

Property Tax – why Dubliners should pay more

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Key Point

Some have complained that the residential property tax that will be applied in Ireland from 2013, which will be based on the market value of the property, will be unfair to Dubliners, because property values are higher there than elsewhere in Ireland. The value of the 298 properties sold in Dundrum, County Dublin are compared with the value of the 25 properties sold in Dundrum, County Tipperary, over the 2010-2012 period, using the Residential Property Price Register (RPPR). The median value (and associated full-year property tax in brackets) for Dundrum, County Tipperary are €100,001-150,000 (€225); the equivalent for Dundrum, County Dublin are €350,001-400,000 (€675); the median property owners in County Dublin will pay €450 more in annual property than their counterparts in County Tipperary. But the latter have manifold advantages over the former, including easy access to tax-payer subsidised infrastructure and services in: transport, culture, sports, education, health; and the widest range of life style possibilities, job options and entrepreneurial potential on the island. These benefits are reflected in property prices and therefore in property taxes; this is fair and appropriate. The timeliness and transparency of the property price evidence available on the RPPR is impressive, as is the quality and clarity of the background information and responses to 'Frequently Asked Questions' provided by the Revenue Commissioners. One weakness is that the price is not converted into price per M². This gap should be corrected as a matter of urgency. The data, combined with the Revenue Commissioners' ability to nudge us towards compliance with a variety of soft and hard measures, make it likely that most of us will comply.

Introduction

In Ireland, property taxes (or 'rates' as they were known) on domestic dwellings were abolished by central government in 1977, and this was followed by elimination of property taxes on agricultural land.

In order to help make good the shortfall in revenues, local authorities imposed levies on new developments to cover the costs of infrastructure and services provision, and central government increased the tax on property at the time of acquisition (stamp duty). What is notable about both of these revenue streams is that their magnitude depends on the volume and value of new development and property transactions. With the collapse of the property market, in terms of both volume and value, these two revenue streams also fell sharply.

It is clear that confining the tax base to transactions and new development made revenues very dependent on the level of economic activity in the property market, which in turn contributed to the sharp fall in government income and the rise in the deficit. This in turn played its part in Ireland's exclusion from international money markets and the request to the European Union (EU) and International Monetary Fund (IMF) on November 21, 2010 for financial support. Agreement was

¹ I am grateful to Donal de Buitléir, Sean Moriarty, Cormac O'Dea, Cormac O'Sullivan, Mary Walsh and Brendan Walsh who commented very usefully on an earlier draft. The usual disclaimer applies.

reached in December 2010, the terms of which are included in the EU/IMF Programme of Support for Ireland.²

Not surprisingly, this agreement includes a requirement to re-introduce a property tax (p. 9):

“On the tax side, we will build on the base-broadening measures outlined above and establish a sound basis for sub-national finances through a new residential-property based site value tax”.

In December 2012, the government announced its decision to introduce a tax, payable by the property owner, and administered by the Revenue Commissioners, based on the market value of property in early 2013, at the rate of 0.18% of market value up to €1 million, and 0.25% on all value above €1 million³.

This has engendered a reaction that this is unfair to property owners in Dublin where property values are much higher than elsewhere in the country. Also, it is argued that because of economies of scale and scope, the cost of providing some public services – parks, water, roads, waste collection etc. - per household are lower in Dublin than elsewhere, and so the revenue required per household will be lower.

This is the urban analogy to the case made by rural residents, some of whom objected to the requirement to assess the performance of septic tanks.⁴

The Property Value Difference – two Dunderums compared.

The Property Services Regulatory Authority maintains a publicly available property price register covering all residential transactions since January 2010.⁵ It provides the date of each sale, its value, and its address but unfortunately nothing about the size or nature of the property. We can get a sense of the discrepancy between Dublin and the rest by comparing the records for two Dunderums – one in south county Dublin, the other in Tipperary.

Over the 2010-2012 period, there were 25 units sold in Dunderum County Tipperary, and 298 in Dunderum County Dublin. If we assume that the property tax rates agreed by government will be applied to these prices, the taxes payable will be as shown in Tables 1 and 2⁶.

² Available at: <http://www.finance.gov.ie/documents/publications/reports/2011/euimfrevised.pdf>. The Troika programme provides up to €85 billion over a three-year period to assist public finance needs and facilitate banking assistance. The package is provided equally by the ESFM, the EFSF, the IMF, an Irish contribution through its treasury cash buffer and investments by Ireland's National Pension Reserve Fund.

³ Details available at: <http://www.revenue.ie/en/tax/lpt/index.html>. Discussion of the policy available at: <http://www.publicpolicy.ie/the-new-property-tax/>

⁴ See: 'Invest in Cavan' available at: <http://www.publicpolicy.ie/invest-in-cavan/> for details of the proposal, and why it deserved support.

⁵ Available at: <http://www.propertypriceregister.ie/>

⁶ This assumption is likely to exaggerate the taxable value of properties sold in 2010 and 2011; the residential property price index (January 2005 = 100) declined from 90.5 in 2010 to 68.8 in November 2012 – see http://www.cso.ie/en/media/csoie/releasespublications/documents/prices/2012/rppi_nov2012.pdf. Property will be valued in early 2013, and this value will apply from 2013 to 2016

Table 1. Property Tax in Dundrum County Tipperary, based on sale prices 2010-2012. All values in current Euro

Property value range	Number of Properties	Annual Property tax per property €
200,001-250,000	3	405
150,001-200,000	3	315
100,001-150,000	11	225
0-100,000	8	90
Total	25	

Source: <http://www.propertypriceregister.ie/> for property prices, and <http://www.revenue.ie/en/tax/lpt/index.html> for annual tax rates

The median property value is 100,001 to 150,000, with a tax liability of €225.

Table 2. Property Tax in Dundrum County Dublin, based on sale prices 2010-2012. All values in current Euro.

Property value range	Number of Properties	Annual Property Tax per property €
1,805,000	1	3812
1,300,000	1	2550
1,050,000	1	1915
950,0001-1,000,000	2	1755
850,001-900,000	1	1575
800,001-850,000	1	1485
750,001-800,000	1	1395
700,001-750,000	3	1305
600,001-650,000	4	1125
550,001-600,000	10	1035
500,001-550,000	7	945
450,001-500,000	20	855
400,001-450,000	34	765
350,001-400,000	56	675
300,001-350,000	40	585
250,001-300,000	37	495
200,001-250,000	35	405
150,001-200,000	32	315
100,001-150,000	6	225
0-100,000	6	90
Total	298	

Source: <http://www.propertypriceregister.ie/> for property prices, and <http://www.revenue.ie/en/tax/lpt/index.html> for annual tax rates

The median property price in Dundrum, County Dublin over the 2010-2012 period is €350,000-400,000, with a median tax liability of €675, which compares with a median tax liability of €225 in Dundrum, Tipperary. The RPPR Property Price Register is an excellent resource, providing real data in

real time but it does not provide data on the size [square metre (M²)] of the properties or any other characteristics. Such information would be very valuable in addressing valuation of two properties in the same area that are significantly different in size. Since most European countries provide valuation data per M², it would also be useful as a help in identifying emerging price bubbles in the future; for example, if Dublin prices per M² were rising well above those in Stuttgart or Lyon, this would be one indicator that there may be problems looming.

Why it is right that Dublin Households should pay more

Median households in Dundrum County Dublin are likely to pay €450 more than their counterparts in Dundrum Tipperary, and the gap widens at the upper end, where the annual tax payment on the most expensive property sold in Dundrum County Dublin (valued at €1,805,000) would be €3812, compared with a tax payment of €405 payable on the most expensive property sold over the same period in County Tipperary, valued at €247,000.

Houses in Dublin are worth more, because there are many benefits to living and working in the Dublin region that increase demand for living space; these advantages get capitalised into property values. Key Dublin advantages relate to transport, education, health, access to places of worship, religion and lifestyle, culture and sports, enterprise and jobs. Many of these benefits can be characterised as what economists call ‘option value’, i.e. the value that most of us attribute to the choice of being able to avail of a good or service, even if we never take up the opportunity; there is real benefit in having the choice available.

Transport

Internal: With its existing (and generally) improving bus services (more bus lanes, real time timetabling etc.) light rail (Luas – lines being connected – which is relevant to Dundrum, Dublin), commuter rail (DART etc.), cycle lanes, footpaths and M50 motorway, Dublin is getting close to international standards in internal connectivity, a diversity and density unmatched anywhere in Ireland, including Belfast.

External: The hub (Dublin) and spokes (to everywhere else) transport system give Dublin residents easy access to other parts of the island. Regular train service –including hourly to Cork and Limerick, 2 hourly to Galway and Belfast – busses going everywhere with increasing frequency, a motorway system that brings almost everywhere within a 3 hour commute for business or recreation travel by Dubliners. Dublin airport (average of 457 commercial movements per day, compared with 64 for Cork, and 57 for Shannon in 2012) is the main artery for connection with the outside world, and Dublin Port and Dun Laoghaire also provide regular ferry services.

Education

The advantage is especially notable at 3rd level, with three universities and a range of institutes and specialist academies (music, design etc.) within cycling distance of most residents.

Health

Amongst physicians, Ireland has the lowest share of specialists in Europe. This means that access to such care is a key pinch point for patients. But a majority of specialists are Dublin based, as are the specialist hospitals and associated equipment.

Religion and Lifestyle

Agnostics, Anglicans, Atheists, Bahai's, Baptists, Buddhists, Catholics, Charismatics, Doubters, Evangelicals, Falun Gong, Hindus, Jehovah Witnesses, Jews, Methodists, Muslims, Orthodox, Presbyterians, Secularists, Taoists, Unitarians and many others can find companionship and fellowship in Dublin. All lifestyle choices are available.

Culture and Sport

Access is free to much public cultural Infrastructure and services including: three branches of the National Museum [Archaeology (Kildare Street) Natural History (Upper Merrion Street) Decorative Arts and History (Collins Barracks)]; the National Gallery (Clare Street); the Chester Beatty Library, Dublin Castle. In terms of what they offer, and how it is presented, these are of a very high standard, and welcome families and children. After considerable public investment, Dublin Zoo is now of international standard and one of the biggest tourist attractions in Ireland.

Specialist cinemas include the Lighthouse and the Irish Film Institute; the National Concert Hall provides a flow of classical music offerings; there are a number of venues provide international calibre theatre, and a variety of clubs and large entertainment centres.

All major international games are played in Dublin; Croke Park and Aviva Stadium dominate in terms of ability to host major international events; the RDS is the venue for the major horse show jumping event of the year. Noisy concerts galore – Croke Park, RDS, Marley Park, RDS

Enterprise and Employment

Cities agglomerate people, ideas, innovations and economic activity, because they have economies of scale and scope (diversity of skills and opportunities). They are about choice, from the profound to the trivial (A sign seen in New York City - 'Tattoos available, with or without pain' – exemplifying the latter). And the gap between the largest and the others tend to widen as these advantages re-enforce each other. The Irish American Willie Sutton famously explained that he robbed banks because "that's where the money is." In Ireland, Dublin is where most of the money is. Ready access to this market – and the diversity of consumers and their demands - is a huge advantage to a start-up business. And the connectivity to the rest of the world via Dublin airport makes it a good place to expand internationally. Even in a depressed economy, there is likely to be more job turnover and more enterprise and employment opportunities in Dublin than elsewhere.⁷

Conclusions

All of the above options / amenities are available to the residents of Dundrum, County Dublin; most can only be accessed by residents of Dundrum County Tipperary if they come to Dublin. Of course the motorway and rail spokes go both ways, so that physical access is easier than heretofore; and where it exists, high quality internet access can reduce the value of Dublin's advantage. But geography still imposes iron constraints, and gives those in the capital manifold advantages that are reflected in the value of property. Urban dwellers have many legitimate causes for complaint, but the higher value of property in Dublin, and the associated higher property taxes property owners

⁷ See: Glaeser, Edward, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier* Penguin, 2011 for supportive evidence. Bettencourt et al 2007 provide specifics on the importance of scale in driving innovation and economic activity in cities, available at: <http://www.pnas.org/content/104/17/7301.long>

will pay, is not one of them. The reason Dublin house prices are higher than Tipperary house prices is in part because of the greater benefits created there by society. It is not surprising then that Dubliners should be asked to contribute more via property taxes.

The case made by rural lobbyists against the inspection of septic tanks was inappropriate and misconceived. The case against the property tax in Dublin is similarly misguided.

The timeliness and transparency of the property price evidence available on the RPPR is impressive, as is the quality and clarity of the background information and responses to 'Frequently Asked Questions' provided by the Revenue Commissioners. This, combined with the latter's ability to nudge us towards compliance with a variety of soft and hard measures, makes it likely that most of us will comply.

