

RESIDENTIAL SITE VALUE TAX: VALUATION, IMPLEMENTATION & FISCAL OUTCOMES

Ronan Lyons, University of Oxford / Identify Consulting
Based on report for Smart Taxes Network
Dublin Economics Workshop, 27th January 2012

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

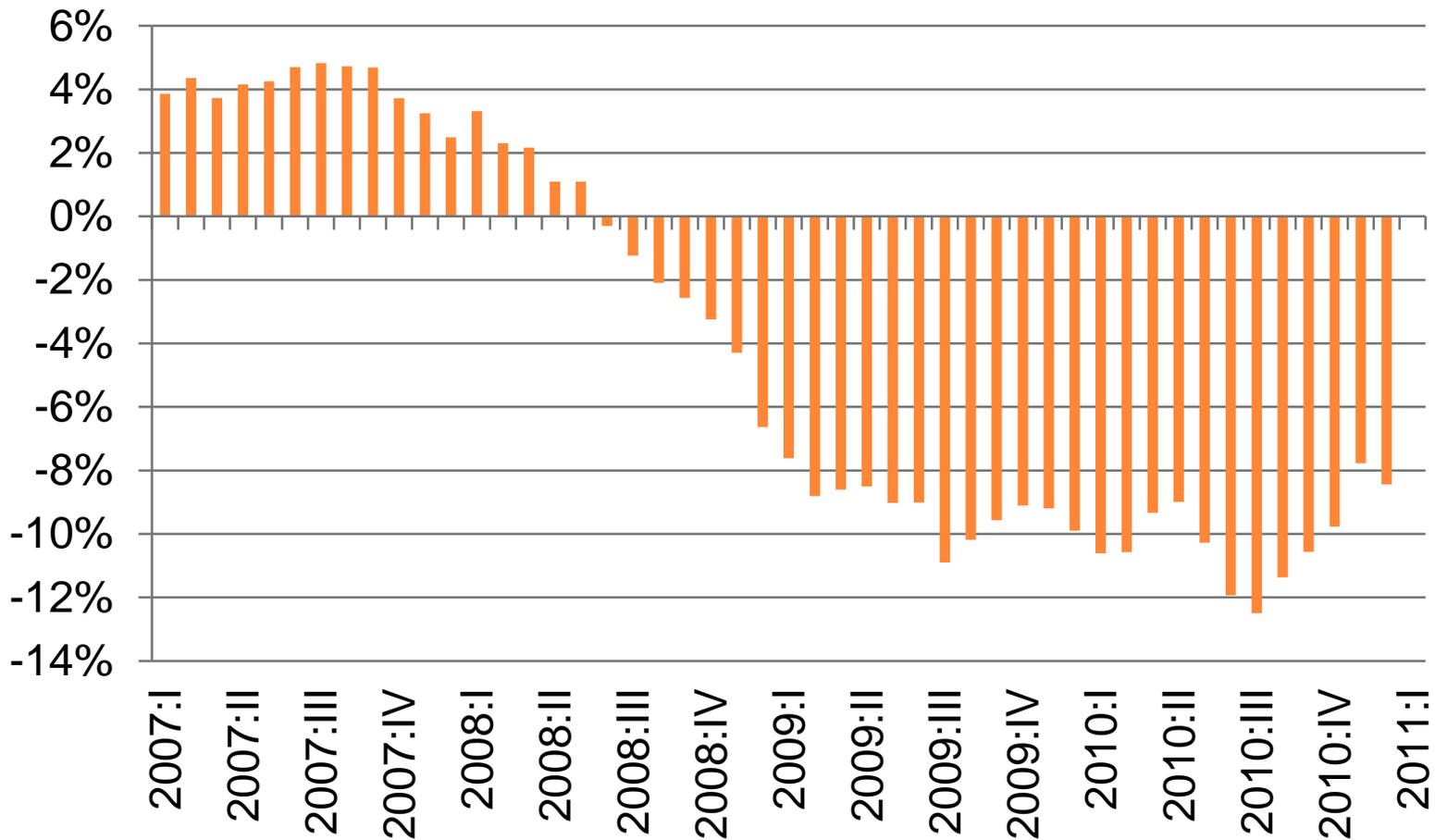


DATA

- 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



Based on joint work with the Central Bank of Ireland



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

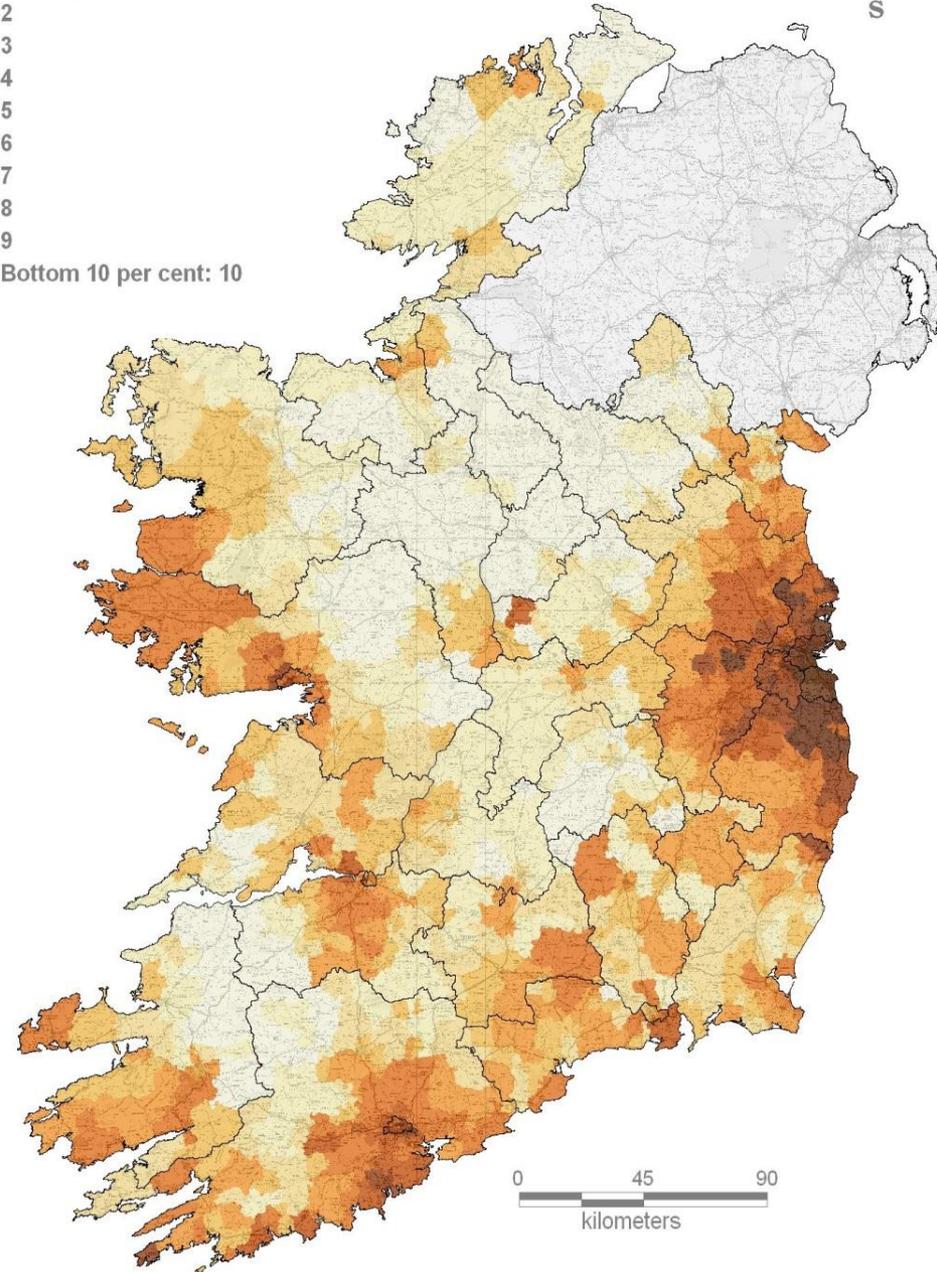
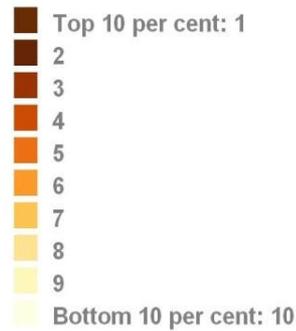
- Property A: Two-bedroom terraced home, plot of 120 square metres (3% of an acre)
- Property B: 4-bedroom detached home, plot of 500 square metres (12% of an acre)
- Vagueness doesn't matter – only relativity does (for interim tax)
 - Once total revenue and total number of households/acreage is known



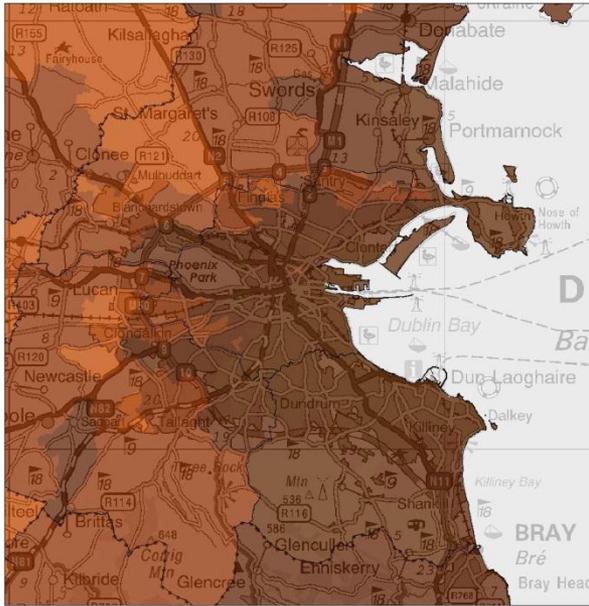
INTERIM RESULTS

- 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

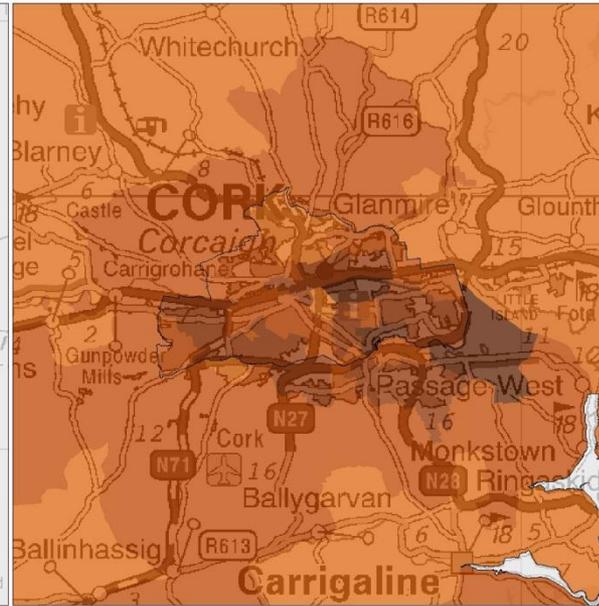
Combined Asking Price
DAFT.ie Price Zones Declies



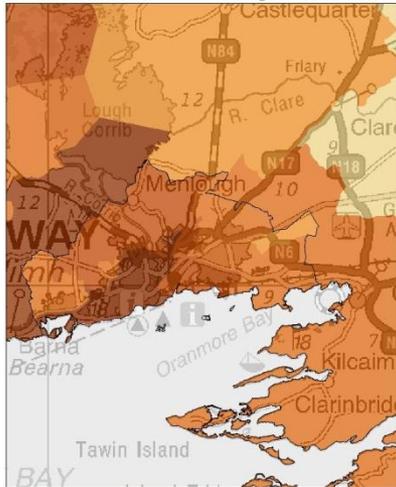
Dublin



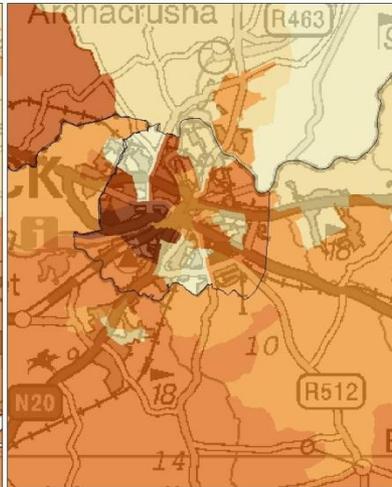
Cork



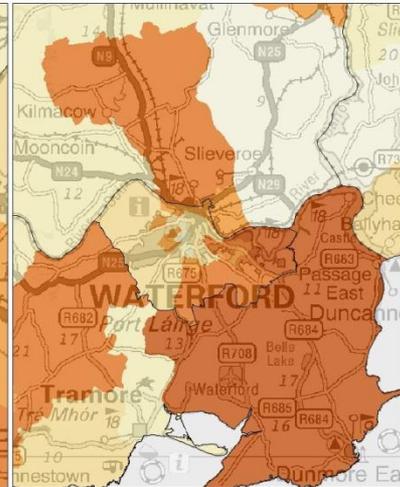
Galway



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

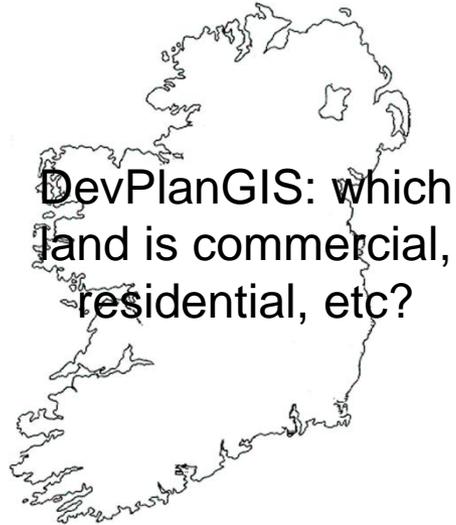


MOVING TO A FULL SITE VALUE TAX

- 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?



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



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



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

