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Bricks & Mortar: Tax policy swings to those who rent homes

Tom Dunne

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A major change in Ireland in recent years has been the rapid fall in home ownership, down from 75pc of households in 2006 to 70pc at present.

This brings Ireland more into line with home ownership rates in the US and UK, lower than those of southern Europe but higher than the prosperous economies of northern Europe where long-term renting is very common.

In the public mind, however, this lower level of owner occupancy is seen as temporary and symptomatic of a distressed economy where buyers have difficulty obtaining mortgages and in any event are content to stand off a market where prices are not expected to rise. The thinking is that, when the crisis abates and conditions improve, purchasers will come back, driving activity and bringing levels of owner occupancy up to more normal levels.

But there is a more fundamental change afoot. Against a background of less stable careers, more volatile incomes and the requirement for higher deposits, the approach of getting on the housing ladder as soon as possible after getting the secure job has changed. For these reasons, it is likely that more people will choose to rent their home for longer, if not for a lifetime. This will change the housing culture in Ireland fundamentally.

Reflecting changes in economic and social circumstances in recent years, governments have reduced or removed the incentives once available to owner occupiers. These had been very generous during the last half of the 20th Century and included grants to first-time buyers of new houses and income tax relief on mortgage interest for owner occupiers.

In the absence of these supports, owner occupancy has become relatively less attractive and more people are choosing to rent because it suits them to do so.

The government stance looks like continuing. For example, the liability for the Local Property Tax falls on landlords and not on tenants, thus enhancing the relative attractiveness of renting. It could change even further. Researchers in the Central Bank have mooted the possibility of removing the capital gains tax exemption given to owner-occupiers. All this is in keeping with government housing policy which is now stated to be tenure neutral.

The balance of advantage favouring owner occupancy for half a century has tilted considerably. In future, more people will choose to rent at least for a greater part of their lives.

Unfortunately in the past many people, informed by a history of government support for owner occupancy, made a different choice for the best of motives. They are now in trouble. Thousands of owner occupiers will be subjected to foreclosure.

The inevitable result will be that they become renters for a time at least but with a strong likelihood that they may never again be able to buy their own home. Renting is not a choice for them.

These people, lured at the height of a boom by the traditional promise of owner occupancy, are, to some extent at least, victims of the reduction in the supports available to past generations of buyers.

Many of them living in modest family homes could be helped by a limited scheme of mortgage interest relief, confined to those on low incomes which are insufficient to meet mortgage commitments.

Such relief would give distressed owner-occupiers of modest family homes some of the benefit received in the past by many who now own their homes outright having paid off their mortgages. The relief could be financed by a small increase in the marginal rate of income tax.

If this assisted some households to keep their homes it would be worthwhile for the State. The costs are considerable for both local authority houses and supplementary welfare allowances.

Surely it would be better to assist people to avoid the trauma of the losing their home and the disruption to family life with repercussions which the tools of economics and finance are inadequate to measure.

Given changes in lifestyles and in economic circumstances, in future more people will rent their home as a rational and personal choice and government policy now reflects this.

But periods of transition create victims and we should do what we can to help those who made a choice in very different circumstances. Mortgage interest relief has a role in this.

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