Dublin Chamber of Commerce

Submission to the Inter-Departmental Group on Property Tax

Dublin Chamber of Commerce has consistently argued for a direct linkage between local service usage and locally raised taxes for many years. The Chamber has been an active contributor to this and previous governments' work on local government reform. Dublin Chamber welcomed the introduction of a household charge in the Local Government (Household Charge) Act 2011 as a first step in broadening the local tax base.

Dublin Chamber believes a properly constructed property tax can create a sustainable model for the financing of local government. In order to be sustainable, a strong link must be established between what households pay and what their local authorities receive. A link between taxation and expenditure at local level is likely to be more politically acceptable, as well as providing for a more accountable and efficient local government system. When over 30 years ago, Government abolished rates for domestic and agricultural property, it gave a commitment to make up the resultant shortfall in income. This commitment has not been maintained. Instead, as local authorities' costs and responsibilities increased, constraints on revenue options left local authorities to make up the shortfall through increases in commercial rates and other service charges for businesses. Broadening the tax base should help alleviate the pressure on commercial ratepayers, which would support enterprise and job creation.

Dublin Chamber is confident that, if designed properly, replacing the flat charge with a comprehensive property tax system would address concerns about fairness and equity.

In the context of Dublin Chamber's past submission and the Inter Departmental Group's terms of reference, we make the following two recommendations:

(1) **The property tax should be directly linked to the local services it is funding; and**

(2) **At a minimum, the tax rate or the tax base should be determined at local authority level in order to ensure that the tax is fair and equitable across households within each local authority.**

<u>The property tax should be directly linked to the local services it is funding</u>

The introduction of a true system of local funding for local services would greatly enhance public awareness of the benefits of the services they receive from local government and of the costs of running them. The collection of the non principal private residences (NPPR) charge, which is administered on behalf of local authorities by the Local Government Management Agency, demonstrates that the mechanics of this can be easily achieved. This shared services model reduces administrative costs but keeps a direct linkage between the home where the charge is levied and the Local Authority in whose area the property is located.

Dublin Chamber believes that the degree of public acceptance of the property tax depends on its ability to demonstrate that the money raised by the tax is spent locally. At present, taxes are simply collected and allocated centrally through the Local Government Fund. In 2012, the Local Government Fund will be funded through receipts from motor tax and the household charge, which has replaced the Exchequer contribution.

In the long-term, the property tax will need to raise sufficient funds at local level to replace the Local Government Fund. The table below sets out the average allocation from the Local Government Fund per household to local authorities in 2012. The average Local Government Fund contribution per household to a local authority is €443, but there is a significant regional variance with Leitrim County Council at one end of the spectrum receiving €1,109 and South Dublin County Council receiving €210 at the other.

Allocation of Local Government Fund per household, 2012

Local Authority (where applicable includes Borough and Town LGF allocation in county total)	**Total Allocation from LGF for 2012**	**Average allocation per household** (Census '06 household data)
Leitrim	€11,809,261	€1,109
Longford	€12,126,650	€1,001
Waterford County	€18,596,991	€865
Roscommon	€15,967,965	€770
Monaghan	€14,022,824	€752
South Tipperary	€21,878,919	€745
Sligo	€15,659,616	€729
North Tipperary	€16,350,651	€711
Mayo	€30,415,727	€700
Cavan	€14,854,931	€677
Donegal	€32,869,501	€652
Westmeath	€17,313,127	€640
Laoighis	€13,189,788	€584
Offaly	€13,711,364	€577
Carlow	€9,865,448	€574
Kilkenny	€16,379,600	€552
Galway County	€28,785,035	€540
Kerry	€23,073,286	€480
Wicklow	€20,395,212	€476
State	**€651,000,000**	**€443**
Wexford	€19,708,352	€433
Meath	€22,864,713	€424
Louth	€15,928,387	€412
Limerick City	€7,968,166	€408
Limerick County	€17,683,768	€396
Cork City	€17,265,785	€393
Dún Laoghaire - Rathdown	€25,780,316	€377
Kildare	€21,822,765	€358
Clare	€12,372,505	€324
Cork County	€38,900,594	€316
Waterford City	€5,223,860	€306
Dublin City	€54,805,761	€287
Fingal	€20,455,071	€254
Galway City	€5,990,156	€236
South Dublin	€16,963,904	€210

Clearly, during the period of transition and reform, there will remain a need for a regional redistribution funding mechanism to assist local authorities whose local tax base is insufficient. To address this issue, Dublin Chamber believes that a revised form of Local Government Fund should remain, funded solely through motor tax receipts, and enabling those local authorities to make up any shortfall in funding. Currently, motor tax revenue supplies over two-thirds of the funding to Local Government so there will remain sufficient resources to meet the needs of those local authorities which need additional funding on top of their local property tax revenue.

At a minimum, the tax rate or the tax base should be determined at local authority level in order to ensure that the tax is fair and equitable across households within each local authority.

Dublin Chamber is concerned that a simplistic model using a national valuation base and a nationally determined rate would become an 'urban tax'. A property tax that is not based on the principle of equity will be susceptible to challenge on constitutional grounds, on the basis that it is an interference with property rights which is not justified by the exigencies of the common good. However, the case of Madigan v Attorney General indicates that the bar for such a challenge has been set quite high with tax measures enjoying a particular presumption of constitutionality. It is more likely the court of public opinion will determine the longevity of the property tax.

Dublin Chamber believes, whatever method is used to calculate the property tax, there must be a component which takes into account the local externalities which most property tax systems capture through either the tax base or tax rate. In the case of commercial property, properties are valued at the national level by the Valuation Office but the rate is set locally. Similarly, in England, a national system of tax bands is used but the tax rate being set locally.[1] Dublin Chamber is concerned that a national banding system that is also tied with a national rate determining mechanism will be unfair and inequitable – akin to an 'urban tax'. Either the tax rate or the tax base (through a band or rating system) should be determined in the context of other homes within the local authority level, although it would be best if both were put in a local context.

Therefore, Dublin Chamber believes that the bands need to be derived from the local authority in which the property is located. In this system, those with the most expensive house in an area would be in the highest band and those with the least expensive house would be in the lowest band, providing vertical equity. We believe there is sufficient data available currently through the Land Registry and other data sources to give a good approximation of the local banding in the first year of operation. This would achieve the regional fairness objective set out in the terms of reference of the group. This would ensure higher bills for those with bigger or higher valued sites (independent of the method applied) so that neither urban nor rural households are unfairly targeted through a national system.

Dublin Chamber has not taken a particular view on the valuation methodology as this decision is a legally challenging one. The valuation methodology needs to be robust, otherwise the tax would, again, be susceptible to constitutional challenge (Brennan v Attorney General). This, in practice, should be aligned to a publicly available register of house prices (such as is currently envisaged in the Programme for Government).

Concluding Recommendations & Remarks

The creation of an annual property tax should be a significant step towards creating a sustainable local government system. The property tax must be used to fund local government, as outlined in the Memorandum of Understanding. It must be clearly allied to local services received by the taxpayer. Local authorities are responsible for services such as: public parks; libraries; open spaces and leisure amenities; planning and development; fire and emergency services; maintenance and cleaning of streets and street lighting. For administrative ease, collection may occur through a national body but funds should go directly to the local authority for which the residential property tax was paid.

It would be preferable that, as the system matures, the rate charge would be set by each local authority so that interests of residents are even greater aligned with an efficiently run local authority. Local authorities and councillors would be directly accountable to local taxpayers for what is collected and how it is spent. This conclusion is consistent with the findings of the Report of the Local Government Efficiency Review Group, which stated in section 2.6.4 (1) that "An annual tax on all property, either via commercial rates or through a specific tax on domestic property … with local authorities ultimately given powers to vary the rate set in their area".

[1] In England, Council Tax has addressed the fairness issue by giving local authorities responsibility for setting their budgets for the year and determining how much will be met through the council tax. The level of Council Tax set in your area depends on how much money the council and other public bodies (like the police):

- spend in your area
- get from other funding

2011-12 Council tax by area

	Average Band D council tax for area of billing authority	***Average council tax per dwelling in the area***
	£	**£**
ENGLAND	**1,439**	**1,196**
By area of authority:		
London area	1,308	1,214
Metropolitan areas	1,399	1,000
Shire areas (b)	1,484	1,258
By region:		
North East	1,512	1,060
North West	1,469	1,088
Yorkshire and the Humber	1,406	1,048
East Midlands	1,486	1,140
West Midlands	1,416	1,114
East of England	1,480	1,293
London	1,308	1,214
South East	1,468	1,374
South West	1,500	1,272

Sources: BR and CTB forms. (a) Figures include parish precepts; (b) Figures include unitary authorities.

The banding is set out on a national basis through the Valuation Office Agency, which assesses the properties in each district area and assigns each property to one of eight valuation bands – A (which are lowest value) to H (which is the highest value). The local setting of the rate, however, corrects for the local factors not captured in the national banding system.[1] For example, if all councils had the same rate the variation in values would mean that average cost per dwelling would vary hugely. However as in the case of London, a low rate is set but due to the high price of homes it still pays an above average council tax bill. The table below illustrates how variation set band rate and the average council tax bill balances out.