

# Smart Taxes Network Budget Submission

## Site Value Tax

September 2010

### 1. Introduction

The State requires a property tax which will contribute revenue through a fair, efficient, robust and transparent system. It should also encourage property development as a productive enterprise rather than speculative dealing. Most economists agree a land value based tax best achieves these aims.

Unfortunately, property taxation, particularly a form which discourages speculative dealing, faces popular and political resistance. However, this does not negate the efficacy of a Site Value Tax as an instrument of long term economic stability. Part 2, *Primary Reasons for Introduction of Site Value Tax*, considers in more detail the substantial benefits of SVT

Standard property taxes may be levied in a blunt fashion which tends to be regressive and results in low revenue over time. When efficiently implemented Site Value Tax will be fair, efficient, robust and transparent and will contribute steady and substantial revenue while providing counter-cyclical economic regulation, smoothing the boom-bust tendencies of property markets

Most of the basic data required for SVT valuations is available, albeit in diverse government databases. This makes it a practical proposition to collect revenue through SVT by September 2011. Expert opinion recommends a pilot study in a defined location, e.g., Co. Limerick, to identify detailed valuation methods and other related needs. It is estimated that this would provide necessary preliminary data in two months and cost about €150k, as noted in Part 3, *Site Value Tax Valuations*.

The amount of revenue raised by SVT is a function of total contributions required, what is politically viable and what existing taxes are replaced by SVT. The beneficial effect of substituting some existing restrictive property taxes and levies with SVT are discussed in Part 4, *Benefits of Substituting SVT for Existing Property Taxes*.

*The Positive Effects of SVT on Land Use Policy* is available in Part 5.

Site Value Tax can facilitate a fine grained implementation to meet specific administration and politics measures. Some examples are described in Part 6, *SVT Collection and Distribution* and Part 7, *SVT Allowances and Appeals*.

## 2. Primary reasons for Introduction of Site Value Tax

1. The replacement of Stamp Duty and Development Levies with SVT encourages new building development, including NAMA developments.
2. Substitution of SVT for Stamp Duty removes a major deterrent to households moving to be near jobs, upsizing or downsizing, etc.
3. SVT creates additional construction jobs through its encouragement of viable building development on underused sites which are well served by good infrastructure.
4. SVT is a more stable and counter-cyclical source of revenue compared to Stamp Duty and Levies, i.e. not dependent on transaction volume.
5. Property speculation and the directly related reckless bank lending policies which caused the present and past recessions are significantly curtailed by a system of correctly calibrated SVT levels. Such recessions will inevitably recur unless land is used as a productive economic factor rather than as a speculative commodity. Essentially, SVT provides dynamic economic regulation.
6. S.V.T could be used to fund social / affordable housing more efficiently than the current Part V Contributions, which have proved very unsatisfactory.
7. SVT facilitates financing of infrastructure development over the life of the asset created. . All properties benefiting from the infrastructure, including existing development, pay according to the added value conferred by the public investment. Currently the levies for new developments near the Cherrywood Luas are very large, with one proposed house in Stepside being charged approximately €92,000, while its neighbours are contributing nothing. SVT is a method of 'value capture', or simply returning back to the State the value that public investment has added to private sites, thus facilitating further public investment.
8. Stable and locally raised revenues for local authorities would benefit the planning process by encouraging development close to new infrastructure.
9. Cost benefit analysis could be carried out on proposed infrastructure projects to estimate/quantify the stable revenue return.
10. SVT would discourage re-zoning of land unless there was a viable use for it, and therefore end current pressures on local authorities from land owners

### 3. Site Value Tax Valuations

1. Much of the basic data required to complete SVT valuations is available, albeit in diverse government databases.<sup>1</sup>
2. Expert advice indicates a SVT system based on banded valuations can be implemented within twelve months. A further twelve months is required to develop a more fine grained land parcel valuation.
3. Best practice necessitates a pilot study of a representative sample area, Outcomes required would include:
  - a. reporting on quality of data
  - b. data integration options
  - c. appropriate valuation methods
  - d. identifying legislative changes to deal with data management, etc.

An expert estimate to deliver preliminary results is three months at a cost of €150K, depending on what outcomes are agreed between DoF and pilot researchers.

4. Regarding the practicality of valuation mapping it should be noted that substantial mapping of some cities and rural areas has already been undertaken. For example, the University of Limerick SAUL study has produced comprehensive maps of all properties and their uses in Limerick City and County. This included all major infrastructure, mains water and electricity lines etc. It also included an extensive photographic record. This study was undertaken over a short period by a relatively small team. This demonstrates the practicality of the quick pilot study and relatively fast national valuation at a relatively low cost.
5. The pilot study will determine the detailed approach to valuation methods. However two approaches are noted below.
  - a. Mass appraisals based on market values
  - b. Methods that estimate market values based on appraisals that include proximity to services and other factors.

#### **Market-Based Valuation**

Setting valuations based on the market value of the property (equal to the mean of last 10 years from Property Registration Authority database) minus

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<sup>1</sup>Examples of existing databases:

i) Property Registration Authority ITRIS Database for Owner's names and addresses, and historic valuations since 1999

ii) PRA Digital Mapping Database for site location and area, and seed point to link to folio information in ITRIS Database

iii) Latest version of OSI orthophotos at improved resolution of 0.25m

the cost of rebuilding house (the area of house x type of house x Society of Chartered Surveyors' re-building costs for insurance purposes)

Should there ever be another bubble in the property market and rising property values then property tax liabilities will be moderated by using the 'mean' of the last 10 years of property valuations for assessment. The mean valuation would be slightly less than the current market valuation making the tax more acceptable to the rate payers.

Negative land values can result where building costs are greater than the market value, however all land should be worth something so negative land values should be raised to the bottom valuation band, i.e. €20,000 or €50,000

By extrapolation from available property values the remaining parcels in the immediate vicinity can be valued and structured into bands.

### **Proximity to Services**

Valuations of a substantial proportion of land holdings are now being undertaken for the banks, receivers and NAMA which could also contribute to the process. The methodology adopted by NAMA for its valuations. This methodology would factor in proximity to utility services, public infrastructures, location (D4 vs D24), environment (vegetation, water, planning conditions applied due to proximity to SACs, SPAs, etc.) orientation (south facing rear garden) historical significance (listed buildings).

Banding can be used to simplify the process in the first year and refined in to indicate proximity to public amenities in year two.

#### 4. Revenue Benefits of Substituting SVT for Existing Property Taxes

1. SVT can replace some less effective property taxes. It is recommended Stamp Duty and developments levies should be prioritised. The replacement of Part V of the 2000 Planning Act should also be considered. Their removal would mean a substantial reduction in costs at point of sale, reducing purchase prices of housing and other properties.
2. S.V.T revenue would repay the cost of infrastructure provision and its maintenance to the State and Public Authorities over a period of years.
3. Unused or underused commercial zoned land will need to be assessed based, as far as possible, on adjacent development land.
4. Commercial rates could also be replaced by S.V.T creating a streamlined system of property tax which would be more responsive to managing economic cycles and infrastructural development.
5. Calculations of revenue can be based on broad assessments. There are approximately 1,700,000 dwellings in the State. There is also a substantial area of land zoned residential, also capable of providing sites for almost the same number.
6. The potential revenue generated can be based on existing dwellings, 1,700,000, plus the potential for zoned land after de-zoning – probably a total of 2,500,000, which at an average of €1,000 a dwelling, would be €2.5 billion.
7. The revenue of current commercial rates is known.
8. The probable potential of other undeveloped or underused land would be an additional 50%
9. This level of income would definitely replace Stamp Duty, Development Levies and Part V Revenue, and subsequently rates, to a level which would have been raised in a reasonably active market.
10. With an increased rate of SVT the reduction of inheritance tax on land value could be considered.

## 5. The Positive Effects of SVT on Land Use Policy

1. The introduction of S.V.T will encourage the de-zoning of much unused land, particularly on the perimeter of Urban Settlements, flood plains and other unsuitable sites. However, the de-zoning of land integral to Urban Development should not be allowed. S.V.T will stimulate the development of unused, zoned land and the optimum development of existing sites.
2. It is vital that S.V.T is applied to all sites including un-zoned land.
3. The grant of planning permission for any dwelling or commercial use on any land should automatically mean that the land is zoned for that use.

## 6. SVT Collection and Distribution

1. SVT receipts can be apportioned between Central and Local Government. A significant portion could go to Local Government with Central Government and its agencies paid for infrastructure provisions.
2. Valuations and appeals should be undertaken by County or City Councils, but the taxes collected nationally by the Revenue Commissioners.
3. Currently, Commercial Rates are allocated to Local Government. If Development Levies and possibly Part V contributions are replaced by SVT, then that revenue should also go to Local Authorities.
4. There is a good case for allocating a larger portion of XVT to Local Authorities instead of Vehicle Tax and other Exchequer contributions.
5. S.V.T with a predictable revenue stream would greatly assist Local Authorities and Central Government in planning and executing infrastructure developments.

## 7. SVT Allowances and Appeals

1. Stamp Duty paid by an owner would be discounted for eight years from 2002. Land where development potential is restricted by Historic listings or other legal impediments will be discounted.
2. Public open spaces taken in charge, and areas such as those subject to flooding would be excluded. An allowance would be made for the area round listed buildings where development is not permitted. Many of these exclusions or allowances can be assessed from the Local Development Plan or Local Area Plan.
3. An appeals mechanism would need to be put in place, necessary personnel appointed, and administrative staff selected.