IPTI Xtracts

Property Tax and Assessment News from Around the World

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Donohoe said delay to local property tax reform was 'untenable' before deferring it

Minister for Finance later concluded there was no time to make changes in 2020

Minister for Finance Paschal Donohoe told officials in June that local property tax (LPT) needed to be reformed and that it was "untenable" to allow so many houses, including those built since 2013, to continue avoiding having to pay.

However, three months later he announced another deferral on changes to the scheme despite vowing that he would "deal with [it]" if re-elected.

The original promise was contained in a submission signed off by Mr Donohoe in June before a new government had been formed.

The Fine Gael politician was told that reform of property tax would need to be prioritised if it was to be changed in this year's budget.

In a personal note added to the submission, Mr Donohoe wrote: "It's untenable to continue to allow a growing number of homes outside LPT [local property tax] base.

"One way or other, the Minister for Finance must legislate for this matter in 2020. May be no harm to get legislation done now for a later revaluation date. A government with a majority must deal with this matter, I hope that I can."

Lengthy process

By September, however, Mr Donohoe was briefing his Cabinet colleagues that any decision on the property tax would be deferred until 2021.

In a public statement released at the time, he blamed the lengthy process for government formation and said that the initial focus of the new coalition had been dealing with the Covid-19 pandemic.

Records released by the Department of Finance show that the Revenue Commissioners warned in July that a full revaluation process for property tax would not be possible before the budget. In an email, Revenue's Philip Brennan wrote: "[We] would not be able to deliver full revaluation for 2021 in the time remaining."

However, he said it would be possible to make changes that would bring homes completed since 2013 into the tax net adding at least €31.5 million to the tax take if they were retrospectively valued at their "hypothetical" 2013 value.

He warned that this would not be possible without early decisions on what would happen and the introduction of legislation to allow for it. Mr Brennan also said other exempt properties could be brought into the tax net but that Revenue would need clarity on this within a few weeks.

Internal emails show that Mr Donohoe decided against making any changes saying his "judgment is that we have also ran out of time on widening the property base". Mr Donohoe said given the "sensitivity" of the topic, he would need to personally handle the legislation.

He wrote: "All across the same period we are trying to do a budget. And the gain for this would be €31.5 million."

He said work done now would end up being superseded by a wider revaluation next year. "So, this feels a lot," he said, adding "feedback welcome on this tricky topic".

Revaluations

His special adviser Ed Brophy responded: "I think we will only have one shot at this and unlike last time a deferral of revaluations will be expected in the autumn. As such, best to postpone any wider moves to spring 2021."

One of the submissions prepared for Mr Donohoe also suggested that the Covid-19 emergency might create problems for reaching fair values for properties.

It said an "expected sparsity of property transactions" might make it difficult to establish reliable property values for payment of the tax.

A spokesman for Mr Donohoe said any changes to local property tax would have been contingent on changing the law by the end of September, leaving the department an "extremely short" timeframe to work with.

He said: "Even with the earlier commencement of the Dáil term on September 2nd the timeframe within which to progress an LPT Bill was extremely short particularly in the context of the pandemic and the preparation of Budget 2021 and Finance Bill 2020.

"The Minister for Finance has announced that he will advance legislative proposals early in 2021 to implement the LPT commitments in the Programme for Government. These commitments include bringing new homes, which are currently exempt from the LPT or outside of the tax, into the taxation system."

Budget 2021 a 'lifeline' to struggling businesses

There has been broad welcome of measures put in place to help businesses as part of Budget 2021.

As part of plans announced earlier, there is to be a new scheme to provide support for firms affected by coronavirus shut-downs.

The COVID Restrictions Support Scheme (CRSS) is designed to help those who have been significantly impacted, or temporarily closed, as a result of the restrictions.

The scheme will generally operate when level three or higher is in place, and will stop when restrictions are lifted.

The sectors impacted by the current level three restrictions are accommodation, food and the arts, recreation and entertainment.

But if the Government decides to move to a higher level of restriction, other sectors may qualify.

A payment of up to €5,000 per week will be made, based on a business' 2019 average weekly turnover.

They can apply to the Revenue Commissioners for a cash payment in respect of an advance credit for trading expenses for the period of restrictions.

The scheme is in effect from today until March 31st 2021.

The Employment Wage Subsidy Scheme (EWSS) will also continue during 2021.

Business group Dublin Chamber has welcomed the measures.

Its head of public affairs, Fergus Sharpe, said: "It is vital that businesses in tourism, hospitality, and the other worst-hit sectors, have a roadmap for business survival over the coming months.

"The grant scheme announced this afternoon has the potential to be a valuable lifeline for the most badly impacted businesses as we head into a very difficult winter.

"The decision to waive commercial rates for the remainder of 2020 is a significant help and the decision to drop the VAT rate for hospitality and tourism will also be welcomed."

“The extension of the Employment Wage Subsidy Scheme into 2021 will come as a particular relief to many businesses still reeling from a collapse in revenue."

However, the group cautioned that the Government will need to do more to boost investment in indigenous SMEs.

Mr Sharpe added: "Helping Ireland's indigenous business base to recover and grow will require a boost in investment in SMEs.

"The ESRI identified a significant investment gap in the Irish SME sector in a joint study with the Government several years ago, estimating that the gap amounts to over €1bn annually.

"The situation has deteriorated drastically due to COVID-19, with estimates of the revenue shortfall facing SMEs at the end of 2020 ranging from €10.3 billion to €15bn.

"However, Ireland's current tax regime undermines efforts to promote investment in startup SMEs as opposed to larger blue-chip firms."

"The business community was hoping for a serious plan to stimulate investment in Ireland's SME base, and this afternoon it is still seeking assurance.

"The new equity investment fund promised by the Government is welcome but there is no timeline for delivery."

'Ambitious but appropriate'

Ibec, the group that represents Irish business, has also welcomed the scale of the package and supports announced to help business deal with both COVID-19 and Brexit.

Its CEO Danny McCoy said: "The scale of Budget 2021, the largest in the history of the State, is ambitious but appropriate given the magnitude of challenges facing the Irish economy.

"Ibec has been calling for Government to learn from the mistakes of the past and to not decrease our capital expenditure commitments.

"Today's announcement of a planned increase in capital spending is a positive move given the scale of the deficit in both social and physical infrastructure.

"This investment will be central to our collective efforts in enabling the economy to resurge more competitively and sustainably.

"It is also positive to see the commitment to fund all island infrastructure projects through the Government's new Shared Island unit.

"As businesses continue to engage in contingency planning for a 'hard Brexit', Government has made welcome pledges today towards the Recovery Fund and additional measures.

"It is imperative that we see now these financial supports put to work in the areas of the economy most exposed to the economic fallout of Brexit."

He also said a reduction in VAT, along with extension of the EWSS, is "an important first step" in getting the experience economy back on its own feet.

"The costs of high levels of unemployment, both in social terms and to the exchequer, is unsustainable and can leave damaging scars on our labour market and society.

"It is welcome to see policymakers building on the lessons of the last crisis and deliver commitments of increased supports and new labour market activation programmes to support jobseekers."

'Step in the right direction'

The Restaurants Association of Ireland (RAI) has described the budget as a vital step in supporting a struggling and flattened hospitality sector.

However, CEO Adrian Cummins has warned that the hospitality VAT reduction is only a competitive driver if businesses are open and able to trade.

"This budget is a life-line for the restaurant and hospitality industry. We welcome the reduction of the VAT rate from 13.5% to 9%.

"We also are pleased to see the COVID Restriction Support Scheme (CRSS) announced offering cash payments of up to €5,000 a week for firms forced to close due to COVID-19 restrictions.

"While these new measures announced today won't fix everything, there is now hope for many restaurant businesses who are struggling.

"The Restaurants Association of Ireland also welcomes the extension of the EWSS scheme until the end of 2021 but it is disappointing that the EWSS and PUP wage supports were not restored to their previous rates, especially for the restaurant and hospitality sector which is essentially locked down again.

"We welcome the extension of the Commercial Rates waiver until the end of 2021."

'Short-term fixes'

The trade union Unite, which represents workers in all sectors, said the budget 'fails to lay the groundwork' for a move to a sustainable wage-led recovery.

The union's senior officer Brendan Ogle said that the Government missed an 'unprecedented opportunity' to re-think the economy in the interests of society.

He said: "Supports for businesses have not been matched by supports for workers: instead, those who lost their jobs due to the pandemic, and may have been thrown out of work for a second time by the level three measures, have had their Pandemic Unemployment Payment cut with no indication of restoration offered by this budget.

"The disparity between supports for business and supports for workers is particularly striking in the hospitality sector, where low pay and precarious working were the norm pre-COVID.

"It seems employers in this sector are to be allowed treat many workers like slaves while continuing to boycott the hospitality Joint Labour Committee, paying minimum wages, offering precarious contracts, stealing their tips, and now pocketing a significant VAT cut.

"The hospitality VAT cut itself is simply a reheated recipe from the last crisis - a pre-pandemic employer demand now met by the Government in its pandemic budget.

"By contrast, the Government missed an opportunity to announce a meaningful increase to the National Minimum Wage following the derisory 10 cent proposal recommended by the Low Pay Commission – a proposal which was rightly rejected by the trade union movement."

He added: "Our post-pandemic recovery cannot be built on low pay combined with poor workers' rights.

"A sustainable wage-led recovery means putting money into workers’ pockets, not only by raising wage floors and maintaining income supports, but also by enabling workers to negotiate collectively to improve their terms and conditions."

"Today's budget misses that historic opportunity, focusing on short-term fixes and rehashing the failed approaches of the past.

"It benefits the same interests as before, and again leaves behind those who were left behind before".

Local authorities say they will have to cut services over collapse in revenues

Local authorities will be forced to start cutting all services including housing maintenance, roads, lighting and parks services, community grants, festivals and arts supports without significant exchequer investment to cope with the impact of the Covid-19 pandemic.

Austerity measures are likely as city and county councils estimate they will need €300 million for next year and about €190 million in 2022 to maintain services because of the collapse in revenues, with losses this year expected to be €367 million. Local authorities’ spend directly on Covid-19 is expected to be €90 million by year end.

Commercial rates represent about 30 per cent of city and county council income, and the State’s six months’ rates waiver from March is expected to be paid to councils in the next few weeks.

But, according to one source, councils attempting to collect rates for the next six months are “having to walk in the door to businesses in tourism, hospitality, hotels and pubs to collect rates”. That sector pays some €320 million annually in rates.

“Very few of them have the capacity to pay” and “to collect €110 million to the end of the year will be some job”. Authorities will be lucky to collect even one third or half the outstanding €150 million to the end of the year and “in the first three months of the year the tourism sector was doing very little”.

The Government may offer another six months’ waiver to businesses in Budget 2021, but authorities are hoping the State will also pay 80 per cent of the estimated €367 million in losses as other revenue streams dried up, and share the burden with councils and “keep local services going”.

Business in shops in city and town centres has also collapsed, with a huge drop in footfall and about €80 million in lost parking income, despite some improvement during the summer months. Parking fee income in 2019 was €104 million.

Litter fines, planning fees, income from the awards of licences, property and house rentals and other services account for 27 per cent of income, with expected losses of €78 million.

The issue was raised in the Dáil last week when Minister of State for Local Government Peter Burke acknowledged that local authorities “have seen an absolute collapse in their goods and services income, that rates income and the ability to collect rates will be under significant pressure, and that the Government will do everything we can to support the local authority sector”.

Sinn Féin TD Martin Kenny said that 80 per cent of funding the Government gives to local authorities must be used for items that are already earmarked. He said both Sligo and Leitrim county councils had been unable to pay housing grants because there is no discretionary fund in place and the councils’ income streams had collapsed.

The Dáil also heard that Cork City Council had a budget deficit of €2.5 million, excluding the deficit in rates, while Kerry faces a shortfall of between €13 million and €14 million in next year’s budget. The estimated Covid-19 impact on Mayo in 2021 is €7.2 million.