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Further Reading:

Turley, Gerard (2022). The old and the new: A tale of two local property taxes in Ireland. IMFG Papers on Municipal Finance and Governance No. 60, University of Toronto, Canada.

Turley, Gerard (2022). A review of Ireland's local property tax. *Administration*, 70 (4)

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Property tax as a source of local government funding

Local governments around the world are generally funded by a combination of own-source revenues and grants/transfers from upper tier levels of government. Ireland is no different, with its local authorities funded by a mix of local taxes, fees and charges, and central government grants. The only local tax is property tax. All revenues from the ownership or use of residential and non-residential properties are assigned to Ireland's local government units, namely the local councils. Unlike in many other countries where there is a single integrated property tax system, Ireland has two property tax regimes, namely a centuries-old commercial rates system and a 21st-century designed Local Property Tax (LPT). Undertaken at the University of Galway and the University of Toronto, Canada, the research investigates property taxes in Ireland, based on international comparisons of property tax systems in other countries, including the UK, Canada, Australia, New Zealand, and some European countries, with a view to identifying international best practice and domestic policy lessons.

Research findings

The standard design features of a property tax are the tax base, liability, rate, assessment and valuation, collection and enforcement. One of the stylised facts of property tax systems worldwide is their diversity, and especially in relation to variation in these tax characteristics. These differences are as likely to be based on political factors, as any economic or technical considerations. Ireland's LPT is different in that it is designed from scratch, 35 years after rates on residential properties were abolished. The unusual features of the LPT are the absence of any property classes, the use of self-assessment and valuation bands, and withholding tax at source as a payment method. In particular, banding and self-assessment can be considered second-best solutions as they can lead to inexact and under-valuations. It remains to be seen if they will be retained as transitional features, or will evolve over time into the more conventional direct assessment by a valuation agency using discrete or individual valuations.

Policy implications

While recognising the importance of country-specific and local circumstances in property tax design, there are elements of Ireland's residential property tax that have potential policy lessons for other countries contemplating property tax reform. They are the importance of tax administration, collection and compliance, the focus on simplicity and speed, the reliance on a broad base combined with a low rate, and the need for public acceptance as property tax is difficult to sell politically given its salient and presumptive nature. Although the LPT is not perfect, its implementation has succeeded in widening the tax base in Ireland while, at the same time, providing local government with what is considered to be the best local tax, namely recurrent taxes on immovable property, and in particular, residential properties.