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Link Levy to Services- not Urban Middle Class Assets

Tom Dunne

Technological University Dublin, tom.dunne@tudublin.ie

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Link levy to services - not urban middle class assets

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Paying any tax is an unwelcome burden, but in Ireland many have a particular aversion to taxes on their homes. We are not alone in this. Elsewhere, taxes on homes are also unpopular; witness the People's Initiative to Limit Property Taxation which forced the California state government to cut property taxes.

Nevertheless, residential property taxes remain an almost universal feature of developed countries because of compelling economic arguments for them. Also, local property taxes are regarded as the best means of funding local government.

Rarely, it seems to me, is there such a distance between what the public wants and what rational public policy advises. In my view, this is because we have not developed a tolerable system of local property taxation and we lack proper local government structures.

The troika, in insisting on a property tax, presented us with a challenge. Unfortunately in my view, due to inherent flaws, the Local Property Tax (LPT) will fail to find acceptance, ensuring it will have to be reformed or abolished and replaced in time.

In other countries, the acceptability of property taxes is helped by the extent to which people see them as a charge for the local services they experience on a daily basis and which are under the control of locally elected politicians. They are seen as more of a charge than a tax.

In a well functioning system, the costs of local services are accounted for transparently with sufficient information provided to property owners to give comfort that they are receiving value.

In transparent systems, the cost of local services is distributed using a formula based on the rental, capital or site value of property.

This is assessed by the State and assessments are made visible to all taxpayers, so all can see they are paying their fair share. If a taxpayer has a problem with their assessed value relative to others in their area, they can appeal. If they have a problem with the amount of the tax, they can take it up with their locally elected representative.

All this ensures a sense of fairness that makes local property taxes acceptable, if not popular. These are not features of the LPT.

Moreover in other countries, areas covered by local authorities have differing characteristics as is the case in Ireland, and the characteristics and value of properties in rural areas are different to those in urban areas. With a well-designed system, it is relative values within a local area that determine the level of tax paid, not the value compared to an area with different characteristics.

People living in dense urban areas get more services because they are cheaper to provide compared to rural services. For a given minimum level of service provision, taxes per property in an urban area should be lower than in a rural area - a quid pro quo for living at higher densities.

To ensure equal service provision to citizens, most countries have a mechanism for equalisation, which is more appropriately paid for out of general taxation. Under the LPT, this is being achieved by a uniform

level of tax on residential property values across the state as part of a convoluted and non-transparent system of funding local government.

This means that the LPT is not only a charge for services, but is also a tax on wealth or capital held in the form of houses. Given that middle and lower middle-income urban dwellers mainly have their wealth tied up in their homes, they will rightly ask why the government chooses to tax their wealth, but does not tax other forms of capital or wealth.

These defects together with self-assessment, which is not transparent to other taxpayers, and a lack of clarity about the particular services being paid for, means that in Ireland the LPT is unlikely to find the levels of acceptance found in other countries for such taxes.

More likely, the LPT will further embed the aversion to property taxes in the Irish psyche.

Tom Dunne is head of the School of Real Estate & Construction Economics, Dublin Institute of Technology