
  - Dealing & trading in development land
  - Abolished in Supplementary Budget 2009
  - 25% CT rate & individual's marginal rate
  - Restriction on trading losses

Property-related reliefs from taxation: Other Areas (2)

- Rent a room scheme
  - Exemption from Income Tax
  - Rent for a room(s) in PPR up to €10,000 per year
- Rent Relief
  - Tax relief (standard rate)
  - Individuals renting private rented accommodation
  - Age-related:
    - (i) up to 55 - €2,000 (single) & €4,000 (widowed/married)
    - (ii) above 55 - €4,000 (single) & €8,000 (widowed/married)
  - Equates to tax credits of €400 and €800 for under 55s & €800 and €1,600 for over 55s

Mortgage Interest Relief (MIR) - Overview

- Income tax relief on interest paid on monies borrowed for the purchase, maintenance, repair or improvement of a taxpayer's main residence.
- Relief at standard rate of Income Tax.
- MIR provided at source through financial institutions - TRS system (01/01/2002).
- Mortgage holders get the benefit of the relief directly from their mortgage providers in the form of reduced monthly repayments which take account of the tax relief.
- Tax status (low or nil liability) not relevant:
  - relief is based on the amount of interest paid
  - reduces monthly repayments

Mortgage Interest Relief (MIR) - Costs

Tax Year	Numbers	Cost €m
2005	587,800	€280m
2006	648,950	€350m
2007	697,250	€545m
2008	735,000	€665m

Mortgage Interest Relief (MIR) – Recent Changes: 1

- Increase targeting with restrictions.
- Budget 2008:
  - Ceiling for first-time buyers: €8,000 single/€16,000 married to €10,000 single/€20,000 married.
  - Ceiling for non first-time buyers unchanged (€3,000 single/€6,000 married).
- Budget 2009: revenue-neutral refocusing of the relief on first-time buyers.
  - First-time buyers rate increased from 20% to 25% (year 1 & 2 of mortgage) and 20% to 22.5% (year 3 to 5) remaining at 20% for year 6 & 7.
  - Non-first time buyers reduced from 20% to 15%.

Mortgage Interest Relief (MIR) – Recent Changes: 2

- Supplementary Budget 2009:
  - MIR for PPRs only for first 7 years of the mortgage.
  - MIR for first-time movers, improvers or buyers.
  - As prices fall, MIR to be kept under review with a view to eventual abolition.

Interest Relief for Investors

- Varied history over last decade.
- Features:
  - No ceiling on interest claimed as an offset – 100%
  - Available at marginal rate: 41%
  - Limited to individual's Irish rental income
- Costs
  - Significantly increased in recent years: 222m (2003) to €800m (2007 estimate)
  - 50/50 split between residential and commercial
  - Supplementary Budget 2009: limits to 75% of interest for residential, both old & new €70m yield
  - Relief conditional on landlords registering with PRTB

Reliefs from Capital Gains Tax (CGT)

- Principal Private Residence (PPR)
  - Exempt, where the person resides in the property
- Site to Child
  - Parent to a child, transfer for construction of PPR
  - Limits (€500,000) on value & site size (1 acre)
- Retirement Relief
  - Business or farming assets: person disposing 55+
  - Owned and used the asset for the 10 years previously
- Farm Partnership Relief
  - Break-up of jointly-owned assets to individual partners

Reliefs from Capital Acquisition Tax (CAT)

- Excludes Principal Private Residence
- Exemption below group thresholds
  - Reflect relationship between the disponer and beneficiary
  - A: Child, B: Sibling/Nephew, C: Others
  - Generous thresholds – CPI indexed.
- Dwelling House Relief
  - Benefit individuals living in a house prior to the taking of a gift/inheritance.
- Agricultural/business relief - reduces liability by 90%
  - Business & farms
- Small Gifts Exemption

III Property-related Tax Incentives

- Categories: (i) housing & (ii) other property-related
- Rationale:
  - Socio-economic – urban & rural renewal & development
  - Infrastructural – provision of scarce/costly capital items
- Terminated 31st July 2008, except in Health Sector
- Health Sector schemes terminated by Supplementary Budget
- Legacy Issues:
  (i) legitimate expectation of investors and
  (ii) have different periods for claims to be made once they have terminated

Property-related Tax Incentives: Nature

- Provision of Capital Allowances for expenditure incurred on the construction or refurbishment of property used for a particular purpose or in a specific location.
- Tax offset provided at the marginal rate on the allowable expenditure.
- Capital Allowances available at set percentages over a set period: 7-year period at the rate of 15% per annum for the first 6 years and 10% in year 7.

Property-related Tax Incentives: categories - A

- Provision of tax offsets:

1. Capital Allowances: investors/owners
   - Industrial Buildings (hospitals, hotels, etc)
   - Industrial/Commercial Buildings in special designated areas (urban, rural, town, Shannon)
2. Section 23: deduction against Irish rental income for rented residential property
3. Owner-occupiers of residential property in designated areas (against total income)

Property-related Tax Incentives: categories - B

- Sectoral Approach

1. Health Sector
2. Tourism Sector
3. Area-based
4. Infrastructure

Property-related Tax Incentives: rationale

- Five broad, inter-related, rationale
  - Infrastructural: provision of facilities required by society or facilities in certain locations
    - Health Sector & Third Level Education
  - Environmental: renew/develop urban/rural areas
  - Social: encourage certain outcomes in society
    - Owner-occupiers, inner-city living
  - Economic: encourage certain economic activities and/or general construction
    - Hotels, retail
  - Policy: underpin policy actions by Government
    - Student accommodation, car-parking

Property-related Tax Incentives: Examples 1

- Health Sector
  - Private Hospitals
  - Nursing Homes
  - Convalescent Homes
  - Associated residential units
  - Mental health centres
  - Specialist Palliative Care Units
  - Sports Injury Clinics
- Tourism Sector
  - Hotels
  - Holiday Camps
  - Holiday Cottages
  - Guest Houses
  - Seaside Resorts

Property-related Tax Incentives: Examples 2

- Area-Based
  - Urban Renewal
  - Town Renewal
  - Rural Renewal
  - Seaside Resorts
  - Mid-Shannon Scheme
  - Living over the shop
- Infrastructure
  - Third Level Education
  - Student Accommodation
  - Childcare Facilities
  - Park & Ride Facilities
  - Multi-storey car parks

Property-related Tax Incentives: Criteria

- Incentives subject to criteria
- Targeted with specialist nature of facilities: hospitals
- Meet certain minimum capacity requirements (20% of beds for public use at 10% reduction)
- Provide a range of facilities (operating theatre or theatres, related diagnostic and therapeutic facilities)
- Provide a range of specified services
- Annual certification
- Specific need to be recognised to secure approval
- Clawback, if cease to be used within set period

Property-related Tax Incentives: Review & Termination

- 2005 review of tax incentive schemes
- External: Indecon and Goodbody Economic Consultants
- Internal: D/Finance, Revenue Commissioners & other Departments

- Budget 2006:
  - In line with the recommendations.
  - Termination date of 31 July 2008 was announced for all existing schemes
  - Excludes: private hospitals, registered nursing homes and childcare facilities

Property-related Tax Incentives: Transitional arrangements

- Termination date 31 July 2008:
  - expenditure in 2007 was restricted to 75% of the amount attributable to that year
  - expenditure for the period 1 January - 31 July 2008 restricted to 50% of the amount involved
  - 15% of the actual construction by 31 December 2006
  - Local Authority certification in some cases

Property-related Tax Incentives: ‘Legacy’ Issues

- After termination, ‘legacy’ claims for tax offsets arise.
- Termination relates to a deadline for qualifying expenditure.
- Claims for previously incurred expenditure can arise within a set period after final expenditure
- Decline over time until the various final dates for claiming relief.
- Abolition of ‘legacy’ claims c. €426m.
- Legitimate expectation by investors that commitments entered into by them the outset of their investment in the scheme will run their full course.

Property-related Tax Incentives: Costs

- Can be difficult to quantify:
  - Different claim periods for schemes
  - ‘Legacy’ Issues
  - Time-lag in tax data
  - Tax offset for incurred expenditure, forecasting difficult

- Complete abolition of legacy claims for terminated schemes: estimated €426m
- Termination of remaining schemes & end of ‘legacy’ period: €60m – done in Supplementary Budget

Property-related Tax Incentives: A Final Word

- All schemes terminated
- Exceptions: Palliative Care, Childcare Facilities, Mid-Shannon, Seveso industrial facilities
- Future use of similar schemes?
- EU State Aid Issues – tax incentives
- Area-specific contrary to State Aids rules
- 2007-13 EU Regional Aid Map: Ireland largely excluded from regional aid or use of area-specific incentives

IV Conclusion

- Have considered:
  - Taxation of property
  - Property-related reliefs from taxation
  - Property-related Tax Incentives
- Questions raised by Supplementary Budget
  - Base-broadening
  - Removal of unnecessary reliefs and shelters
  - Ensure that everyone makes a contribution
  - Next Steps:
    - Commission on Taxation on property
    - Continue process of restricting reliefs
    - Future Property Tax ?

What does this tell us about the fiscal treatment of property in Ireland?

- OECD: "Ireland …most generous tax provisions for owner-occupied housing".
- …"only country…tax relief on rent, mortgage interest payments, capital gains and capital acquisitions, while not applying an annual property tax".
- Are things changing?
- Home ownership: primary aspiration -> changing to a more European model?
- The fiscal treatment of property, lead or follow?

Thank You!

Questions ??
Comments??

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