



## SUBMISSION

### TO THE INTER-DEPARTMENTAL GROUP ON PROPERTY TAX

16<sup>th</sup> March 2012

## 1.0 Introduction to the Environmental Pillar

The Environmental Pillar was included as the fifth pillar of Ireland's Social Partnership in April 2009, and is made up of 27 national environmental NGOs, acting together as one social partner. Although the national arrangements for Social Partnership are not functioning at present, the Environmental Pillar is working through Social Dialogue with the other social partners and government at the national and local levels to: promote the protection and enhancement of the environment, together with: the creation of a viable economy and a just society; without compromising the viability of the planet on which we live for current and future generations of all species and ecosystems. Our basic premise is that:

*The continuing success of human society and social systems depends fundamentally on the preservation of the overall productivity, health, and long term sustainability of the ecosystems and environmental services that underpin and supply many of the most basic components of human welfare such as a healthy biodiversity, productive soils, clean water, and clean air.*

*Environmental Pillar members:* An Taisce. Bat Conservation Ireland, BirdWatch Ireland. CELT - Centre for Ecological Living and Training. Coast Watch. Coomhola Salmon Trust. Crann. ECO UNESCO. Feasta. Forest Friends. Friends of the Earth. Global Action Plan Ireland, Gluaiseacht. Grian. Hedge Laying Association of Ireland. Irish Doctors Environment Association. Irish Natural Forestry Foundation. Irish Peatland Conservation Council. Irish Seal Sanctuary. Irish Seed Saver Association. Irish Whale and Dolphin Group. Irish Wildlife Trust. The Organic Centre. Sonairte. Sustainable Ireland Cooperative. VOICE. Zero Waste Alliance Ireland

*‘As part of our fiscal strategy the new Government will consider, arising from the previous Government’s deal with the IMF, various options for a site valuation tax’<sup>1</sup>*

## 2.0 Introduction

### 2.1 Overview of this submission

This document responds to the call for submissions with regard to the implementation of a property tax that is both simple to administer and fair. However the basis for this submission is that the introduction of a Site Value Tax (SVT) as an alternative to a property tax can achieve all of the outlined objectives in a far more efficient and equitable manner than a property tax. At a basic level as required by this call, SVT is an effective and efficient way of taxing assets as an alternative to a building-based property tax. As well as this SVT has the potential for much deeper integration into our taxation system; by adjusting the rate at which SVT is applied it can provide an alternative to income tax, VAT and many other taxes.

*“A gradual shift of the tax base away from taxing what we want more of, such as investment and labour, towards taxing what we want less of, such as pollution, would help contribute to the Government’s objective of creating a resource-efficient and smart green economy”.<sup>2</sup>*

*“The OECD recommends the phasing out of all environmentally harmful subsidies and the replacement of some current taxes with appropriate environmentally related fiscal measures in the framework of a comprehensive environmental tax reform.”<sup>3</sup>*

By adjusting the rate at which a SVT is applied it can be very flexible and provides an excellent tool for ‘taking up the slack’ as the tax base is shifted, as well as promoting sustainable land use patterns.

*“We consider that there is a sound economic rationale for considering the introduction of a land or site value tax”<sup>4</sup>*

Given the ‘sound economic rationale for considering a land or site value tax’ the opinion expressed in this submission is that It would be very short sighted not to adopt a system that promises long term equity simply to avoid having to address the potential for short-term complications arising during a period of establishment.

The Tax Commission made their recommendation before the publication of The

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<sup>1</sup> Programme for Government 2011, page 16.

<sup>2</sup> Draft Framework for Sustainable Development in Ireland

<sup>3</sup> OECD Environmental Performance Review of Ireland 2009

<sup>4</sup> Commission on Taxation 2009

Ronan Lyons Report<sup>5</sup> commissioned by Smart Taxes. This document provides an assessment of existing data sources and outlines the process towards the integration and the implementation of the tax. This submission draws heavily on the content of the Lyons report

## 2.2 Introduction to Site Value Tax

Site Value Tax is a charge on the unimproved value of land, i.e. it is not directly affected by physical capital built on the land (such as buildings or other improvements). It is instead a tax purely on the value of location. In this way it encourages the full value of the site to be exploited. It is expressed as a percentage of the value of the site and is typically payable annually.

The introduction of an annual Site Value Tax (SVT) at the earliest opportunity is essential to the long-term well-being and control of our land usage. It is also a revenue resource that is fair, transparent and reliable.

To start with an example, suppose a three- bedroom semi- detached property in one particular location is worth €140,000. The build cost is €125,000, while the plot size of 0.03 acres is worth €15,000. This means the value of an acre in that location is approximately €500,000. A Site Value Tax of 2% per annum would mean a €300 tax for this property (2% of €15,000). A two-bedroom or four-bedroom property on the same site would be subject to the same tax bill, as they differ in value only by the built capital and not by the underlying value of the land.

It is a basic principle of economics that taxes typically distort economic outcomes. For example, if a large proportion of an additional hour of overtime is taken in tax, workers will be less prepared to do overtime than if the tax burden were smaller. In economic terminology, labour supply responds to taxation and the work foregone due to taxation presents society with a dead-weight loss. The same principle applies to the supply of other factors of production such as machinery or buildings, whose supply can vary.

The supply of land, however, is fixed and thus a parcel of land cannot be withdrawn from supply, it can merely lie idle. Thus, SVT cannot affect economic outcomes and it is not distortionary.

For example, Harrisburg, the capital of Pennsylvania, has a land value tax. Between 1980 and 1995, that tax helped reduce the number of vacant city centre structures from 4,200 to fewer than 500, with a parallel population increase of 10%.

A further economic rationale for SVT comes from the fundamental reason that land values vary. Much of the value of a site is created purely by its designation as residential, not agricultural, land, i.e. at the stroke of a pen. More generally, land values vary with the value of surrounding amenities. These amenities are typically public goods, either directly (i.e. provided by the Government with taxpayer money) or indirectly (i.e. amenities created by the populations living there, such as social capital, or a rich market

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<sup>5</sup> <http://smarntaxes.org/2012/01/30/ronan-lyons-report-on-site-value-tax-now-available/> [Accessed 15/03/2012]

for jobs, services or cultural activities). All these amenities incur costs of maintenance or costs of opportunity. Therefore, if public goods create private value, the fairest way of paying for their maintenance is to recoup some of that value from those who benefit.

### **2.3 Features of SVT**

There are three further features worth highlighting about SVT. Firstly, by charging the value of land rather than the total value of the property, the tax does not penalise those who maintain or improve their properties. Under tax systems where the total market value of the property is taxable, actions such as maintaining protected structures or making improvements (improving energy efficiency, for instance) are in effect penalised. Under SVT, they are encouraged.

More generally, the system promotes the best use of land. This highlights the second key feature: that Site Value Tax is a tax on land-hoarding and other unproductive uses. Derelict sites and land banks at the edge of towns that are zoned residential would be subject to the same tax per unit of land as those with homes built on them. This strongly discourages wasteful use of scarce land.

Wasteful use of land includes hoarding it for speculative purposes. Because SVT penalises this, it can contribute towards the minimisation of bubbles and crashes in the residential property market. Because of the annual charge involved, productive investment in residential property, i.e. where it is rented out to tenants, would be encouraged, while holding vacant property in anticipation of future gains in value, as occurred extensively in Ireland during the 2000s, would be discouraged. Under SVT, savings would be directed away from such rent-seeking activities towards more productive investment. This penalty for hoarding can be strengthened by giving tax credits per person, as outlined in Section 3.2.

There are three basic forms of taxation. You can either tax labour, consumption or assets. Of the three, taxation of assets makes the most sense, and in the context of this submission, SVT is the best way of achieving this.

### **2.4 SVT makes sense from an environmental perspective**

By placing a value on a site regardless of the economic activity (or lack of it) SVT encourages the use of all zoned land and discourages the zoning of new land. In other words it will tend to favour the development of brownfield over greenfield sites. By encouraging the infill of derelict or underused land in urban areas, the tax will promote much-needed development without contributing to urban sprawl. Encouraging compact development has the related benefits of being able to concentrate service provision. Everything from sewage systems to bus routes benefit from the concentration of development within existing developed areas. In the light of rising demand for food, and the need to promote food security, agricultural land should not be swallowed up by unnecessary urban sprawl.

### **2.5 Other benefits of SVT**

Site Value Tax would have a counter-cyclical effect through discouraging speculation

on land, and thus enabling funds to find other more sustainable avenues for investment.

### **3.0 Site Value Tax in response to the TOR of this consultation call**

The documents referenced at the end of this submission give a comprehensive overview of the advantages and potential shortfalls of SVT. However to fit into the required format for this submission some points are now highlighted under the specified headings

#### **3.1 Meet the immediate financial requirements of the EU/IMF programme**

*“An interim Site Value Tax will be introduced in 2012, applicable to all land other than agricultural land and land subject to commercial rates. The interim measure will involve a fixed local service contribution of about €100 per annum (€2 per week) which will raise €180 million from households. The final Site Value Tax will be introduced in 2013 when valuations have been completed. It is estimated that Site Value Tax will apply to 1.8 million households and zoned lands that would equate to an estimated further 700,000 houses. At an average of just over €200 per dwelling (or site) this would raises the €530 million full year amount targeted for the Plan period. For full implementation of the tax, commercial rates will be moved to a site value basis also.”<sup>6</sup>*

The current Government clearly believes that the introduction of the household charge represents the first step towards the introduction of a site value tax to meet the demands of the EU/IMF. It is the opinion of this submission that the current household charge is not an equitable SVT in fact it is the antithesis of equity with the burden being borne equally by all regardless of site size or location. However this clearly demonstrates that the Government’s initial interim measure has the potential to be replaced by a full SVT which can meet this requirement.

The Lyons Report 2011 details the potential range of revenues available via SVT.

#### **3.2 Provide a stable funding base for the local authority sector in the medium and longer terms; incorporating an appropriate element of local authority responsibility subject to any national parameters**

Site Value Tax can be seen as the best form of tax for funding Local Government as it recovers the benefits created by Local Government and investment in social and physical infrastructure.

Site Value Tax provides sustainable support to municipal authorities in providing infrastructure and other improvements. Such developments would increase the value of neighbouring land, thus increasing tax revenues in exchange for enhanced service provision. This would ensure that the cost of suitable infrastructure

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<sup>6</sup> National Recovery Plan <http://budget.gov.ie/RecoveryPlan.aspx> [Accessed 15/03/2012]

investment would be repaid over a clearly definable period of time.

The introduction of S.V.T would present the opportunity for Local Authorities to engage with their constituents on the provision of new services and infrastructure, making the case for additional tax to pay for new infrastructure.

It can be argued that Site Value Tax is not a tax in the conventional sense. It is better thought of as a maintenance charge for the value of amenities enjoyed by landowners and residents. In the 1870s, Henry George, one of the earliest proponents of SVT, described the value of land as being created by the community and therefore its rent belongs to the community.<sup>7</sup>

### **3.3 Be collected centrally by the most cost efficient and effective means**

Unlike the thriving 'cash in hand' economy that is prevalent with the exchange of labour and goods, a tax on sites should be much harder to avoid. Every square metre of Ireland is owned by somebody and there is a record of who that somebody is. It will therefore be relatively easy to account for and relatively harder to avoid a tax on the value of a site. Having established the necessary databases of sites, ownership and site value it will be straight forward and therefore cost efficient to collect the taxes.

It will however require considerable research to set up a register of land ownership, and so would have a lead in time of about one year, given the political will.<sup>8</sup> The Environmental Pillar supports the merging of Ordnance Survey Ireland, the Valuation Office and the Property Registration Authority. This should help speed the development of a proper cadastre and GIS boundary registration system for Ireland. It is important that spatial information gathered over generations is recognized as a common good and not commercialised. Reforms must ensure that up-to-date Ordnance Survey maps, property ownership, market prices and valuation information is publicly available and easily searchable at an affordable cost.

### **3.4 Facilitate easy and/or phased payments by households**

Once the national database of valuations has been established it should be very easy for it to be updated and to issue precise invoices in relation to specific plots for specific time periods. At this point payment methods can be tailored to suit individual needs. Online payments, direct debits or periodic standing order payments are all possible. Owners of multiple sites can opt to have multiple charges aggregated into one bill.

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<sup>7</sup> <http://www.earthrights.net/docs/success.html> [Accessed 15/03/2012]

<sup>8</sup> A cadastre (register of the extent, value and ownership of land) should be immediately developed as required by the UN CSD 16 and the EU INSPIRE Directive. All property should be registered according to fixed GIS locations; all transactions notified to a central resource; inputted into real time land value map to assist market functioning, prevent fraud, planning corruption and establish the basis for annual land value taxes.

### **3.5 Be easily determined (e.g. on a self-assessment basis), and having regard to available information on residential property and/or house ownership details;**

Once the site values are calculated self-assessment would be extremely simple, as would notification by email, text, post or other mechanism as appropriate.

All of the data bases are or can be in the public domain. The algorithms used to combine their information to give the final tax burden can be made public. Self-assessment will therefore not be necessary as a burden per site will issue as a result of computations based on input variables. A system of appeal will be needed to ensure full accountability and redress.

### **3.6 Ensure the maximum degree of fairness between and across both urban and rural areas.**

A number of international examples exist but the land tax in the Danish model is perhaps the most useful here.

In Denmark, the land tax is based on the market value of land, with an option for deferred payment for those over the age of 65. The rate is set by the particular local authority and varies from 1.6% of the value of the land to 3.4%. There are also ceilings for the annual increase in the land tax paid (7% during the 2000s). Since 2003, property-level valuations have been carried out every two years, with indexation in the intervening years. These valuations are done by central government. The 210 members of staff administer the Danish system, which includes 1.9 million properties. The 2011 Census reported that Ireland has 2 million households. Danish landowners can appeal a valuation within three months and 85% of appeals are resolved informally. In 2002, 2% of property valuations were appealed, of which just 6,000 (0.3%) ended up being arbitrated formally; only ten ended up in the Courts system. The entire valuation system in Denmark costs about €20 million to run per annum or about 1.5% of the total amount of annual land value tax revenues, approximately €1.3 Billion.

It is worth noticing that the low level of tax on rural residences due to the low level of services provided by Government will balance the cost of the introduction of a realistic septic tank charge.

### **3.7 Auditing**

Due to the relative simplicity of the accounting system required to deliver SVT, auditing it should not pose any major problem or cost.

### **3.8 Enforcement**

As previously noted SVT is perhaps the easiest possible system to enforce. With a complete land registry it will be impossible to hide from the liability for SVT.

### 3.9 Other considerations

As with the development of any Government policy or legislation, if Ireland is to transition to a truly sustainable society then it needs taxation that promotes public goods and discourages public bads. SVT is a powerful tool in this regard as well as a sustainable revenue source for the development of local government. Like all Government policy it will need to be benchmarked against the FSDI.

### 4.0 Bibliography

The economic benefits of a site value Tax, Constantin Gurdjiev 2009

<http://smarttaxes.org/wp-content/uploads/2009/05/macroeconomic-impact-of-a-land-value-tax-c-gurdjiev.pdf> [Accessed 15/03/2012]

Implementing a Site Value Tax, Ronan Lyons 2012

<http://smarttaxes.org/wp-content/uploads/2012/01/Site-Value-Tax-in-Ireland-Identify-Consulting-final-report.pdf> [Accessed 15/03/2012]

An outline of the general benefits to society, the local economy and the environment 2011

[http://smarttaxes.org/wp-content/uploads/2011/05/SVT\\_brochure\\_sm.pdf](http://smarttaxes.org/wp-content/uploads/2011/05/SVT_brochure_sm.pdf) [Accessed 15/03/2012]

### 5.0 Other Resources

<http://www.ronanlyons.com/2012/02/10/would-you-rather-tax-gardens-or-jobs-the-site-value-tax-debate/> [Accessed 15/03/2012]

<http://smarttaxes.org/> [Accessed 15/03/2012]

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*Whilst this document was developed through the processes of the Environmental Pillar it does not necessarily represent the policies of all its members.*



