

RESIDENTIAL SITE VALUE TAX: VALUATION, IMPLEMENTATION & FISCAL OUTCOMES

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Based on report for Smart Taxes Network
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PROPOSAL

- Use existing sources of information to put in place an interim residential Site Value Tax
 - Generate about €3bn in revenues of which €1bn would be new revenues streams
 - Average charge of €625 per household... but real base is acres, not households
- A fair and efficient placeholder while other sources of information are combined for a full Site Value Tax
 - Could be applied to both residential and commercial land (replace rates)
 - A high enough rate could allow fall in VAT, income tax
 - Part of a wider programme of local government reform



CONTEXT

- Property tax a ‘how’ rather than an ‘if’
 - Commitments in two Programmes for Government, the National Recovery Plan 2011-2014 and Budget 2011
- The type of tax, if mentioned, is Site Value Tax (SVT)
 - Viewed as tricky to implement
- Commission on Taxation:
 - “a sound economic rationale for considering site value tax... [but] it would take a number of years to become established [and] require co-operation between a number of public bodies
 - “Therefore recommend that a land or site value tax should not be pursued at this stage”
- Today’s presentation: the 80-20 rule at work



WHAT IS SITE VALUE TAX?

- Recurring tax on the value of a site **excluding** the value of an improvements or properties
 - A % of the value of the site
 - Can apply to all land because all land has some value
- Closely related to the site's rental value
- What affects land values/rents?
 - Amenities and disamenities, including environmental and social capital
 - Publicly-funded services, including transport, education, healthcare
 - Market depth – jobs, retail



OUTLINE

- Methodology & Data for Site Values
- Estimates for Interim SVT
- Moving to a full SVT
- Fiscal Outcomes



METHODOLOGY

- Value of property = value of building + value of land
 - If we know value of a certain property type everywhere, can calculate value of land
- Hedonic Price Regression
 - Price for standardised property in every part of the country
- Regressions control for measurable property attributes
 - In particular property type and size (measured by bedrooms, bathrooms)
 - Square meterage, BER, age would improve the models
 - Produce an average price for a basket of five standardised properties for each of 4,500 districts in Ireland in late 2011

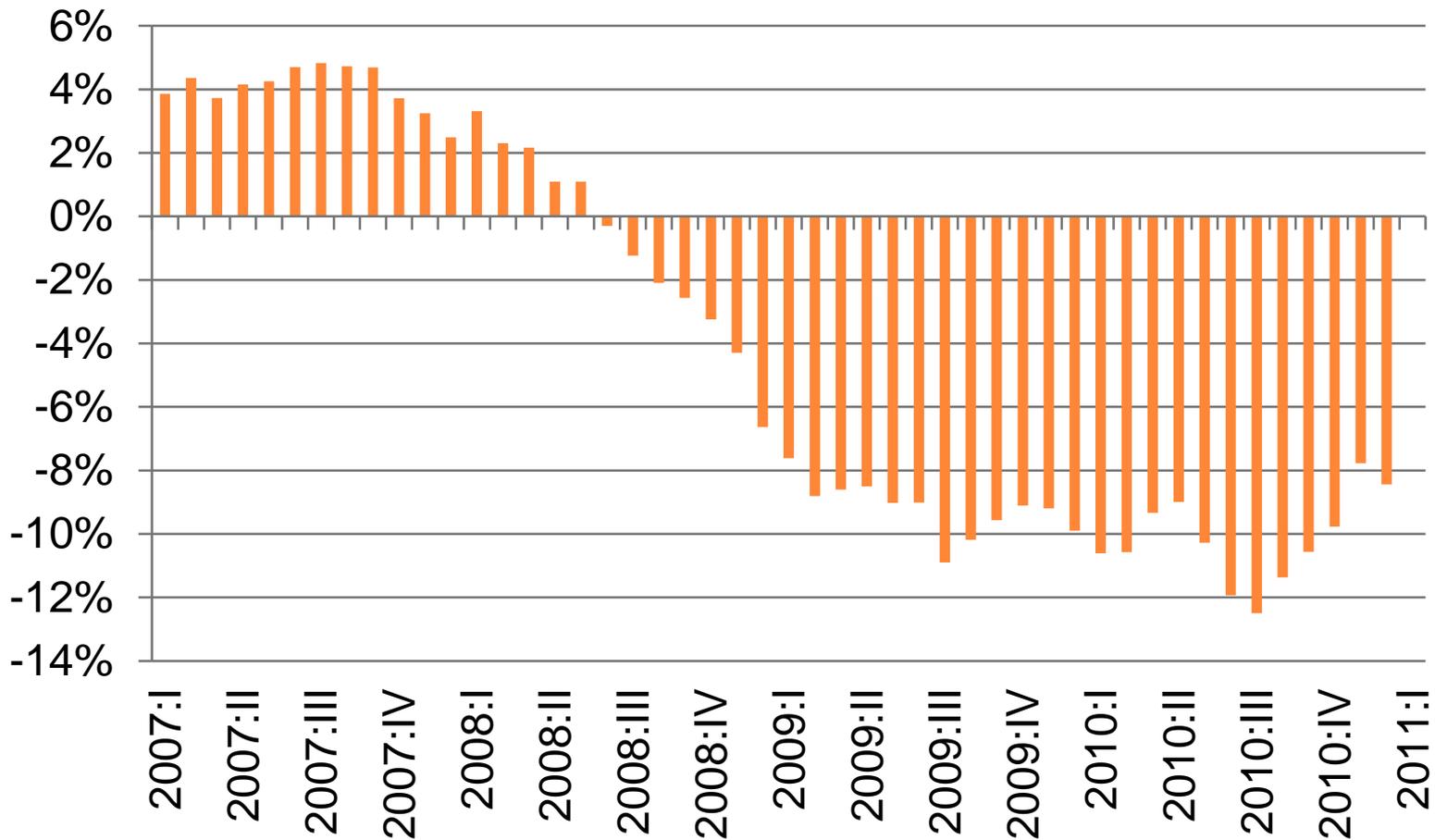


DATA

- Daft.ie dataset of 1.3 million ads between 2006 and 2011
 - Both sales and lettings segments
 - Properties known to townland accuracy or better
- FAQs about the data
 - Why don't you use ads for sites instead?
 - Is it valid to use asking prices?
 - What are actual site values currently?



ESTIMATED GAP BETWEEN ASK & CLOSE



SITE VALUE ESTIMATES

Likely site values and potential interim SVT charges, by value band

Band	Per acre Lower bound	Per acre Upper bound	2% SVT on Property A	2% SVT on Property B
1	€2,000,000	€10,000,000	€1,200	€4,960
2	€1,000,000	€2,000,000	€600	€2,480
3	€500,000	€1,000,000	€300	€1,240
4	€300,000	€500,000	€180	€744
5	€200,000	€300,000	€120	€496
6	€100,000	€200,000	€60	€248
7	€50,000	€100,000	€30	€124
8	€40,000	€50,000	€24	€100
9	€30,000	€40,000	€18	€75
10	€20,000	€30,000	€12	€50

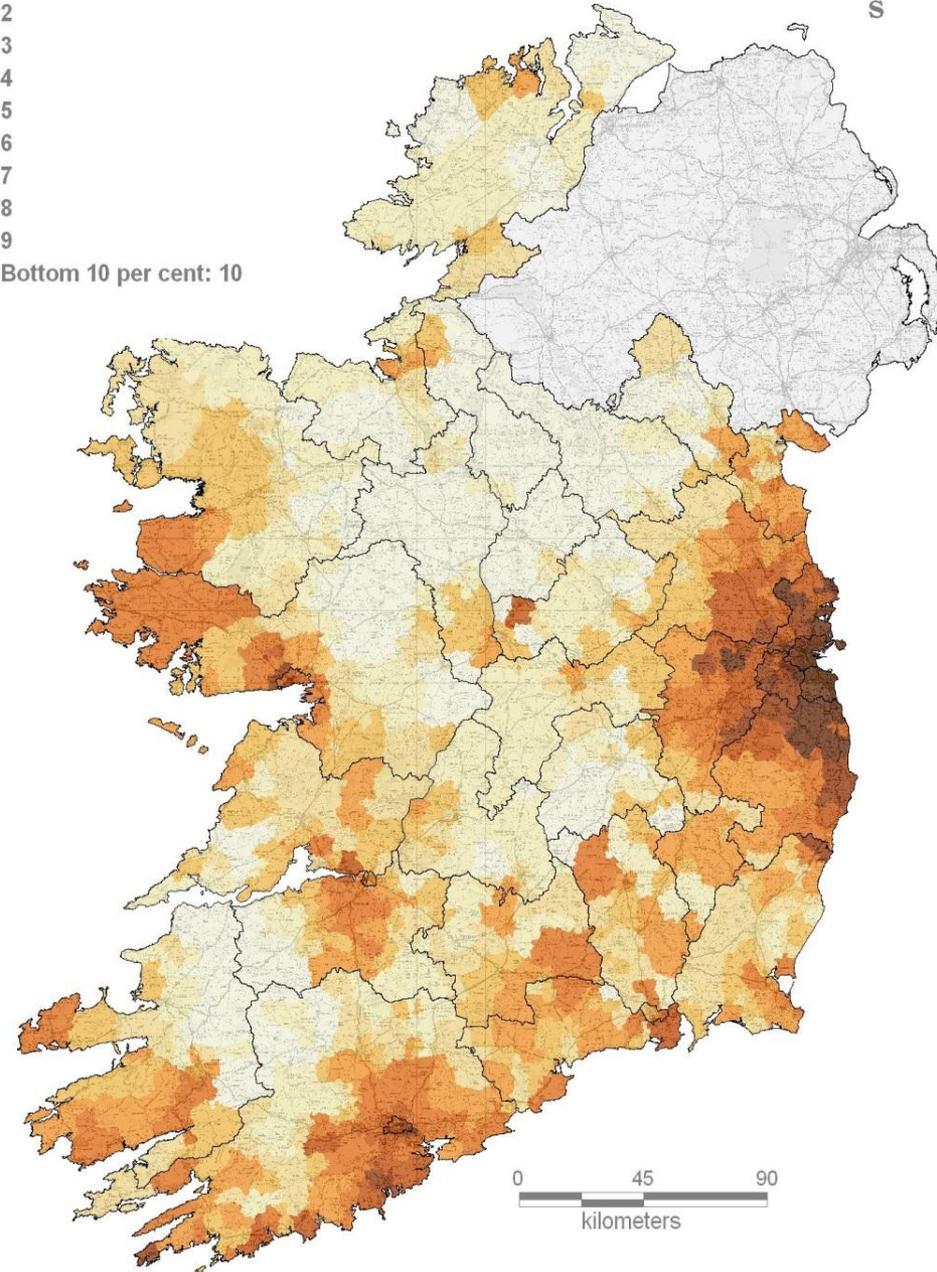
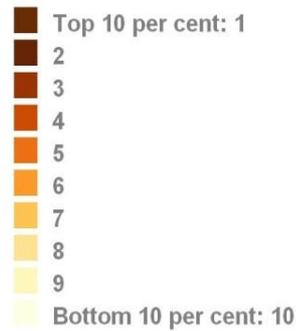
- Property A: Two-bedroom terraced home, plot of 120 square metres (3% of an acre)
- Property B: 4-bedroom detached home, plot of 500 square metres (12% of an acre)
- Vagueness doesn't matter – only relativity does (for interim tax)
 - Once total revenue and total number of households/acreage is known



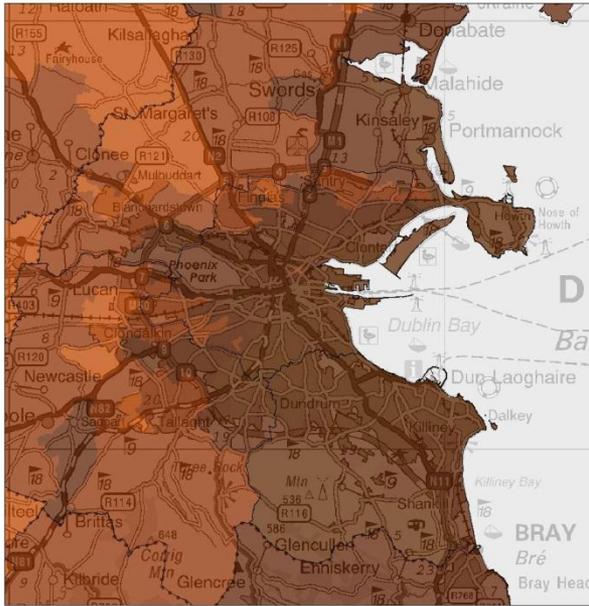
INTERIM RESULTS

- 4,500 districts allocated into one of 10 bands for interim SVT
- Based on an average price over a basket of standardised properties
 - Combined output from a sales model (ask price) and a lettings model (6% yield)
- Cost build assumed constant: easy to vary

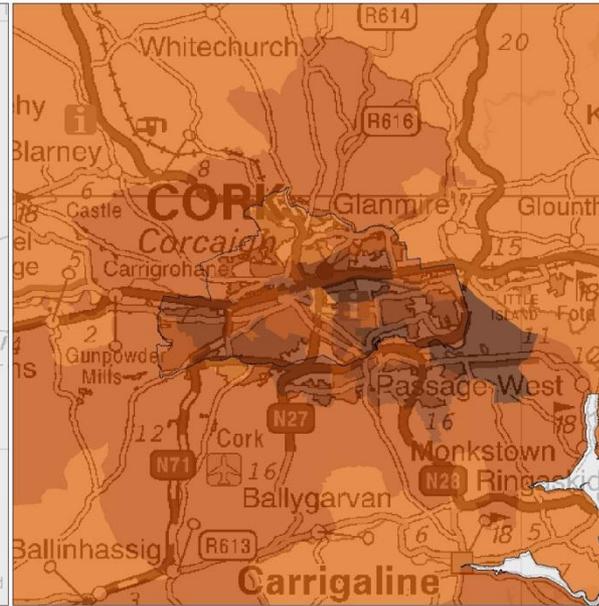
Combined Asking Price
DAFT.ie Price Zones Declies



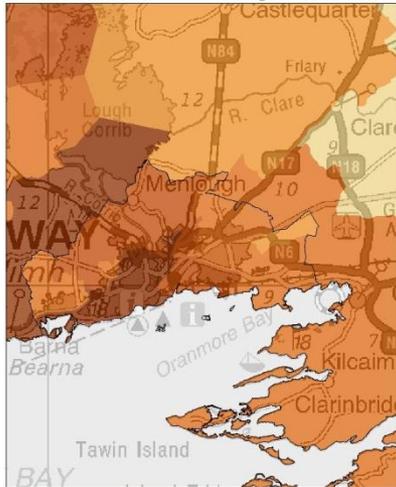
Dublin



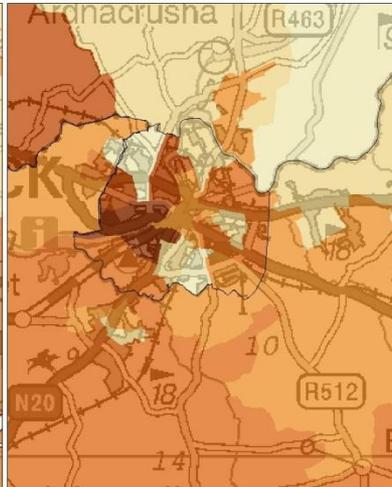
Cork



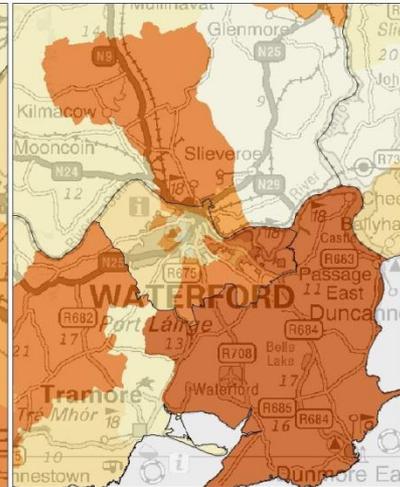
Galway



Limerick



Waterford



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AN INTERIM SVT CHARGE

Property type	Decile band	Land footprint	Interim 2% SVT
Limerick city-centre one-bed apartment	“Market” ED, Band 5	25 sq.m. (0.6% of an acre)	€24
Limerick city-centre two-bed terraced	“Dock B” ED, Band 6	95 sq.m. (2.6% of an acre)	€52
Limerick suburban three-bed semi-d	“Singland B” ED, Band 5	121 sq.m. (3% of an acre)	€120
Limerick rural four-bed bungalow	“Clonkeen” ED, Band 8	75% of an acre	€600
Limerick suburban four-bed detached	“Ballysimon” ED, Band 5	280 sq.m. (7% of an acre)	€280



COMMON CONCERNS (1)

- What about those who bought at the boom?
 - Negative equity, arrears
 - Already paid stamp duty
- Principle of grandfathered tax credits
 - Allowances for those with larger and more recent tax bills
- Or could relate tax credits to transactions, not stamp duty
 - First-time buyers

Table: Credits relating to stamp duty bill of €25,000

Year	Tax credits
2011	€22,500
2010	€20,250
2009	€18,225
2008	€16,403
2007	€14,762
2006	€13,286
2005	€11,957
2004	€10,762
2003	€9,686
2002	€8,717



COMMON CONCERNS (2)

- What about elderly couples with no income?
 - Principle is to encourage efficient use of land...
 - ... use a lien on the property, drawn down on death/sale
- Does SVT encourage over-development?
 - Importance of local authority plans, regulations
- Are people expected to live on no land?
 - Per-person green space allowance: shifts burden to unoccupied sites
- Does SVT not punish those on large rural sites?
 - Do not enjoy public services... but impose costs, enjoy other amenities
 - ... if a political issue, can cap site size or ideally rezone



MOVING TO A FULL SITE VALUE TAX

- Four major sources of data for a full site value tax
- Property Registration Authority of Ireland
 - Land Registry (93%); only major lacuna is in Dublin
- Property Services Regulatory Authority
 - Revenue Commissioners data on transactions
- GeoDirectory
 - Matches geocode to address
- Department of the Environment
 - DevPlanGIS – local authority zonings



MOVING TO A FULL SITE VALUE TAX



DevPlanGIS: which
land is commercial,
residential, etc?



Land Registry: who
owns what address?
How big is site?



Rev. Commissioners:
which address
transacted for how
much (and when)?



GeoDirectory: where
is each address?



REFINING CONTOURS OF LAND VALUE

- Distances to amenities matters
- Model can be extended to include these
- Examples
 - Environmental amenities: coastline, beaches, lakes, rivers, urban green space, hill walks, forests, bogs...
 - Transport amenities: rail track, station, road system, airports, sea-ports...
 - Public service amenities: primary school location/size, secondary school location/quality, hospitals, GPs...
 - Market depth amenities: distance to jobs, retail facilities...
 - Social capital amenities...



TRADE-OFF & ADMINISTRATION

- Simplicity
 - E.g. ten bands of land value around the country
 - Informing the taxpayer crucial – importance of maps such as [this one](#) (a trial)
- Vs. Robustness and defensibility
 - E.g. such a system creates border effects
- Administration – one example
 - Use Land Registry to send out estimate to inform self-assessment [tax credit in first year to have site valued]
 - These are then cross-checked against model's predictions
 - Have default opt-in for monthly PAYE deductions
 - Appeals system: review, quasi-formal and court case



FISCAL CONTEXT

- Deficit of 10% of GDP: one third of public expenditure is unfunded
- In 2005, local government spent 45% of all public expenditure but raised less than 3% of revenues
- Property taxes comprise 5-10% of all tax revenues in Anglo-Saxon countries – predominantly local



FISCAL OUTCOMES

- According to 2011 Medium-Term Fiscal Statement, €4.65bn in new tax revenues to be raised by 2015
 - Organic growth in existing streams to contribute €1.4bn
 - €3.25bn needs to be raised through new taxes
- SVT on residential and commercial to replace commercial rates, stamp duties 80% windfall tax
 - Full SVT at 2% on commercial and residential land would raise close to €3bn, of which about €1bn would be in new revenue streams



CAN OTHER TAXES NOT BE RAISED INSTEAD?

- No property tax means all €3.3bn must come from income and consumption taxes
- Income tax:
 - Marginal rates already among the highest in the world – higher rates will damage competitiveness
 - Scope for reducing tax-free allowances does exist
- Consumption tax:
 - Regressive – poorer households hit harder
 - With a 23% rate, the only countries in the world with a higher consumption tax are the Nordic countries
- Site value tax avoids these equity and competitiveness concerns



AN ALTERNATIVE PROPOSAL

- Or “I want to cut VAT and income tax and still close the deficit”
- Introduce a 10% site value tax on residential property
 - Would raise in the region of €7.5bn – bulk is new revenue
 - Could then lower VAT and income tax rates to levels more in line with our OECD counterparts



THANK YOU

- Comments, concerns, questions welcome

