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Site Value Tax

Tom Dunne

Technological University Dublin, tom.dunne@tudublin.ie

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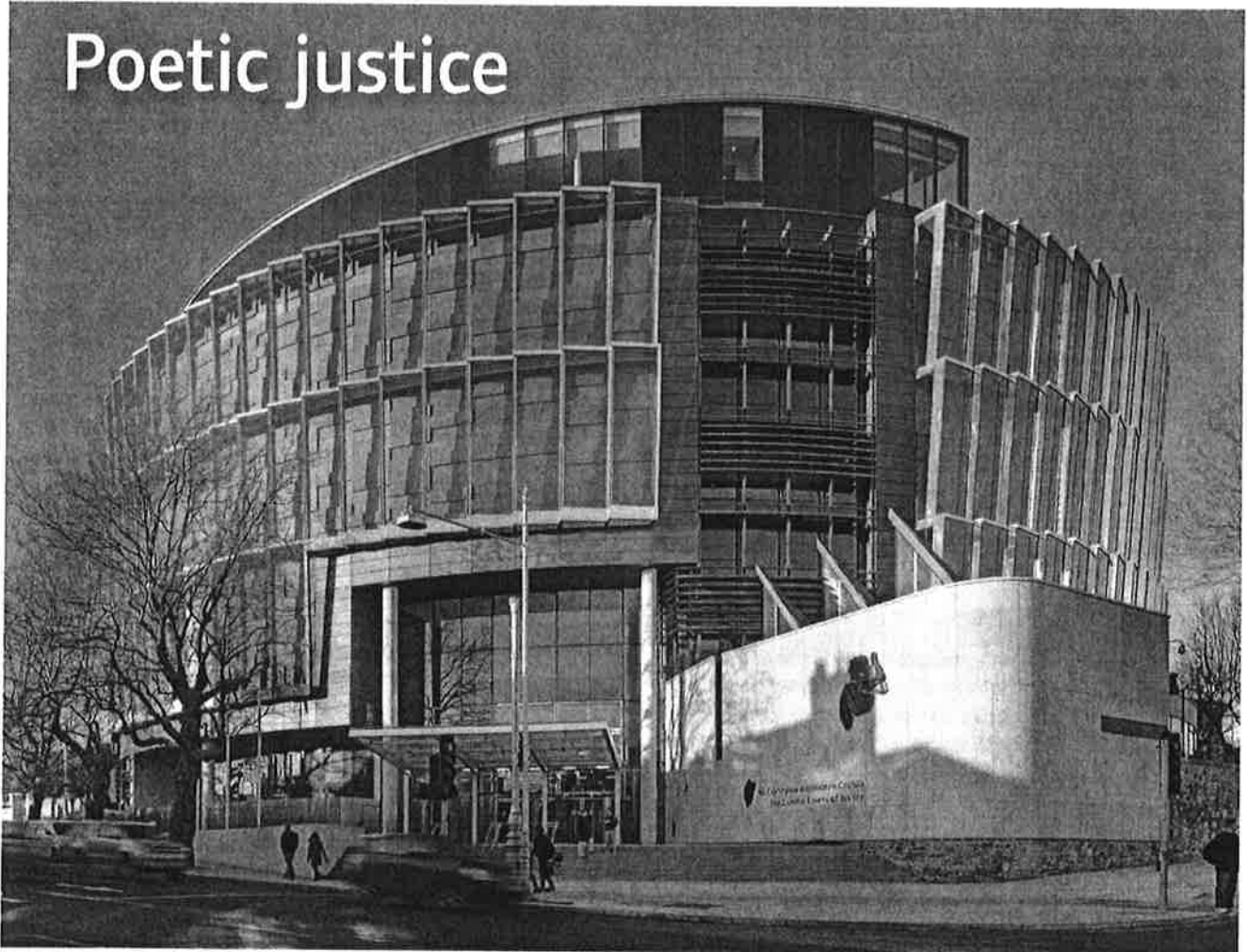
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Site value tax

TOM DEINNE discusses some of the issues surrounding property taxation in Ireland.



Land value taxation (LVT) is a tax on the value of land excluding improvements such as buildings. If applied to urban areas, it is referred to as site value taxation (SVT). SVT rests on the proposition that much of what is spent by local government benefits property and is reflected in relative property values. The theory is that these benefits flow to the site and not to the value of the buildings, which is related to construction costs, which in turn are related to the cost of labour and materials in the wider economy.

SVT can be a fair, efficient and effective means of funding local government. With SVT, liability only falls on the value of the site element of the property. This is assessed on the assumption that the site is available for development at its highest and best use, the use that will throw up the highest site value, assuming that development can be carried out as provided for in the local development plan. In most instances this would be the market value of the property less the cost of construction. In the case of a suburban house the site value could be obtained by deducting the reinstatement cost from the market value and the balance would approximate to the value of the site. If SVT was introduced, every property occupier, or owner in default, would be liable to contribute to funding their local authority based on the proportion of the value of the site of their property to the aggregate of all other site values in the local authority's functional area. Advocates of SVT suggest that it has many advantages, some of which are shared with conventional property taxes such as rates. For example, there can be no avoidance or evasion because property cannot be removed or hidden. Also, as property is fixed in location, the benefit of local government spending and the

liability to pay is localised to the recipients of those benefits. In the case of SVT it is held that the tax cannot be passed on to consumers and producers. Moreover, it is argued that such a tax would militate against property speculation and moderate boom and bust cycles, a familiar feature of property markets. A particular advantage is that if an owner improves their property, their tax liability would not increase. Hence SVT would not be a disincentive to property improvement, a flaw of more conventional property taxes. Notwithstanding their advantages, all property taxes are unpopular, particularly in Ireland, and for this and other reasons they appeared to be off the agenda until recently.

Commission on Taxation

The Commission on Taxation pointed out that there is a strong economic rationale for LVT but had a reservation. Right now, they said, it would not be a pragmatic approach to restructuring our property taxation system, there being difficult hurdles to be crossed. Significantly, they also pointed out that there would be difficulties in communicating to property-holders the nature of the taxation charge that is involved and the benefits that would accrue from that change. Therefore, they did not recommend SVT, but rather an annual property tax. They did observe, however, that their proposal for recurrent tax on zoned development land was consistent with many of the principles of a land or site value tax.

Since the publication of the Renewed Programme for Government agreed by Fianna Fáil and the Green party, interest has increased. This is worth quoting: "Starting with the necessary valuation and registration process, we will move to introduce an SVT for non-agricultural land. This system.



will provide a fair and stable basis for offsetting stamp duty on residential property". In his budget speech, the Minister for Finance pointed out that the Government accepted the recommendations of the Commission on Taxation on the need for a property tax and added that: "Considerable ground work will need to be done before an SVT can be introduced. Work will shortly begin on the registration of ownership and the valuation of land." So it appears that we are to have an SVT.

Making it work

For an SVT to work it is necessary to provide for the public availability of property transaction prices to allow comparative judgments to be made about site values. A second requirement is the creation of an accessible and publicly available system for defining and identifying individual property interests. This is needed to be able to identify sites with sufficient accuracy to value them and, perhaps even more importantly, to allow taxpayers to determine the fairness of their assessment by comparison with other properties.

A third requirement is a need for local authority boundaries that relate to the prevailing spatial dispersion of economic activity and the coherence of settlement patterns in Ireland. It is entirely unlikely that existing local authority boundaries would be suitable as a basis for local government if an SVT was in operation and real fiscal responsibility is to be achieved at local level.

From statements by the Minister, it is clear that work has begun on the registration and the valuation of land. Also, increasingly, local authority boundaries are being questioned. So progress is being made.

Problems

The difficulties associated with valuation and property identification are substantial and largely practical in nature. Research recently completed in DIT points to this (see http://www.irish-surveyors.ie/images/stories/news/SVT_The_Information_Implications.pdf). Moreover, restrictions on the use of land and buildings would have to be considered. For example, would it be fair to tax a building owner on the value of the site on which a listed period house stands? Finally, there would be transitional difficulties, particularly for those on low incomes occupying high value properties.

In conclusion it must be said that there is considerable merit in SVT and a principled argument in favour of its introduction. Moreover, there is little doubt that in the longer run there would be many beneficial effects on urban form and these would be in sympathy with the principles of sustainable development. But successful implementation requires overcoming the many difficult hurdles mentioned by the Commission on Taxation.



Tom Dunne

Tom is a lecturer on valuation methods in the Dublin Institute of Technology.