Commission on Taxation

Dissecting the detail... Property Tax

PricewaterhouseCoopers
First for business. First for people.

Contact
Timothy O'Rahilly
timothy.orahilly@ie.pwc.com
+353 1 792 6862

Property Tax

In this section...

- Introduce an annual property tax (APT) for residential property
- Abolish stamp duty on the purchase of principal private residence
- Broaden the commercial rate base
- No change to stamp duty on commercial property
- CGT on windfall gains
- Recurrent tax on zoned development land
- Abolition of stamp duty relief on transfer of site to child

Timothy O'Rahilly
Tax & Legal Services
PwC Ireland

Introduce an annual property tax (APT) for residential property

One of the more controversial recommendations of the report which has attracted much media coverage relates to the introduction of an annual tax on residential property. This is one of the Commission's key recommendations in relation to property as it regards APT as a more stable form of revenue for the Exchequer than property related transaction taxes, such as Stamp Duty. The Reports points to the volatility of transaction based taxes being demonstrated by the significant drop in Exchequer tax receipts since 2007 as a result of the collapse of the property market. The Commission also regards APT as an important part of the future financing of local government.

While the Minister for Finance has already indicated his unwillingness to introduce the APT, it is interesting to consider the Commission's proposals. APT would impact on all home owners if introduced as proposed by the Commission. It would apply to all residential housing units (principal private residences and rented accommodation) with the exception of local authority and social housing and some other limited exceptions.

APT would be payable by the owner and would be calculated by reference to the open market value of the property using valuation bands. House owners under low income thresholds would be exempted from the tax.

Contact

Timothy O'Rahilly
timothy.orahilly@ie.pwc.com
+353 1 792 6862

In this section...

- Introduce an annual property tax (APT) for residential property
- Abolish stamp duty on the purchase of principal private residence
- Broaden the commercial rate base
- No change to stamp duty on commercial property
- CGT on windfall gains
- Recurrent tax on zoned development land
- Abolition of stamp duty relief on transfer of site to child

While the Commission does not make any suggestions regarding the rate at which APT would be calculated, the Report suggests that the rate should not seek to replace the windfall receipts from stamp duty which arose in the property market in the years 2003 to 2007, but should provide the Exchequer with long term stable receipts.

Notwithstanding the fact that no APT rates are suggested, the Report does contain illustrative calculations for the *tax yield* which uses APT rates of 0.25% and 0.30% - please see details opposite for indicative liabilities.

As APT would apply to second homes and rented residential property, the Commission recommends the abolition of the €200 annual charge on non-principal private residences.

Abolish stamp duty on the purchase of principal private residence

In conjunction with the introduction of APT, the Commission recommends that stamp duty on residential housing units acquired as the purchaser's principal residence be zero rated. Stamp duty would continue to apply to investors.

Illustrative APT liabilities based on yield calculations

	Valuation band	Charge per property 0.25%	Charge per property 0.30%
	€	€	€
A	0 - 150,000	188	225
B	150,001 - 300,000	563	675
C	300,001 - 450,000	938	1,125
D	450,001 - 600,000	1,313	1,575
E	600,001 - 750,000	1,688	2,025
F	750,001 - 1,000,000	2,188	2,625
G	1,000,001 - 1,500,000	3,125	3,750

Contact

Timothy O'Rahilly
timothy.orahilly@ie.pwc.com
+353 1 792 6862

In this section...

- Introduce an annual property tax (APT) for residential property
- Abolish stamp duty on the purchase of principal private residence
- Broaden the commercial rate base
- No change to stamp duty on commercial property
- CGT on windfall gains
- Recurrent tax on zoned development land
- Abolition of stamp duty relief on transfer of site to child

Broaden the commercial rate base

The Commission recommends the introduction of measures aimed at broadening the commercial rate base. These measures would include rating State properties, amending the relief provisions for vacant properties, and part rating of third level and professional institutions.

No change to stamp duty on commercial property

The Commission decided that it was not in favour of narrowing the existing tax base by reducing stamp duty on commercial property and there was no scope to finance a reduction by increasing commercial rates. The Commission also found that Irish stamp duty rates on commercial property are not much higher than in the EU and that leaving the rates unchanged would provide some certainty to the commercial property market for the longer term.

CGT on windfall gains

The Commission recommends that windfall gains arising from increases in land values due to rezoning decisions should be subject to an additional capital gains tax charge. The Report is silent in the level of additional tax and the timing of the tax payment.

Recurrent tax on zoned development land

The Commission also recommends the introduction of a recurrent tax for zoned development land where the zoned land is not developed. This would apply to all development land – residential and non-residential. This tax would apply as soon as the land is capable of being developed. However, the Commission accepts that reasonable allowance should be made for delays in developing the land where those delays are outside of the control of the owner. In addition, there would be certain exclusions, for example, in the case of a farmer who owns land that has been rezoned but who intends to continue farming the land. The method used to calculate this tax and the likely rate of tax are not dealt with in the Report.

Abolition of stamp duty relief on transfer of site to child

The Report recommends the abolition of the stamp duty exemption on a transfer of a site to a child.

There is currently an exemption available for the transfer of a site from parent to child where the child is to build a PPR on the site and the value of the site does not exceed €500,000. The exemption applies to the footprint of the house plus up to 1 acre for enjoyment as gardens.

The Commission regards this exemption as conferring a significant benefit on buyers whose parents have such land to transfer to their children over other buyers who are not in a position to benefit in the same way. On the transferor side, there is also an exemption from CGT for the parent disposing of the site in these circumstances. The Report also recommends the abolition of this exemption on the basis that it is inequitable for a gain on such a disposal to be treated any different to a gain on the disposal of any other asset.

The Global Tax Monitor recognises PricewaterhouseCoopers as one of the leading firms in Ireland for tax advice by reputation.

These results are based on the year-ending Q2 2009 figures, with a sample size of 100 primary buyers of tax advice in Ireland.

Launched in 2000, the Global Tax Monitor (GTM) is a multi-client independent survey conducted by research agency TNS, that examines the competitive position of the top firms in the tax advisory market - globally, regionally, nationally and on an industry basis. It provides a comprehensive measure of firm reputation, client service and brand health, gained currently from just over 3,000 telephone interviews annually with key decision makers (CFOs and Tax Directors) in 31 key markets.

Colm Kelly Head of tax & legal services Alan Bigley company administration services, pensions Sean Brodie VAT, revenue audit services Paraic Burke construction, international structuring Mark Carter employment taxes, global mobility Tom Corbett VAT Gearóid Deegan employment taxes Jean Delaney pharmaceuticals, retail, customs & international trade Liam Diamond inward investment, international structuring Enda Faughnan banking, capital markets, securitisation, real estate John Fay VAT Denis Harrington international structuring, inward investment Mary Honohan consumer products, retail John Kelly pharmaceuticals Susan Kilty technololgy, entertainment & media Ronan MacNioclais international structuring, M&A, energy / sustainability Teresa McColgan business and wealth services Caroline McDonnell VAT Jim McDonnell banking, capital markets, alternative investment management James McNally pharmaceuticals, stamp duty Carmel O’Connor utilities, consumer products Terry O’Driscoll international structuring, M&A, consumer products Mary O’Hara employment taxes, reward, workforce reshaping services John O’Leary banking and insurance Tim O’Rahilly business and wealth services Feargal O’Rourke technology, international structuring, inward investment George Reddin services, public sector Dermot Reilly business and wealth services Gavan Ryle transfer pricing Joe Tynan technology, international structuring Pat Wall inward investment, insurance, investment management Eugene O’Riordan Cork, international structuring, business and wealth services Anita Kissane Limerick/Galway, corporate tax, VAT, business and wealth services Ronan Furlong South East, business and wealth services

PricewaterhouseCoopers

First for business. First for people.