

Implementation of Site Value Tax in Ireland
Smart Taxes Network
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Roadmap for Site Value Tax Implementation in Ireland

	Action	Timescale
1	Government instructs Department of Finance to establish an inter-departmental coordinating group for Site Value Taxation (SVT Working Group)	Immediate
2	<p>SVT Working Group should:</p> <ul style="list-style-type: none"> <li data-bbox="245 398 1265 499">• Set up a technical advisory board consisting of: OSI, Property Registration Authority, Registry of Deeds, Research experts and academics, Valuation professional associations <li data-bbox="245 521 1265 622">• Commission study on percent level of SVT to levy, appropriate banding of land value brackets and reduction/exemptions set for a) initial and b) permanent system – estimated cost €15-20,000 (See 1.2) <li data-bbox="245 645 1265 745">• Instruct Law Reform Commission to identify and report on any remaining Data Protection issues and draft legislation, accepting that the publication of land value information is not problematic. (See 1.1) <li data-bbox="245 768 1265 801">• Develop a communications strategy (See 3.2) <li data-bbox="245 824 1265 857">• Develop consultation and appeal systems (See 1.3) <li data-bbox="245 880 1265 913">• Develop and implement collection methods (See Appendix 1) <li data-bbox="245 936 1265 1037">• Develop a reduction/exemption system for recent buyers and senior citizens and requirements, verification and reduction/exemption system for temporary community use of development sites. (See 3.2) 	<p>ASAP</p> <p>3 Months</p> <p>3 Months</p> <p>2 Months</p> <p>6 Months</p> <p>3 Months</p> <p>2 Months</p>
3	Integrate or merge the Property Registration Authority (PRA) with the Valuation Office (VO)	ASAP
4	<p>Newly integrated PRA and VO should:</p> <ul style="list-style-type: none"> <li data-bbox="245 1196 1265 1296">• Expedite completion of Land Registry and property boundary information, including the incorporation of Registry of Deeds information in landdirect.ie (See 1.1) <p>Integrate databases with unique geo-code identifier, using landdirect.ie as a base. (See 1.1 and Appendix 1)</p> <ul style="list-style-type: none"> <li data-bbox="245 1402 1265 1536">• Initiate a research study using existing PRA and Valuation Office data and contemporary comparables, benchmarked against a visual inspection to derive algorithms for percentage of land value to property value in various categories and locations. (See 1.1) <li data-bbox="245 1559 1265 1693">• With information from 2), carry out initial interim site valuation for the whole country, excluding agricultural and commercial properties, and upload to public website. Descriptive information can remain restricted while land values are public. (See 1.2) <li data-bbox="245 1715 1265 1850">• Develop new instructions for property agents to estimate and register land value element of sale price and include further descriptive data for all new property transactions, residential, commercial and agricultural. Amend internet-based registration system accordingly. (See 1.2) <li data-bbox="245 1872 1265 1906">• Facilitate appeals system based on interactive online land value map. 	<p>24 Months</p> <p>6 Months</p> <p>9 Months</p> <p>3 Months</p> <p>1 Month</p>
5	Launch Interim SVT	Budget 2012

Summary

This report aims to provide policy makers with guidance on the implementation of Site Value Tax (SVT) in Ireland, assessing actual and possible obstacles, and outlining solutions. It is divided by issues facing implementation, with specific Smart Taxes policy proposals in boxes.

The report is based on a workshop held by the Urban Forum on the implementation of the Site Value Tax proposed in the Programme for Government in collaboration with the Smart Taxes Network. A number of papers were commissioned and shared with the participants and further presentations were made on the day. Participants came from a wide range of decision-making positions in the public and private sectors.

This report draw from the international expertise of property and taxation specialists, with supporting analysis from experts in land surveying and economics. Cited documents can be accessed online at www.smarttaxes.org.

Appendices cover important relevant areas that were not discussed at the workshop but were contributed later by Smart Taxes Network members.

About Smart Taxes Network

In September 2008, Feasta, the Foundation for the Economics of Sustainability, was awarded multi-annual funding from the Irish Department of the Environment for the development of policies supporting sustainability. The purpose of the Smart Taxes project is to develop policy options to reform fiscal and other financial and monetary mechanisms to deliver environmental, social and economic sustainability in Ireland. This project is led by Feasta with the active participation of a wide network of organisations and individuals.

This paper represents the view of Feasta and the Smart Taxes Land Tax Steering Group individuals only and does not necessarily the express the view of the broader Network.

List of Submissions

The complete presentations can be accessed online at smarttaxes.org

Site Value Tax, The Information Implications

Dr. W.P. Prendergast is a lecturer in the Department of Spatial Information Services in Dublin Institute of Technology. He also chairs the Irish Institution of Surveyors Commission on Land Registration

Site Value Tax: Long Term Implications

Dr. Constantin Gurdgiev is a Research Fellow at Trinity College Dublin. He also works as economics advisor to the Irish Exporters Association and is Head of Macroeconomics at the IBM Institute for Business Value.

Valuation and Implementation: The International Experience

Dr. William McCluskey is a Research Reader at the University of Ulster Built Environment Research Institute. He has extensive experience in valuation and property in academic and taxation positions.

Site Value Tax: The Experience in Denmark: Valuation, Collection and Systems

Joern Jensen is the Chairman of the Land Value Tax Appeals board, Copenhagen.

Property Taxation in Northern Ireland: Valuation, Collection and Derogations

Brian McClure head of the Department of Finance's Rating Policy Division, Northern Ireland.

Practical and legal implications of introducing a Site Value Tax

Gabriel Brennan is a solicitor and academic specialising in property law. She is a member of the Law Society Conveyancing Committee.

Strategic Approaches to the Political and Administrative Realities

Fred Harrison is Research Director of the Land Research Trust, London, and author of *Boom Bust: House Prices, Banking and the Depression of 2010*.

Methods of Appraising Land Value

Ted Gwartney is the Assessor for Connecticut, USA. He been actively engaged in land valuation, analysis, assessment, consultation and management for many years and travelled to Russia to advise on land value taxation in the early 1990s. He is Vice-President of the Henry George Foundation of America.

1. Technical Issues

1.1 Establishing the System

Overcoming Incomplete Information

A key problem that faces implementation of the Site Value Tax is the relative paucity of data on values available to legislators. However, the Property Registration Authority has an extensive database on property ownership and boundaries, which provides a basis for integrating value and zoning information.

A number of technical issues for acquiring the necessary information were addressed by workshop contributors.

The Dunboyne study conducted by P. Prendergast & E. Monaghan indicates that the essential descriptive or hedonic information required is:

- Site Details – area, address, geocode, owner's name, owner's address
- Building Details - type, stories, floor area, link to site
- Valuation Details - pre-bubble or mean market value with link to site location
- Zoning Details - as it applies to undeveloped sites
- Infrastructure Details - proximity to public services - impact on value

The Dunboyne study indicated that there are significant information issues for implementation of SVT in Ireland:

- Boundaries information is currently based on landscape features, not fixed geo coordinates and not always reflecting accurately the as-built result – This has been resolved by the Property Registration Authority's land database, **landdirect.ie**, which has geo-coordinates for boundary information and unique identifier numbers.
- There are many unregistered properties in Ireland – approximately 12% of total, covering 7% of the country's land area. Most of these are concentrated in urban areas.
- Current development practices can result in out-of-date Land Registry data – ownership frequently changes without registration – This has been addressed as the **landdirect.ie** database keeps up to date information on ownership.
- The Registry of Deeds can identify names and addresses of 'reputed owners' only with considerable searching of original documents and scanned documents online.
- Ireland does not currently have a Buildings Register that would hold information on building details such as drawings and documents showing compliance with the Buildings Regulations
- The An Post & Ordnance Survey Geo-Directory contains a 'geo-code' for all buildings and a postal address and ID for 1.87m properties, including 196,000 business addresses
- The Property Registration Authority suggests that many properties and buildings without postal addresses are currently excluded from the Geo-Directory – the PRA/**landdirect.ie** unique identifier is more comprehensive

Potential Sources of information

- The Valuation Office: Carries out valuations of commercial lots for collection of rates by the Local Authorities. Properties may be sub-divided into several lots by different occupiers. The current valuation process (based on extrapolations of 1840s valuations) is being replaced by modern market rental valuation. Revaluation is proceeding slowly and there is some reluctance to accept new valuations.

- Stamping Office in Revenue Commissioners: Receives declarations from solicitors for the assessment of stamp duty. Details supplied include – date of transfer, names, addresses and PPSNs of vendors and purchasers, address and folio number of transferred property and the price paid. Thus the Stamping office can provide actual prices rather than asking prices and/or the historical data on which the Dunboyne Study had to rely

Difficulties with Information:

- Different property numbering systems are employed by each information database described above. Integration of the various databases will require the harmonisation of numbering systems across multiple Departments or the development of a Cross Reference Register.
- Different object/feature definitions are also used by each information systems. Again the integration of this information will demand agreement and adoption of common object definitions.

Together, these issues provide a challenge for integrating core national Land Administration Systems. However, the EU INSPIRE Directive (May 2007) requires harmonisation of spatial data-sets, including property data, by 2019. The property boundaries will be completely digitized by August 2010.

The task of information acquisition and integration can be broken down into a number of distinct tasks:

- Capture sufficient information for an initial valuation and identification of ownership for an initial interim SVT.
- Establish a Public-Private Partnership between public information resources and property professionals to estimate land values from disaggregated property prices.
- Establish a cross reference register to link existing geo-data. The **landdirect.ie** database can provide this register.
- Create the framework for information collection and coordination that refines and develops the system for the future SVT.
- Develop new, INSPIRE compliant specifications for future data holdings
- Co-ordinated and accelerated programme to complete the database to the new specification
- Programme of quality enhancement of database information in collaboration with property professionals – declarations, surveys, etc.

Data can be thought of from two perspectives; the initial data to launch SVT and the longer-term data to make the system robust enough to withstand appeals.

Time Necessary

Fred Harrison suggested in his presentation that the necessary legislation could be established within 18 months of deciding to implement. Brian McClure commented that the development of a property tax in Northern Ireland had taken five years, but this was due to large delays while the Assembly was suspended. It was also stated that the Northern tax covered complete properties including buildings, which is a much more complex task.

Cost of SVT Collection

Responding to a question on the cost of collection relative to revenue, Joern Jensen answered that in Denmark the cost of collection is usually 2% of receipts, although the costs are going down with IT advances. Further, rich data-sets are seen increasingly not as a cost but of value to business, meaning that the cost of the collection of data for SVT purposes can be offset by the sale of the (appropriate) information to the private sector.

Resolving Data Protection Issues

While there is no constitutional impediment to publishing property sale and rental information, as attested by the Supreme Court, there are data protection issues that require legislation. The INSPIRE directive requires that spatial data is harmonized across EU member states, meaning that the relevant information has to be collected and integrated anyway. 34 high-level data-set themes have been derived on this process already, and the work of harmonization is to be completed by 2019. The key theme of INSPIRE is integration. Currently, the SDI (Spatial Data Information) unit in the Department of the Environment is looking for funding for a study to harmonize the planning zoning classes for 400 local authority development plans around the country to create comparable maps in a single database. This work will relate flooding data compiled using contour information to planning information. It would also advance the work of compiling categories of zoned land for a SVT.

Establishing Boundaries

In response to a question on whether the initial cost of land valuation would be significantly higher than in Northern Ireland because of the lack of a proper database of site boundary information, it was clarified that progress has been made with establishing property boundaries and property interests in the Republic.

Unique Property Identifier

The Revenue has property transaction price information accompanying stamp duty payments, which will contribute to property valuation information. The information is in separate databases, so these must be linked or integrated with a single property location identification system. As noted in the presentation of Dr. Prendergast, this information is not perfect but will be sufficient as a beginning. As an additional benefit, SVT can be used to encourage proper registration. In future, steps should be taken to ensure that more complete and consistent data-sets are collected. A geo-code unique identifier has been established for 2.3 million land parcels already. There might be problems with the structure of some information, e.g. addresses can be problematic, as postal codes may not relate to geo-codes. Postcodes in Fermanagh, Northern Ireland, for instance, are still problematic. It would also be necessary for the Data Protection Commissioner to prepare guidance on the publication of property transaction data.

1.1 Smart Taxes Proposal – Establishing the Information System

- The initial set up investment is relatively small in relation to the potential taxation receipts. 93% of the land registry by area is complete, but there remain 300,000 properties in Dublin and Cork still to be transferred in the Registry of Deeds.
- The **landdirect.ie** system includes a map of 25 of 26 counties, containing property boundary and registration information. This should be overlaid with additional information from Local Authorities on zoning and, potentially, land value.
- The Valuation Office should be merged with the Property Registration Authority. This will ensure that necessary information is integrated.
- INSPIRE implementation should be accelerated. This would benefit other government objectives, including the smart economy. This urgent work should be resourced, managed and coordinated across Departments with Ministerial responsibility for successful outcome. A common portal, such as the Property Registration Authority's **landdirect.ie** database, could make data accessible through a geographic location point system.
- All agencies should begin to utilise the unique geo-code identifiers that are being established to build a rich data-set that will supply the necessary information for Site Value Tax. This will need a statutory remit or secondary legislation. **Landdirect.ie** should be used as a basis for this, as it also offers property unique seed identifiers, which include property and ownership data.

1.2 Assessing Value

There are numerous methods of assessing site value, and policy-makers should select the one that best suits the particular aims of the tax in Ireland, while ensuring that the valuations are seen to be fair, with potential for public oversight.

William McCluskey pointed out that valuation for a site value tax would require much less data than a property tax. The relative homogeneity of land values allows for sales to be extrapolated further and for indices to be more easily applied. There would be fewer recurrent inspections required and greater equity would be achieved due to the lower volatility in land values. The folio number of the property is identified and can be verified if problems arise. Good data is needed to prevent too many appeals. Publishing assessments long in advance of billing, e.g. 9 months, allows sufficient consultation or appeal period.

Professional Methods of Appraising Land Value

Ted Gwartney has numerous years experience in the implementation of Site Value Taxation internationally. His submission outlined numerous possible methods for assessing the site value, which have a standard process and varying approaches.

There are three standard approaches to estimating market value that form the foundation for current appraisal theory: the cost approach, the sales comparison approach and the income approach.

- The **cost approach** is based upon the principle that the informed purchaser would pay no more than the cost to produce a substitute property with the same utility as the subject property.
- The **sales comparison approach** utilises prices paid in actual market transactions of similar properties to estimate the value of the site.
- The **income capitalisation approach** is widely applied in appraising income-producing properties. Anticipated present and future net operating income, as well as any future reversions, are discounted to a present worth figure through the capitalisation process.

Initial Valuations

Initial valuations will be required to begin the process of implementing an interim Site Value Tax. There are three main options available for carrying these out.

- Visual Inspections
- Utilisation of Professional Knowledge
- Pilot Studies of areas, using consultation with locals

Visual Inspections

The Northern Ireland survey for a full property tax used visual surveys. These were also used in the Dunboyne study carried out by E. Monaghan and W.P. Prendergast. This study is illustrative only.

This study was restricted to dwelling houses in the sub-urban area of Dunboyne for several reasons.

- The calculation of valuations for commercial properties (retail, office and industrial) was considered too complex and beyond the scope of this short term study.
- There was a lack of valuation information for agricultural properties within the selected area.
- One-off houses were excluded due to their unsuitability for comparable valuation techniques

The www.MyHome.ie and www.Daft.ie websites were used to source details of properties for sale in the town - some overlap between both websites - this information was expanded to a final sample size of 44 properties using property lists from local auctioneers

Mapping area-specific values:

- The mapping process utilised a photographic ground survey to identify similar house types.
- This was used to identify different housing developments by different developers. Detached houses were given two valuations while three valuations were done for semi-detached houses.
- A mean value per metre squared was applied to give a better indication of relative values.

The Society of Chartered Surveyors insurance guide was used to compute the rebuilding costs. This was a 3-step process:

1. Substitute site coordinates for address
2. Compute floor area using OSi building areas, reduced by 20% to account for eaves and walls
3. Reduce asking price by a factor to give Market Value – 10% was used

This gave problems with negative Site Values computed for 6 properties and one excessively high value. The negative value sites were given a value of €20,000, which was assumed to be an inherent base land value and the excessive value was discounted.

Utilisation of Professional Knowledge

Professional Valuers could be engaged to carry out an initial set of land values. This may require a set of guidelines and self-checking systems. The third study by Dr. Constantin Gurdgiev for Smart Taxes will utilise a set of professional valuations as a basis for projecting revenues. These will give land value as a percentage of property value, as calculated by leading property agencies. The study specifies between different types of property and location, as detailed below.

Below: the table sent to property agencies shows the different types of information requested by Smart Taxes. This indicates the various types of property type and location that will be relevant for valuers carrying out interim valuations. The total property price paid is held in the landdirect.ie database but the study sample will have to be augmented with a visual inspection or other information source to verify land element.

Property Type	Property Value by location			Ave. Site Area
	Dublin	Provincial	Rural	
Housing: 3 bed 90-125m2 approx				
Land Value %				
Housing: Apartment 2 bed 80m2 approx.			N/A	
Land Value %				

Housing: 4 bed 200 + m2 approx.				
Land Value %				
Land zoned Residential low density <30/ha				
Land zoned Residential high density >30/ha			N/A	

Pilot Studies

Submissions from Brian McClure, Ted Gwartney and Fred Harrison clarified the utility of pilot studies on implementing a new taxation process. Pilot studies of particular areas could be carried out to clarify the interim valuation and appeals process. Further information on the utility of pilot studies can be found in 1.3 below and in Brian McClure's submission (online at smarntaxes.org).

Other Issues

Where the impaired market is not giving sufficient information to determine the market value, it may be necessary to use the information from earlier years, e.g., year 2002, corresponding roughly to the value of current property having fallen from their peak. For the initial tax, banding may be appropriate because of the uncertainty about the initial valuation.

1.2 Smart Taxes Proposal – Valuation

- Professional valuers should be engaged to carry out an initial set of valuations using residual and comparative methods. Valuations could be based on past sales data from a stable period, e.g. 2002, where current market lacks data. Using **landdirect.ie** information, the valuers could sample different property and land types, to derive the land value as a percentage of property price. This can then be used to build a basic land value contour map for the interim tax.
- The land contour map should then be publicly accessible through **landdirect.ie** to provide the basis of an appeals process to lend credibility. The Data Protection Commissioner has found that this level of information disclosure will not contravene data protection legislation.
- New property transactions should require the relevant agent to derive and submit the land value element to the PRA and the publicly accessible **landdirect.ie** system.
- Further hedonic, non-public, information should be registered in all new property transactions to provide a better database for evidence-based policy and administration.

1.3 Ensuring Defendable Valuation

The past history of rates and property taxes and the novelty of the Site Value Tax shows the it is necessary for value assessments to be sufficiently transparent and defendable to begin with but,

more crucially, remain so as the SVT level rises.

New Transaction Information

Property professionals will need to log all information on transactions, contributing to the central information database. This will require a level of self-regulation by the professional associations but has been successfully applied for Section 23 type Capital Allowances for many years.

William McCluskey pointed out that deciding what data on property characteristics to collect and maintain will have long term consequences, and that the assessment process should avoid collecting data of little importance.

Public Information on Land Values

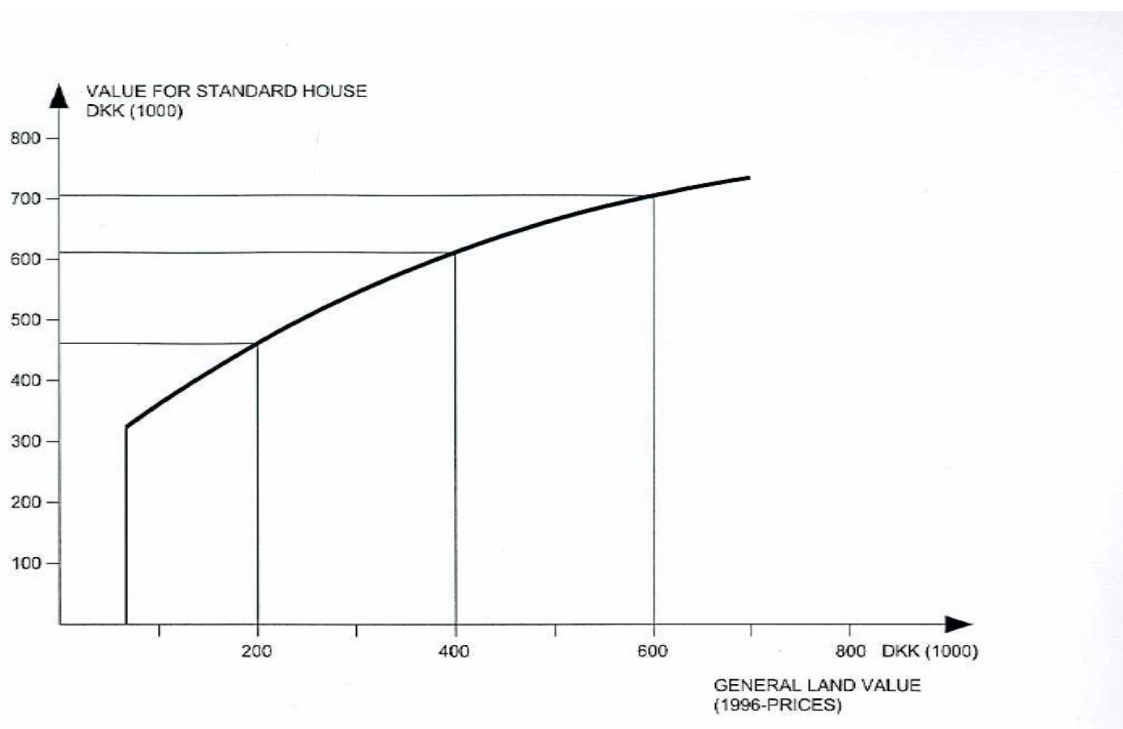
Land Value information will need to be publicly accessible, as is the case in Denmark and was proposed in Novrogod, Russia by Fred Harrison and Ted Gwartney. This could be available through a website portal, potentially using the Property Registration Authority's **landdirect.ie** system as a model.

Land Taxation in Denmark

Joern Jensen's presentation emphasised the importance of public access to SVT information to ensure that prices are fair and are seen to be fair. This should also involve a transparent appeals process, by which values can be assessed and reworked if necessary. A public database giving feedback on assessed land values, as in New South Wales, infers acceptance or not. In this process, comparability is more important than absolute values, although it is important to be aware that urban areas can be more complicated for defensible values.

To help assessments stand up to challenges, the mechanism to derive them has to be clear. Land value maps were available to the public in Denmark until recently. These visual tools helped to build consensus around assessments. Similarly, clear graphs charting the relative prices of land values to property values for particular areas have been used in Denmark to aid comprehensibility and defensibility of land value assessments. Below is an example of a Danish graph used as part of the consultation process, indicating the land value relative to total property value.

Image: House Values relative to Land Values – Taken from Joern Jensen Presentation



Community Feedback Process

Community Feedback will be crucial for public acceptance of the tax and will also be a key way to ensure that valuations are accurate and defensible.

Ted Gwartney and Fred Harrison travelled to Novgorod, Russia, in the 1990s to consult on implementation of a land value tax. Their experience indicated key methods for ensuring the defendability of value assessment. In Novgorod, the Mayor's administration was equipped with the tools for assessing the *relative value* of land. All stakeholders were engaged in the process of identifying the attractions of each location relative to other sites. On a scale of 1.0 to 5.0, people were invited to assign values to those sites with which they were personally familiar.¹ The values were plotted on a town map, street by street, property by property. The map was accessible to citizens who could feed in their knowledge. A site beside the pig farm was rated 1.0, while sites on the banks of the river with a view of the Kremlin were rated at 5.0. Separate valuations were performed for residential, commercial and industrial sites. Thus, with a given amount to be raised for the budget, it was possible to assign charges to each location that could be called an *annual rent*. Those rents were proportionate to the benefits that the population itself assigned to the sites. In other words, the process of price discovery complied with the characteristics of a competitive land market in which the prices reflected people's preferences.

The Novgorod methodology may be applied in Ireland as a starting point for re-educating both property professionals and the general public.

Property professionals are, by their training, competent to assess the value of sites using the "comparable" properties methodology. With appropriate briefings, they would instantly perceive the ease with which a land value map may be computed in the circumstances prevailing in Ireland today.

Map 1 would consist of relative values, based on the Novgorod model. Officials would construct the values by holding open-access meetings for all citizens. This process would inform the public of the philosophy of rent-based charges (of tailoring payments directly to the benefits personally received by occupants of each site).

Map 2 would consist of current market values assessed by property professionals. The values would be based on the realisable price imputed to each site.

In Denmark, the valuation map was made available to the community in a consultation process. Elected representatives conducted hearings with citizens to achieve two things.

- *The educational objective*: provide an exposition of the emergency need to re-base the nation's fiscal system.
- *The feedback objective*: enable people to express their views on the assigned land values, so that the site value-based charges are endorsed as fair: they fund public services, and are payments (or compensation) for the attractions (or liabilities) otherwise associated with each site.²

¹ Note that, within the EU, a similar democratic *local* method for valuing land was employed in Denmark until a very few years ago. Jørn Jensen chaired one of the groups of citizens who deployed their local knowledge to assess the value of sites for Denmark's land tax.

² Two sites of comparable size in seemingly similar locations may have contrasting values. The lower value of (and, therefore, lower payments for) a site with severe disadvantages would be seen as the compensation for the liabilities of living/working on that site.

1.3 Smart Taxes Proposal – Ensuring Defendable Valuation

- The Property Registration Authority database, **landdirect.ie** should be used as a basis for creating publicly accessible land valuation maps. These should be available online and supported by local information and advice.
- Consultation with local communities to achieve public acceptance for the interim implementation of the tax should be implemented through the City and County Development Boards
- Professionals will derive the land valuation based on algorithms derived from pilot studies.
- The appeals system should be based on individual feedback via an internet system, i.e. **landdirect.ie**.
- The permanent system will include the land value element of every property, estimated and certified by a professional agent. This will build an objective and empirical land value map, reducing the need for an appeal system.

2. Administrative Issues

Ted Gwartney's submission suggested that the empirical evidence to support the administrative feasibility of land value-based charges is overwhelming, but that the evidence also suggests that low charges do not deliver the potential macro-economic benefits of the tax. To achieve these benefits, governance should be based on citizens paying, via the Site Value Tax, for the greater part of the benefits attached to the location of their land.

2.1 Fundamental Administrative Components

William McCluskey's presentation included an overview of the necessary components of implementing the tax. Of these, property identification and registration and property information management have been dealt with above. The remaining components are as follows:

Revaluation

Brian McClure's presentation showed that revaluation for the Northern Ireland property tax occurs at intervals of between five and ten years. Joern Jensen suggested that although frequent revaluation may be beneficial for social justice purposes, revaluation on an annual basis is not optimal for secure exchequer returns. It can be useful to have a lag of a couple of years to smooth exchequer returns. A balance should be found between the needs of the exchequer, administrative issues, and social justice needs.

Tax Billing

This subject was not discussed at the workshop, but Smart Taxes Network members have made recommendations in Appendix 1.

Revenue Collection

Register of voters is currently held by local authorities and this can serve as the initial basis for registration of ownership for Site Value Tax.

Enforcement

Land cannot be hidden for SVT evasion, particularly if the database is linked to registration of title.

Thus, SVT evasion could lead to loss of title.

Appeals/Dispute Resolution

Appeals on valuation assessment should be minimised by the use of community panels. Nevertheless, an Appeal Board will be required for social justice reasons.

2.1 Smart Taxes Proposal – Collection and Enforcement

- Payment via installments should be enabled to avoid imposing a lump sum payment on landowners. This could be facilitated through the PAYE/tax credit system, or alternatively, through the utility bills for those not in the tax system.
- Ideally collection should be carried out by local authorities, but for practical reasons the interim SVT may be handled through the national tax system.
- Unpaid SVT can be attached as a *lien* on the title either on an agreed basis, e.g. deferral for elderly residents, or imposed as a tax collection measure.

2.2 Appropriate administration levels for Site Value Tax

The Site Value Tax is generally conceived as a local government funding mechanism. As detailed in the Programme for Government, it would replace Stamp Duty and other local charges (see Appendix 2) and would therefore transfer revenue from national to local level to enable funding of infrastructure. This tax would require close cooperation with local authorities, and, as such, it will require reassessment of the relationship between central and local authority budgetary mechanisms.

A question was asked about the suitability of county council administrative systems for this task. Brian McClure commented that Northern Ireland had encountered and successfully managed this challenge. The Local Efficiency Review Group responded by devising larger functional units that integrated their local administrations to get needed economies of scale.

William McCluskey's review of property taxation internationally showed that:

- Several countries have tended to maintain policy-making within the central government, allocate revenue to the local governments and delegate most of the administration to local governments.
- It is important to establish a revenue and administrative correspondence, giving the various property tax aspects to local governments while maintaining a higher level of oversight to ensure equity.
- **Strong central government support is essential for successful implementation**

Proceeds from the Northern Irish property tax had been divided between regional and district level, with just over half of the proceeds going to the Assembly.

Local Authority Boundaries

The question of whether a review and re-adjustment of local authority boundaries was needed before SVT could be applied arose. It was agreed that considerable further benefits of increasing efficiency, local democracy and accountability beyond that of simple revenue-raising was achievable but required political and administrative boundaries that coincided with economic reality. Existing county and city boundaries are based on an ancient political structure with roots in

the Norman invasion and are not fit for purpose. It was argued that taxpayers must have some form of democratic control and virtuous feedback systems over the level of tax they are commanded to pay if there is to be acceptance of SVT. The basis for such democratic decision-making must have spatial and communal validity.

Smart Taxes see merit in this point of view and feel that the gains of such a review are worth pursuing. However, it is not sufficient reason to delay implementation. Further, the information gained during 3 years of SVT operation would greatly benefit this review process.

2.2 Smart Taxes Proposal – Local Administration

- The percentage of SVT should initially be set at a national level, with the option for local authorities to charge a higher rate for particular purposes.
- SVT will replace Stamp Duties at national level which can be used to substitute or augment national Local Government Fund.
- The question of proportion of revenue that would be returned to the local authority from which it was raised, to that retained for general purposes and to that redistributed amongst local authorities to address social and economic imbalances is a political issue.
- The portion of SVT revenue arising from the replacement of Development Levies should be remitted to the relevant local authorities, similarly for Part V Adjustments.
- A review of local authority boundaries using the information from first three years of interim SVT should be carried out and implemented to support the roll-out of the permanent system.

3. Political issues

3.1 Government and Private Sector Support

As a new tax, Site Value Tax will need to navigate a number of issues and obstacle prior to implementation. Some of these have been covered above, but this section includes more detail on probable political objections and solutions to the problems they pose.

Fred Harrison's paper suggested that the the lack of a database of land values will be raised as an objection. He suggested that the information void may be viewed as a redeeming feature of the Irish situation as it obliges government, the civil service and property professionals to adopt a learning approach to fiscal reform. This means engaging in a democratic discourse with the public to re-base the nation's revenue system on principles of justice and sustainability.

Barriers will also be raised based on spurious arguments. These will include:

- The difficulty of land valuation
- Unfairness for low-income owners of valuable locations.

Such arguments defeated the UK's Finance Bill (1909) which, despite the overwhelming democratic mandate, was opposed by the land owning lobby through the use of legal ruses to postpone the valuation of land. Thus, the need for an education programme aimed at cultivating a favourable democratic consensus.

Economic Effects of Site Value Tax

Dr. Constantin Gurdgiev's presentation was based on two research papers he has carried out for Smart Taxes Network, co-funded by the Urban Forum (available online at smarntaxes.org). These looked at the Macroeconomic case for Site Value Tax in Ireland and a comparative assessment of Site Value Tax with other methods of raising funds for investment in public services.

Dr. Gurdgiev's presentation showed that Site Value Tax is counter-cyclical, i.e. it dampens the boom/bust cycle. These effects are enabled because of the more direct links between tax revenue and the longer-range valuations of fixed capital. The benefits include eliminating receipts dependency on transactions volume, a smoother tax profile and improved forecasting.

- SVT reduces distortionary incentives for development and land speculation
- Helps to reduce asset price bubbles
- Reduces linkages between long term public expenditure financing and property prices and transactions volumes
- Improves predictability of the Exchequer revenue and alleviates pro-cyclicality of revenue
- Allows to price public infrastructure and social amenities investments
- Allows to place the true burden of public investment financing onto the shoulders of those who receive private benefits of such investment
- Helps to deliver more environmentally sustainable and socially equitable development
- Improves liquidity of property holdings for the elderly
- Increases life-cycle returns to investments in education, business and health
- Increases relative returns on more efficient use of land and buildings
- Promotes long term savings and pensions provisions and reduces risk of pensions default.

The research indicated that Site Value Tax is not a silver bullet, but it is a good way to achieve a number of important effects:

- Impose fiscal discipline on spending (longer-range planning and policy stability) - in line with OECD 2008 review of Ireland
- Increase efficiency of the markets for construction, development, housing and long-term savings

Difference between Property and Site Value Tax

A question was asked on the difference between property and land taxes. It was clarified that a property tax taxes the land, the building and all building and site improvements. This is a tax on building and is a disincentive to home improvement. As funds for home improvement have already been taxed (on income), this can be seen as a form of double taxation. A property tax would not be levied on undeveloped land, and so is not able to replace Development Levies, which are a major up-front burden on builders with otherwise viable schemes.

Site Value Tax taxes the value added by investment from the community, not the value created by the site owner and therefore is not a disincentive to invest, but the contrary. The tax will cool speculation, prevent another housing bubble and channel investment into more productive activity.

3.1 Smart Taxes Proposal – Building Government and Private Sector Support

- The Department of Finance will support SVT due to its fiscal management advantages.
- The Department of Environment will support SVT as it will help to meet objectives of the Planning Bill
- Local authorities will support SVT as it replaces uneven development levy receipts, which have collapsed in the downturn, with a steady predictable income to plan infrastructure investment (see Appendix 2).
- Planners will support SVT as it will encourage the speedy development of appropriately zoned land and will reduce pressures for over-zoning.
- The construction industry will support SVT over a property tax because it reduces up-front costs and encourages new construction, extensions and improvements.
- Retailers will support SVT as it will bring unused and underused buildings into active use.

3.2 Taxpayer Support

The comprehensibility of the tax may be an issue, as taxpayers may misunderstand it. It will be important to explain it clearly and adequately. Billy McClure's presentation pointed out the problems that they had faced on implementation of a property tax in Northern Ireland due to media spin about a 'tax on agriculture'.

It may also be misunderstood as a tax that will be displaced onto renters. This can be argued against by showing that markets are the determining factor in rental prices.

Economic Stability

Fred Harrison suggested that the financial crisis gives an opportunity to show the necessity of a land value tax. By pointing out that a market in land exists and that this market was the site of intense speculative activity, causing the collapse of the property market and massive collateral damage on Ireland's banks and general economy, it then becomes possible to show that:

- *Without fiscal reform*, recovery of the economy is unlikely to lead to the return of full employment.
- *Competitiveness in the global economy* requires a major shift in the nation's cost structure. This shift can be achieved by *either* degrading people's after-tax incomes (reducing living standards to, at least, East European levels), *or* by altering the composition of taxes.

The optimum economic strategy is to reduce taxes on wages and consumption and raise revenue by land value taxation. This means - *collect location rents proportionate to the benefits of the public services that are accessed at particular locations*. Those benefits are measured by the rents people are willing to pay (and insofar as government fails to collect those rents, they are capitalised into the selling price of land).³ Ultimately, this leads to a shift in the tax base fulfilling the necessary elements of environmental tax reform.

Community Benefits

Site Value Tax can also be used to bring idle sites into use. By enabling reduction/exemption of tax payments for land that is brought into beneficial community usage, e.g. allotments, local areas can

³ Fred Harrison's presentation did not use the word "tax" in relation to land values/rents as he felt that when charges are proportionate to benefits received, the payment is a price/royalty/fee/charge, etc., but *not* a tax. This distinction is important for reasons of political psychology, as well as efficient economic policy..

benefit directly from the tax. This will require a set of requirements for benefiting from this reduction/exemption, and a third-party verification mechanism to ensure that these are met.

Transparency

Joern Jensen's specific suggestions on enabling public oversight have been dealt with above, however, he emphasised the importance of public oversight of land values, including information on the relative value of land and property.

See also Fred Harrison's Novrogod experience, outlined in 1.3.

Fairness

When it was pointed out that land values can change, leading to comparative unfairness in valuation, it was accepted that SVT generally realises equity rebalancing as wealthier people usually live in larger dwellings in higher-value locations compared to poorer people and will therefore pay higher SVT. The intervals between re-valuation of the land have fiscal and administrative impacts – revaluation on an annual basis is not optimal for secure exchequer returns. It can be useful to have a lag of a couple of years to smooth exchequer returns.

Problems of payment of the residential rates for elderly residents in Northern Ireland are being addressed by allowing pensioners to defer payment until the house is sold, similar to deferral schemes in place elsewhere, such as North America and Australia. There are also discounts in residential rates for farmers as they can't move their residence. The social renter sector is standardised to be based on rent, excluding capital values. The Northern authorities are also intending to rate empty homes but have decided against imposing a levy on second homes as they see it as difficult to police. In contrast, the experience in the Republic has been that the second homes levy has been successful, bringing in higher than expected revenue. This levy should be subsumed within SVT.

Another key fairness concern is that of low income earners on high-value land. There are a number of solutions for this. It is possible to grant a tax exemption up to a certain threshold, introduce a personal tax-free SVT allowance or allow for tax to be deferred until the property changes hands. This latter would allow local authorities to borrow against the future revenue. In Denmark, for instance, residents over 65 are allowed to defer the tax until the property changes hands.

SVT could be seen as an unfair imposition on homeowners with heavy mortgage payments. Such homeowners should benefit from a transitional period, which will allow them a temporary exemption from the tax.

3.2 Smart Taxes Proposal – Building Taxpayer Acceptance

- First-time buyers will support SVT's replacement of Stamp Duty, a significant up-front cost.
- It should be argued that, unlike a property tax, SVT will cover zoned land and so spread the burden of taxation onto speculators and developers.
- Renters will support it as it will reduce rental prices by encouraging currently unused or underused properties onto the market.
- It needs to be clear that a reduction/exemption period will be applied to recent home-buyers, based on when they purchased their house. The closer this was to peak prices, the longer the exemption period they should be granted.
- It must be clear that retired residents will be able to defer the tax until the property is transferred.
- Local communities will support SVT on development land if it encourages land-owners to make it available for verifiable community use on a temporary basis in return for limited reductions.

Appendices

Appendix 1 – Collection Systems for Site Value Tax

Visible Taxation versus Invisible Taxation – George Campbell

Observations reported by Professor Alan Evans, Director, Centre for Spatial and Real Estate Economics, University of Reading, (2010), when considering the acceptability of a property tax, indicate that taxes collected on an annual or semi-annual basis, referred to as visible taxes, such as domestic rates, poll tax, property taxes, meet significantly greater taxpayer resistance than so called invisible taxes, which are collected, and almost disguised, as part of a transaction, e.g. VAT and PAYE.

Regarding SVT based property tax collection this difficulty, primarily an issue for individual tax payers, could be minimised by collecting the annual assessment due through the owner's tax credit certificate as a reduction of tax credit. To achieve this it would only require a link from each identified site to its owner and then from the owner to his/ her PPS number. This is a tax collection issue and therefore should not be seen as a misuse of PPS number once PPS no. it is not published on SVT public database

Database Integration for Collection Systems – Dr. Patrick Prendergast

Land registry's ITRIS database (digital mapping & folios) is recommended to be used during the computation of an SVT valuation. This may only provide for circa 90% of properties and it will be necessary for the rest to make a voluntary declaration. This valuation information will need to be linked to the Revenue database to collect the tax liability due. This can be carried out by linking the owners name and address in the folio with names and addresses in the Revenue database and then appending the PRSI number to the Land registry information as the ID to facilitate linking these two databases in the future. A few years ago the Data Protection Commissioner ruled the use of the PRSI number in the Department of Agriculture database as unlawful, but in this circumstance where it is being used to levy tax, it should not cause a problem, if the PSRI number is not made public.

Appendix 2 – Substitution for Stamp Duty and Development Levies

James Pike

Stamp Duty is a major deterrent to households moving to be near jobs etc. or upsizing or downsizing.

Development Levies impose a major up front cost on new development, which, particularly in the current market is a major barrier to starting new developments and getting our NAMA developments underway. For example, the current levies for new developments near the Cherrywood Luas, with one proposed house in Stepside facing charges of approximately €92,000, while its neighbours are contributing nothing. Development levies impose the costs of infrastructure upon new developers, while it is all nearby landowners who benefit.

Site Value Tax revenue would repay the cost of infrastructure provision and its maintenance to the State and Public Authorities over a period of years. It would also spread the cost evenly over all land benefiting from the infrastructure, including existing development. SVT would also encourage land owners who benefit from new infrastructure to maximise the development potential of their sites.

SVT's interaction with Part V contributions can be incorporated in rules governing the tax. Further consideration be given to whether Part V contributions are considered at the planning phase and if land-zoning is simultaneous with the granting of planning permission. While commercial Rateable Valuations can be directly transferred from rates to SVT, they are not based on land values, and will need to be assessed, based, as far as possible, on adjacent developed land.

SVT is a comparatively more stable source of revenue than Stamp Duty and Levies which are reliant on new transactions or development. At the estimates given in Appendix 3, the income would be more than sufficient to replace Stamp Duty and Development Levies and Part V Revenue to a level which would have been raised in a reasonably active market.

Appendix 3 - Potential Revenue of SVT

Dr. Constantin Gurdgiev

Note: these calculations are rough estimates. A detailed study of potential revenue is forthcoming.

Calculations by Dr. Gurdgiev indicate that the Site Value Tax applied to residential sites could raise approximately €2.35-3.35 billion per annum.

There are 1,700,000 residential units with a construction average of 70,000 new units per annum over 2001-2007. Houses built during this period would qualify for a temporary reduction/exemption, so the tax base is 1,200,000 units at €240,000 average price per unit. Assuming a land value component of 30-40%, site values would equal €72,000-96,000 per unit.

With a tax rate of 2.5% per annum (half of the annual steady state yield), the tax return would be approximately €1,750-2,500 per annum per unit, which would create a tax revenue of €2.1-3 billion per annum.

In addition, there are roughly 700,000 units approved in planning, 560,000 of which are in impairment. There is also an average of 30,000 units per annum in new one-off housing. With the same assumptions as above, this yields €250-350m per annum in tax revenue

Combined, this leads to a total revenue potential of €2.35-3.35 billion per annum

Note: 2.5% tax rate is consistent with both:

- 1) 5% long run yield on property, factoring in past costs of other property transactions taxes
- 2) Current expected yields on average 3-bed semi in Dublin (after tax and transactions costs)