15 Local Property Tax

15.1 The EU/IMF Programme of Financial Support included a commitment to the introduction of a property tax in 2012. The tax was introduced in the form of the household charge, which was an annual charge of €100 payable by owners of relevant residential properties. Local authorities had responsibility for collecting the charge.

15.2 The household charge was an interim measure and, following from the report of an interdepartmental group on the design of a local property tax (Design of a local property tax, the 'Thornhill report'), the local property tax (LPT) on residential property was introduced, as a self-assessment tax, on 1 July 2013.[1, 2] The tax is collected by the Revenue Commissioners (Revenue). The Act also provided for the establishment and maintenance of a register of residential properties.

15.3 LPT is payable annually by all liable persons who own or hold a long-term lease of a relevant (i.e. non-exempt) residential property in the State on the liability date for that year.[3] For 2013, the liability date was 1 May 2013. A half-year charge applied for 2013, with a full year's charge applying from 2014 on. At 1 July 2013, any outstanding household charge was converted into an LPT charge of €200, and Revenue assumed responsibility for its collection.[4]

15.4 Receipts from the property tax are paid directly to the Exchequer. From 2014, the Minister for Finance is required to pay into the Local Government Fund an amount equivalent to the LPT receipts (including any interest) paid into the Central Fund during that year.

15.5 By end-June 2014, Revenue had collected a net €628 million of LPT (see Figure 15.1).

Figure 15.1 Local property tax receipts to end-June 2014[a, b, c]

	Tax liability for 2013	Tax liability for 2014	Total
	€m	€m	€m
Year of collection			
2013	242	76	318
2014	19	291	310
Total collected by end-June 2014	**261**	**367**	**628**

Source: Office of the Revenue Commissioners

Notes:
a Receipts are net of repayments.
b The amounts collected include around €25 million in respect of the household charge – €2 million in 2013 and €23 million in 2014.
c Around €34,000 in respect of 2015 had been collected at the end of June 2014.

15.6 The introduction of LPT placed a significant resource demand on Revenue. Work undertaken to facilitate the introduction of the tax included the preparation of the legislative framework, the planning, design and implementation of systems and processes in order to develop a property register and the provision of IT systems to facilitate the collection and administration of the tax.

1 Finance (Local Property Tax) Act 2012.

2 A residential property is defined in the Act as any building or structure which is in use as, or is suitable for use as, a dwelling and includes any shed, outhouse, garage or other building or structure and any yard, garden or other land, attached to or usually enjoyed with that building save that so much of any such yard, garden or other land that exceeds one acre shall not be taken into account.

3 Annex A sets out those liable for LPT (liable persons).

4 Section 156 of the Finance (Local Property Tax) Act 2012.

15.7 This examination of the implementation of the local property tax focused on

- whether Revenue has established a comprehensive property register
- the adequacy of estimation of property valuations and of the expected tax yield
- the extent to which taxpayers have been compliant in paying the 2013 tax and
- steps taken by Revenue to recover outstanding amounts due in respect of the household charge.

Completeness of the Property Register

15.8 The tax base for LPT is residential property, with the liability on the owner. Although a number of Government departments and offices held data on residential properties, there was no complete database of all residential properties and their owners available to Revenue. Revenue utilised a number of external sources of data.[1] The most relevant database for this task was the database used by the Local Government Management Agency (LGMA) for the household charge.

15.9 The LGMA operated the household charge as a shared service for the local authority sector. It had compiled a database with 1.1 million residential properties which it provided to Revenue. As this database was created specifically for the purpose of the household charge, there were issues in relation to its usefulness in the development of the property register

- the LGMA database included the name of the person who paid the household charge, who could be a different person than the owner of the property. Therefore, some properties on the database were not linked to their owners. This was particularly problematic in the case of non-unique addresses[2]
- owners of residential property exempt from the household charge were not required to register, with the result that these properties and owners were not on the database.[3]

15.10 Revenue also obtained a database from GeoDirectory containing addresses of 2.15 million properties of which 1.8 million related to residential properties.[4] However, the database did not include the names of the owners of the properties.

15.11 Revenue also used data from its own internal sources including from its systems for electronic-stamp duty and tax relief at source for mortgage interest relief. Ultimately an initial property register with a total of 1.85 million residential properties was put in place during 2013. Since then, an additional 0.24 million properties have been added to the register and 0.14 million have been deactivated, resulting in a residential property register of 1.95 million properties at the end of June 2014.[5]

15.12 In addition to the available data from the public body databases and its own IT systems, Revenue had statistical information from the 2011 census which found there were 1.99 million permanent dwellings or housing units in the State. No detailed information about these properties was available to Revenue due to statutory restrictions on the use of census data. Therefore, Revenue is unable to establish why its database has around 40,000 fewer residential properties than the number indicated by the 2011 census. There are some differences in the definition of a housing unit e.g. a number of flats in a house may each be counted as a housing unit for the purposes of the census but the house may be a single unit for the LPT. There have also been movements in the housing stock which may account for part of the discrepancy.

1 Sources included the Department of Social Protection, the Private Residential Tenancies Board, certain utility providers and the Local Government Management Agency.

2 An example of non-unique addresses is where a number of houses are located in the same townland. Owners of different properties may have the same name.

3 A limited number of exemptions and waivers were available for the household charge, including owners of residential property entitled to mortgage interest supplement and owners of residential property located in certain prescribed unfinished housing estates.

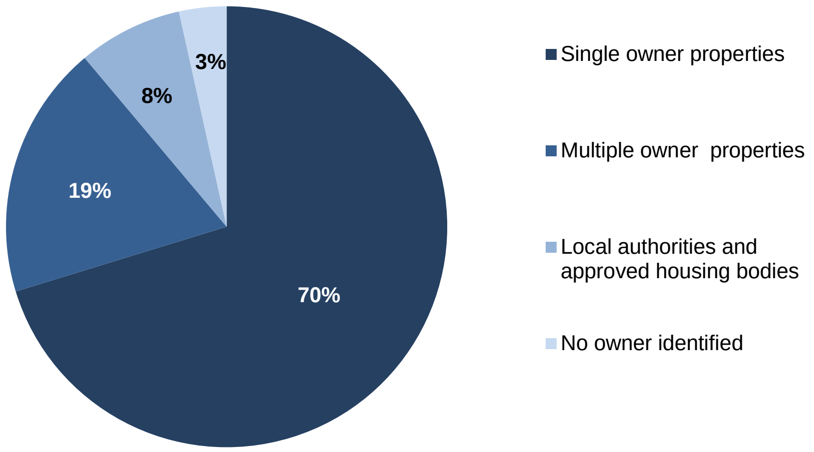
4 GeoDirectory is a service, jointly established by An Post and Ordnance Survey Ireland, that provides a geocoded points database of all of the buildings in the Republic of Ireland.

5 The property database is held on Revenue's common registration system (CRS) which is a national tax register, holding details of taxable persons and entities.

15.13 Unpaid LPT, including interest and penalties, becomes a charge on the residential property, with no time limit on its collection. There is a statutory obligation to complete and return details of any sale or transfer of property including long-term leases, whether at arms length or otherwise, to Revenue by way of a stamp duty return. Therefore, in any cases where Revenue is unable to identify all residential properties at present, the LPT on unidentified properties will be payable as part of LPT clearance procedures associated with conveyancing, when a future sale or transfer of the property takes place.

15.14 At end-June 2014, ownership of the registered properties was categorised as indicated in Figure 15.2.

Figure 15.2 Revenue property register at end-June 2014[a]



Source: Office of the Revenue Commissioners

Note: a The register recorded 149,300 properties in the ownership of local authorities and approved housing bodies. Revenue stated that the actual figure may be lower than this as refinement of the register is ongoing.

15.15 Certain properties are exempt for LPT. In order to claim an exemption, a liable person had to complete a return for 2013 and indicate the exemption category into which the property fell. In 2013, exemption was claimed in returns for around 42,000 properties. A further 10,000 properties were exempted by Revenue from information it held in its records. Annex B provides a listing of the exemption categories and the number in each.

15.16 Revenue's property register is updated on a continuous basis as additional information becomes available. At June 2014, there were an estimated 46,400 work items in progress or awaiting attention. The examination analysed records on, and changes made to, the property register.

No Owner Identified

15.17 Each residential property on the property register should have a recorded liable owner. At June 2014, 3.5% (68,000) properties on the property register had none recorded. A review of these found that some 4,000 properties recorded as having no owner on the property register in 2014 had a recorded liable owner in 2013. If an owner was correctly recorded in 2013, then that owner, or a new owner if the property was sold, should have been recorded in 2014.

15.18 Revenue stated that at the time of the launch of the LPT register in March 2013, there were around 60,000 properties that could not be associated with owners. Initial work was carried out to identify owners for a subset of these cases but the priority for the work was reduced as it proved to be very time-consuming. Revenue also said that

- after the bulk issue of 2013 returns, it became clear that a significant number of tenants had been incorrectly identified as owners of properties. This occurred because tenants may have paid the household charge on behalf of landlords or the tenants were otherwise linked to the properties through Revenue records. It was not possible, in some cases, to identify the landlord at the time the link to the tenant was removed
- the auto-update now in place between Revenue's e-stamping system and the LPT register became available in October 2013. Property transactions prior to that date had to be manually adjusted and it may be that a small number of cases were not linked to the new owners
- a review of a number of cases has been carried out by the LPT Branch and it is evident that a small proportion of the properties should be removed from the register as they were duplicate properties.

15.19 Separately, the examination compared the identification numbers for the properties showing no owners in 2013 with Revenue's tax collection systems as at the end of 2013. This showed that LPT payments totalling in the region of €470,000 had been received for around 2,700 of these properties during 2013. It appears, therefore, that the names of the owners of those properties had not been entered, or were incorrectly removed at some point. Incorrect records on the register may lead to unnecessary compliance actions being undertaken by Revenue.

15.20 Revenue stated that it has now reduced the number of properties that were fully or partially paid but without recorded liable owners in 2013 to 1,660 cases and that these cases will be fully reviewed in due course with a view to resolving any ownership issues arising.

Unfinished Housing Estates

15.21 Under the Act, residential properties in certain unfinished housing estates are exempt from LPT. In order to qualify, an estate must be designated by the Minister for the Environment, Community and Local Government. A schedule of the designated estates was provided to the examination team.

15.22 Exemptions were claimed for just under 5,000 properties because the properties were on unfinished estates. A review of a random sample of 50 of these exemptions found that 40% of the properties where such exemptions were claimed were not in a designated estate. Revenue stated that its compliance programme has begun to address this risk and in cases where an incorrect claim has been made Revenue will take action to collect the LPT due. Revenue also pointed out that the designation (in regulations) of an unfinished estate changed significantly between the household charge and LPT and that this may have caused understandable confusion among taxpayers.

Properties Deactivated from the Register

15.23 Because Revenue's property register is updated on a continuous basis as additional information becomes available, properties are added and deactivated on a daily basis. By June 2014, 137,300 properties had been deactivated from the initial register, for example due to duplication.

15.24 A review of the deactivated properties found that payments for 2013 LPT amounting to €378,000 (for 3,300 of the now deactivated properties) had been received.[1] It appears that the properties were deactivated in error. Revenue stated that the most likely reason that collections have occurred against deactivated properties is due to the bulk removal by Revenue of what it thought were duplicate properties or late payments received after deactivation of some properties.

15.25 For a random sample of 50 deactivated cases, the files were reviewed to ascertain the reason for the property's deactivation from the register. The review found that

- 10 (20%) had been deactivated in error: three of the properties were exempt, in four cases there was a change of ownership of the property, and in the other three cases the notice for LPT had issued to the tenant rather than the owner of the property
- of the remaining 80% properties correctly deactivated, 37 were duplicate entries on the register, two were declared uninhabitable, and one property was declared as no longer existing.

Estimation of Property Valuations

15.26 The amount of LPT payable is based on the market value of the residential property at the valuation date.[2] Residential properties have a range of characteristics which impact on their value e.g. the age of a property, its type and location, local amenities, floor size, number and type of rooms, car parking facilities, gardens and grounds, and condition of the dwelling.

15.27 LPT is a self-assessed tax and, therefore, owners of properties are responsible for assessing the current market price of their property as at the valuation date. The Act requires liable persons to assess the value of their property every three years. For the years 2013 to 2016, the valuation date is 1 May 2013.[3]

1 This includes €25,000 refunds for 187 properties.

2 Market value is the price that would be agreed between a seller and a purchaser conducting a transaction at arm's length. The valuation date is the date by reference to which the chargeable value of a residential property is to be established.

3 For each consecutive 3-year period after 2016, the valuation date is 1 November in the year preceding the first year of the 3-year period–- for example, the valuation date for the years 2017 to 2019 is 1 November 2016.

Revenue's General Guidance

15.28 Owners faced a difficult task in valuing their properties, in particular due to low levels of activity in the market in the years preceding the valuation date. Revenue developed an internet-based guide in order to assist owners in assessing property values.[1] In developing the guide, Revenue used an economic model to assess relationships between property characteristics and property values and assigned a weighting for each characteristic.[2] In creating and testing the model, Revenue used 34,400 valuations from their e-stamping system and 1,000 valuations carried out for NAMA of properties provided as collateral for loans it acquired. In addition, a professional valuation company was contracted to carry out around 1,300 valuations in locations specified by Revenue.

15.29 The valuation guide is available on-line. It sets out average market (as at 1 May 2013) valuation bands of property types in a given locality (electoral district) and offers an indicative valuation band for properties depending on their broad type and age (for example, a semi-detached house built before the year 2000).[3]

15.30 Revenue did not provide suggested values for individual properties. The guidance states that while it was intended to be helpful in the majority of cases, self-assessment requires property owners to honestly assess the market value of their own property. If a property is smaller or larger than the average for the area, is in a significantly poor state of repair, or has exceptional or unique features, the owner is required to factor this into the assessment of the valuation band of the property.

Individual Estimates

15.31 During 2013, Revenue issued individualised return forms to property owners, including a Revenue estimate of the valuation band for 1.57 million properties.

15.32 In response to a query about the basis for the notified valuation band for each individual property, Revenue stated that

- GeoDirectory provides, for each property contained therein, a record of the property's location, address, use and type. The Revenue estimate at individual property level was calculated by applying the average valuation from Revenue's guidance to each property in GeoDirectory
- some properties on the Revenue register are not on (or not linked to) GeoDirectory, so location, use and type information was not available. In those cases, the average valuation band (from the Revenue guidance) for the relevant area was applied to generate the estimate.

15.33 By end-June 2014, a total of 1.76 million property valuations had been filed and recorded on Revenue's systems, including a significant number of cases where Revenue had not issued an estimated valuation.[4] When making their returns, 1.03 million properties were valued by their owners at higher or lower valuations than the Revenue estimates – this represented 66% of properties where Revenue estimates were issued. Overall, the declared values were lower than the estimates made by Revenue. Figure 15.3 analyses the filed valuations.

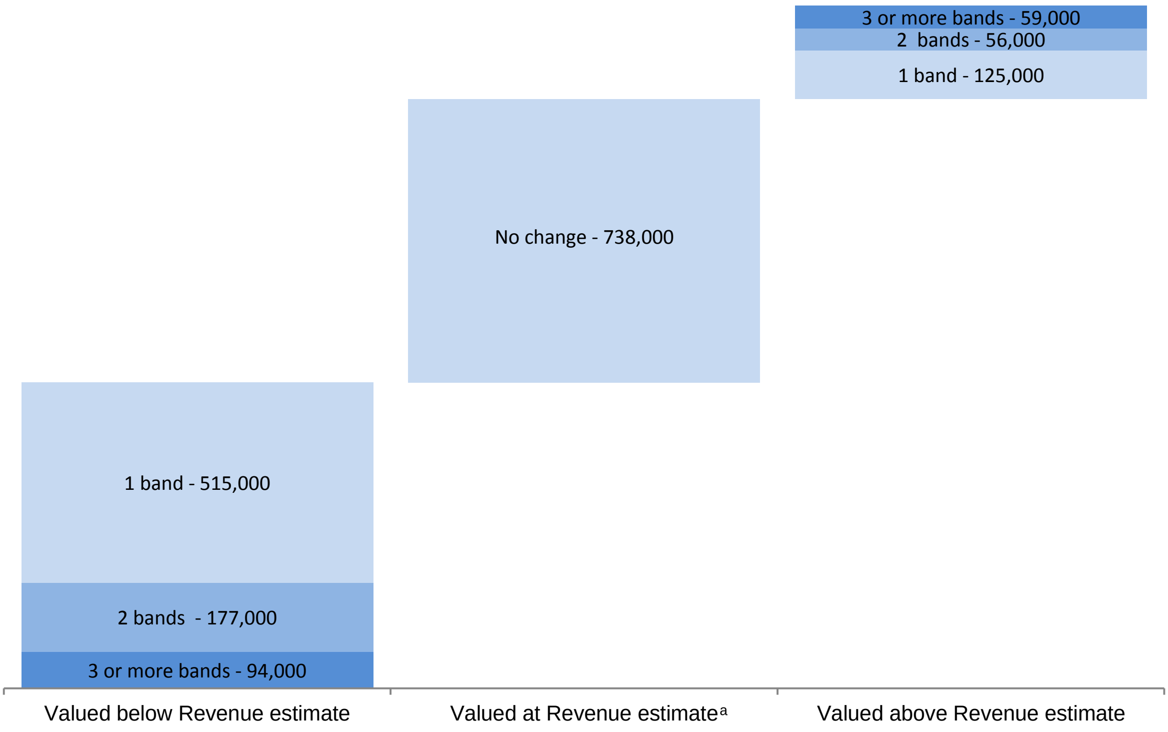
1 A version was also provided for those without internet access.

2 Revenue's residential property valuation model uses characteristics including the age of a property, its type and location, and local amenities.

3 Valuation bands are shown in Annex C.

4 Revenue stated that it has received returns for an additional 30,000 properties owned by local authorities but these are not yet recorded.

Figure 15.3 Local property tax – declared valuation bands relative to Revenue estimated bands, 2013



Source: Office of the Revenue Commissioners

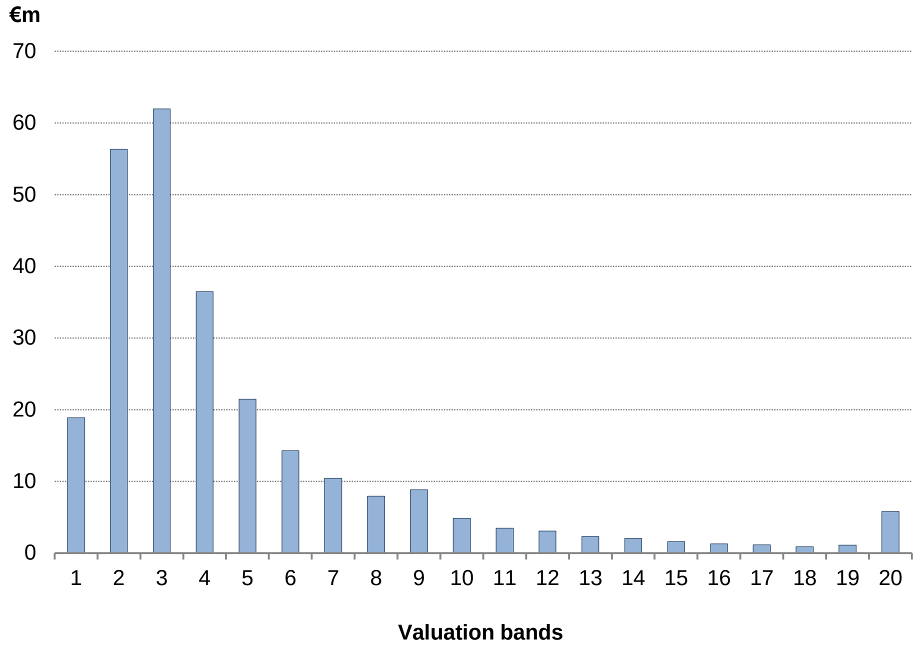
Note: a Cases valued at Revenue estimate include declared valuations where no individual Revenue estimate issued.

15.34 Annex C shows the proportion of properties declared in each band. Some features of the valuations submitted compared with the Revenue indicative value were

- just under 24% of properties were declared in the lowest band (€0 to €100,000). Revenue had estimated that 15% of properties would be in this band
- just under 3,600 properties were valued at €1 million or more. This is 21% more than the number of properties in that band for which Revenue issued a notice of estimate.

15.35 Figure 15.4 indicates the declared liability in 2013 for each band.

Figure 15.4 Declared liability for local property tax by valuation band, 2013[a]



Source: Office of the Revenue Commissioners

Note: a Based on 1.76 million filed and recorded returns.

15.36 In order to assess the reasonableness of the declared property valuations, Revenue has mapped data from the returns and has identified 75,100 properties for which the owners have returned a value of their property that is lower than the average band returned for neighbouring properties. Revenue stated that it intends to review a proportion of these properties based on risk rating, using mapping technologies, to ascertain if the valuation provided appears reasonable. Where the valuation does not appear to be reasonable, the liable person will be required to provide documentary evidence of the valuation of their property.

Data about Property Characteristics

15.37 In making their returns, property owners were not asked to provide any information on property characteristics e.g. property type (apartment, detached house, terraced house, etc.), floor size, site area, number of rooms, much of which could be provided by owners without a requirement for professional assistance. Accurate information of this kind would potentially significantly improve Revenue's capacity to analyse the declared value of properties and to validate the reasonableness of returns.

15.38 The Accounting Officer stated that the option of asking property owners for information regarding property characteristics including floor size and number of rooms was given serious consideration. However, it was rejected principally because a precise actual market value for each property was not required and because it became clear that a workable model to support both the preparation of the Revenue estimate and compliance interventions could be developed without detailed information such as floor size for every property.

15.39 The Accounting Officer pointed out that the focus throughout the design of LPT was to ensure that the process would be as easy as possible for property owners. As with all taxes, Revenue is aware of the administrative burden on taxpayers and aims to collect only the information required. The LPT1 return was short and simple and this encouraged taxpayer engagement. The value band system is adequate to provide for most variations, and imposing a long detailed form on all property owners to improve Revenue's compliance programme when there are other options ran the risk of discouraging compliance. Even with the best data, no model can be expected to accurately predict the values of all properties in Ireland. Given that a valuation model was functioning based on available information, the requirement to seek additional data in returns was reduced because it was not clear what added value would be derived for the risks that may have arisen.

15.40 The Accounting Officer stated that property valuation on the scale of an entire State is not an exact science. Neither floor area nor number of rooms is as reliable or as simple as it might appear. They raise very many definitional problems and take no account of habitable area or state of repair. The Thornhill report set out the reasons for not recommending approaches involving floor area and/or the number of bedrooms as the basis of assessment for LPT.

Expected Yield

15.41 In order to estimate the expected yield from the property tax, the Department of Finance assumed that around 16% of LPT would be unpaid each year due to properties being exempt or owners deferring payment of the tax. Based on that assumption, the Department estimated that the yield from the tax would be approximately €250 million in 2013 (and €500 million in a full year).[1] In the absence of exemptions or deferrals, the estimated tax due in 2013 would have been just under €300 million.

15.42 The Secretary General of the Department of Finance stated that the methodology used by the Department to estimate a tax yield based on property value bands was a blend of three approaches – the first used data in the Thornhill report; the second was based on data from the property price register (published by the Property Services Regulatory Authority); and the third was based on the Economic and Social Research Institute's tax-benefit model, SWITCH. He also pointed out that estimating the likely level of exemptions and deferrals on a new tax where there was neither a register of liable properties nor a register of the owners of those properties would inevitably require certain assumptions.

15.43 He pointed out that the Department had used the Thornhill report in arriving at its estimate that around 16% of LPT would be unpaid each year arising from deferrals and exemptions. He noted that the provisions of the LPT legislation in respect of deferrals and exemptions differ in some respects from the recommendations of the Thornhill report and the impact of the actual exemption and deferral provisions could not be accurately determined until the return process had been completed. Regarding exemptions, it may be the case that some property owners have not filed an LPT return to claim an exemption, under the misapprehension that they are automatically entitled to one.

15.44 As at June 2014, Revenue had granted LPT exemptions in respect of 52,000 properties – around 2.7% of the total number of properties on the register. Revenue has estimated the related tax foregone at €6 million. Deferral arrangements with taxpayers resulted in deferred collection of an estimated €4 million. The combined value of exemptions and deferrals in respect of 2013 was equivalent to 3.7% of the potential yield.

1 At a standard rate of 0.18% and 0.25% for the portion of the property valued at over €1 million.

Collection of LPT

15.45 A liable person in respect of LPT must file a return and pay the tax due. Owners of properties who are exempt or who are deferring the tax are also required to make a return. The returns for 2013 were due on 7 May 2013 and those for 2014 were due by 7 November 2013.

15.46 Revenue systems indicate that at end-June 2014, returns had been received in respect of 1.76 million properties. 149,300 returns were made in connection with properties owned by local authorities or approved housing bodies.[1] When account is taken of properties deemed to be exempt by Revenue and properties for which mandatory deduction at source has been applied, the compliance rate for 2013 (as at June 2014) stood at 93%. The compliance rate may rise as further enforcement actions are put in place.

15.47 There is no legislative provision for an exemption due to inability to pay. However, individuals on low incomes may request a full or partial (50%) deferral of the tax.[2] In addition, personal representatives of a deceased liable person, a person who has entered into an insolvency arrangement or a person experiencing financial hardship can also apply for a deferral of the payment. Annual interest of 4% is charged on deferred payments.

15.48 The deferred sum and accrued interest are attached as a charge on a property, and must be paid prior to any sale or transfer of the property. At end-June 2014, there were just over 25,000 properties with full or partial deferral of LPT payments for 2013.

Payment of Local Property Tax

15.49 By the end of June 2014, €259 million had been collected in respect of 2013 LPT.[3] After exemptions, this represents an estimated payment compliance rate of 97.4% at that date.

15.50 Taxpayers may opt to make a single LPT payment or make phased payments. For those who had opted for a phased payment by deduction at source from earnings, pensions or certain State payments or by direct debit in 2013, the arrangement continued for 2014.[4] Taxpayers who paid their 2013 tax in a lump sum were advised by Revenue to select and commit to a payment option by 7 November 2013, if filing by paper return and 29 November 2013 if filing electronically, in relation to the 2014 LPT. For 2014, the first full year of the tax

- those who opted for phased payments could spread the payment over the full year
- those who opted for payment in full by single debit authority had the payment deducted from their bank account on 21 March 2014
- property owners who paid in full by any other method were liable to pay the tax by 1 January 2014.

15.51 Figure 15.5 lists the payment options and the percentage of receipts collected for each option for 2013 and 2014, as at June 2014.

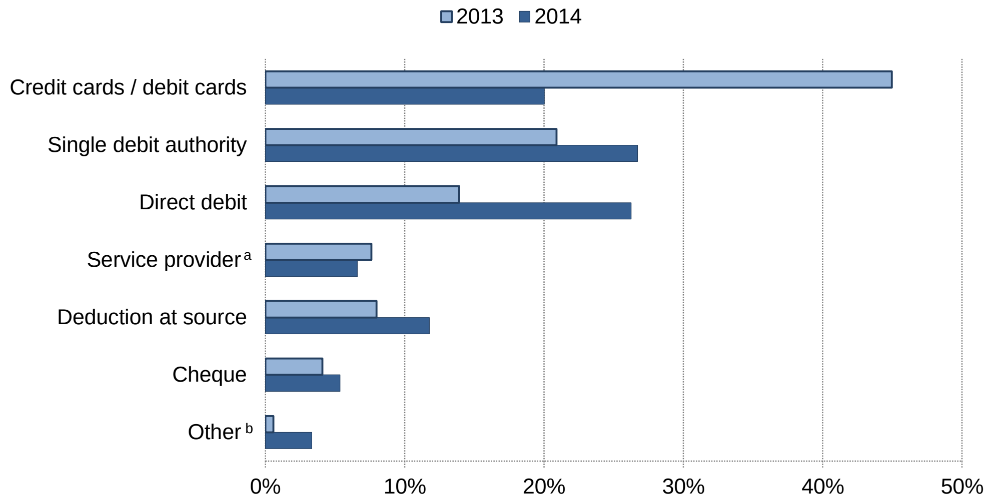
1 30,000 of these returns had not yet been recorded on Revenue's system.

2 The gross income threshold for a deferral is €15,000 for a single person or widower and €25,000 for a couple. The thresholds may be increased by 80% of expected gross mortgage interest payments for a year. The gross income threshold for partial deferral was €25,000 for a single person or widower or €35,000 for a couple and the thresholds may be increased by 80% of expected gross mortgage interest payments for the year.

3 €261 million had been collected in total, of which €2 million was in respect of household charge arrears.

4 Unless the taxpayer notified Revenue of an alternative method of payment.

Figure 15.5 Local property tax – payment options and tax receipts, at June 2014



Source: Office of the Revenue Commissioners

Notes: a Service providers are third party entities (An Post, Payzone, Omnivend and PayPoint) that facilitate the payment of LPT under an agreement with Revenue.

b 'Other' includes cash, on-line banking, using Revenue's on-line system and offsets from other taxes.

Deduction at Source – Employers

15.52 One of the phased payment options provided for in legislation was deduction at source from a person's salary or occupational pension. In circumstances where a liable person opts for this payment method, Revenue issues instructions to the employer or pension provider who are obliged to collect and account for the LPT deduction. If an employer does not carry out this instruction, the employer then becomes liable for the amount due including interest.[1] Payments are made by the employer to Revenue on a monthly basis. However, these payments are not allocated to the individual property until the employer forwards their year-end P35L return, which provides the details of the individual deductions.[2]

15.53 Revenue systems indicated that 78,000 liable persons (voluntary and mandatory) paid their 2013 LPT by way of deduction from their salary or pension, in respect of 84,000 properties. The total LPT due was €14.2 million. Revenue stated that by July 2014, €13.9 million had been paid by employers (98%) and the balance is being collected by a combination of deduction at source in 2014 or payment by the property owner using an alternative method.

15.54 Revenue stated that a review of the end of year data for 2013 commenced in April 2014 and contact was made with some employers in regard to their failure to act on the instruction to deduct LPT at source. Revenue said that a variety of reasons have emerged to date, including employers overlooking the obligation to follow Revenue's instructions, employees having left and long-term absenteeism. Revenue pointed out that the operation of deduction at source for LPT is new for employers, and it was to be expected that there would be some errors and omissions. By June 2014, 3,546 employers were identified as potentially non-compliant. These have all been contacted and responses are being followed up with employers and employees as appropriate.

1 Or pension provider.

2 Form P35L is the list on which an employer makes an annual return of income tax and PRSI particulars in respect of each employee.

Deduction at Source – Welfare Payments

15.55 14,400 liable persons opted to pay the 2013 tax by way of deduction from payments made to them by the Department of Social Protection (DSP). The number of liable persons opting to pay by deduction through a DSP payment has increased by around 75% for the 2014 tax.

15.56 In 4% of cases for the 2013 tax, the request for the deductions could not be processed. Revenue stated that the main reasons for this were that the scheme type nominated by the taxpayer was not eligible for LPT deduction or because the deduction would have resulted in the weekly DSP payment falling below the statutory limit of €186 per week. Revenue makes contact with property owners in such cases for the purpose of making alternative payment arrangements, but does not keep a count of the overall number of such cases.

15.57 Revenue stated that to date, it has made approximately 12,000 checks of issues relating to deduction of LPT from welfare payments. These interventions addressed non-payment issues arising from the selection by property owners of schemes ineligible for LPT deduction, provision of invalid personal public service numbers and shortfalls in payment and non-payment arising from the deduction limit.

Deduction at Source – Agriculture

15.58 LPT was collected from 1,800 liable persons who had opted to have their 2013 LPT deducted from a Department of Agriculture, Food and the Marine (DAFM) payment. Revenue encountered some difficulties in allocating LPT that had been deducted from DAFM payments to the correct period or properties in circumstances where more than one payment instruction was made in respect of a single property (e.g. payment instructions during 2013 for both 2013 and 2014 LPT) or where a single payment instruction was made for multiple properties. Revenue stated that it is currently working on its systems to allocate monies received to the correct periods and properties.

Compliance Activity in Respect of LPT

15.59 In cases where property owners fail to file a return, the estimated LPT notified to the property owner by Revenue becomes due. Collection of unpaid LPT may be pursued through a number of mechanisms including mandatory deduction from a person's employment income, occupational pension or certain State payments. Outstanding liabilities may also be referred to the Sheriff or a solicitor for collection or may be the subject of attachment orders.

15.60 Revenue stated that by June 2014

- it had issued over 250,000 compliance letters to property owners who either failed to file a return or to make a payment
- it had applied mandatory deduction at source to 40,000 properties where the 2013 LPT had not been paid, to 46,000 properties in respect of the 2014 LPT, and to 61,000 properties where the household charge had not been paid.

15.61 In addition, Revenue applied surcharges amounting to €2.4 million in respect of 12,253 cases. These surcharges applied to taxpayers who are required to file income or corporation tax returns but had failed to make a return in respect of LPT for residential properties they own. Revenue pointed out that compliance activity in relation to the self-employed includes the refusal of almost 10,000 tax clearance requests to persons who had not paid their LPT liabilities.

15.62 Interest and penalties may be applied in cases of late or under payment of LPT. Revenue provided taxpayers with an opportunity to correct their LPT return up to 31 March 2014, without incurring interest or penalties. The property owner had to confirm how any additional tax would be paid, and to then honour the payment arrangement in order to continue to avoid the application of interest and penalties. By the end of June 2014, 3,900 liable persons had corrected their property valuation bands upwards (see Figure 15.6). This included cases where owners corrected their valuation prior to a property disposal.

Figure 15.6 Self-correction of property valuation bands

Number of bands increased	Number of properties	Proportion of properties self-corrected upwards[a]
1	2,270	58.2%
2	831	21.3%
3	413	10.6%
4	199	5.1%
5 or more	187	4.8%
Total	**3,900**	**100.0%**

Source: Office of the Revenue Commissioners

Notes: a Revenue did not provide details of those who self-corrected valuations downwards.

Household Charge Arrears

15.63 The household charge was introduced as an interim property tax measure. It was charged on owners of residential property on the liability date of 1 January 2012. Payment of the flat-rate tax of €100 per taxable property was due on 31 March 2012, after which it increased to €130. At 1 July 2013, any outstanding household charge was converted into an LPT charge of €200, with Revenue taking on responsibility for its collection.

15.64 By June 2014, following a data matching exercise between its property register and the database provided by the LGMA, Revenue had identified around 474,000 properties on the LPT database for which the household charge had not been paid, waived or exempted. If all of these properties were liable for the household charge, a liability of €94.8 million would arise. Revenue pointed out that responses from property owners to household charge compliance letters are expected to identify exemptions, waivers, and cases where the charge has been paid, thereby reducing the liability below €95 million.

15.65 Revenue stated that all non-compliance in respect of the household charge is being addressed and that, by the end of June 2014, it had issued 426,000 household charge arrears letters in respect of the 474,000 identified properties. The letters advised property owners to make arrangements to pay the €200 arrears, or to notify Revenue if they had already paid, or are exempt or entitled to a waiver.

15.66 At end-June 2014, €25 million in outstanding household charges had been collected. In the region of €17 million of this, in respect of 106,000 properties, was received subsequent to the issuing of compliance letters in April 2014. Some of the payments were part-payment of the outstanding amounts. Revenue stated that it has used the mandatory deduction option to collect arrears in 61,000 cases.

Administration of LPT

15.67 During the audit of the Revenue account for 2013, it was found that Revenue was unable to provide a full reconciliation of the 2013 LPT receipts to the underlying taxpayer records. Revenue stated that the main difficulty in allocating some LPT receipts to taxpayer records was a result of multiple-property owners (including local authorities and approved housing bodies) making their LPT return using a listing of the properties, as they could not use the on-line filing system due to the scale of their property portfolios. It has required significant engagement with these taxpayers to reconcile the properties on the schedules to those on the LPT property register. In order to fully address the issue, Revenue stated that an IT development to facilitate an efficient means of reconciling payments against the property portfolio of large scale multi-property owners is being developed and will be in operation by end-2014. Revenue pointed out that this is an internal accounting procedure and does not impinge on Revenue's capacity to ensure that liable persons with large property portfolios are compliant. Revenue also noted that the on-line system has been enhanced to facilitate on-line filing for all Government departments and many of the approved housing bodies from 2015 onwards.

15.68 Provision of €25.9 million was made within the 2013 estimate for the Revenue Commissioners for the implementation of LPT in 2013 and a similar provision was made for 2014.

15.69 Revenue stated that a number of IT developments were essential to the success of the LPT project including the on-line valuation application, inclusion of household charge processing to collect arrears and the automation of internal work items to assist in dealing with the volume of work. It pointed out that all changes introduced for the programme were subject to the formal IT project approval process – a significant number of proposed changes were not approved during this process.

15.70 In response to a query about other Revenue IT projects deferred due to the resources and priority allocated to LPT, Revenue stated that a number of IT projects did not advance as anticipated during 2013. These included projects relating to the diesel rebate scheme, carbon tax, tax clearance and professional services withholding tax.

Conclusions and Recommendations

15.71 Revenue has been very effective in compiling the residential property register required to underpin the LPT in a short timeframe. A comprehensive register of residential property and ownership has been created. The property register is in a continuous state of change as additional information becomes available to Revenue.

15.72 The examination identified a number of areas that merit consideration by Revenue as it develops its process for ongoing maintenance of the database. We found that for some properties where the register indicated that no owner had been identified, Revenue's tax collection systems showed that, in fact, LPT had already been paid for the property. The examination also found that some changes made to the register appeared to have been made in error.

Recommendation 15.1

In order to ensure that the property register is up-to-date and that information is recorded accurately as ongoing maintenance work is carried out, Revenue should review the level of controls over the inputting and updating of information. One control that should be considered is regular comparisons of the register with Revenue's other systems.

Accounting Officer's response

Part agreed. The focus during the first year of implementation of LPT was to establish a property register and to refine the register on foot of large volumes of information received from property owners. This resulted in the alteration of many property records. Further adjustments to the register were required for the household charge project.

Systems and processes for the ongoing maintenance of the register are continuing to evolve. As Revenue moves to the post-implementation phase and as the LPT systems are fully developed, it will be possible to allocate a resource to review the tranche of properties that have not yet been connected to liable persons. This review will include the examination of any records deactivated in error.

The comparison of the LPT register with Revenue’s other tax registers is useful only where taxpayers use their property addresses for correspondence and where that address is up-to-date. Most PAYE taxpayers do not have any reason to correspond with Revenue on a regular basis and on-line filers have little reason to update their correspondence addresses. For these reasons, their records may not be up-to-date in this regard.

15.73 In making their returns, property owners were not asked to provide any information about their property's characteristics, which are relevant to property value (e.g. age of property, number of rooms or accommodation type). Many property owners (and occupiers) already provide information of this kind in filling out the census of population form every five years. While individual characteristics do not form the basis for LPT (e.g. LPT is not based on a property's floor area), if Revenue had this information for each property it would assist it in analysing and validating valuations submitted by property owners. In particular, Revenue could identify whether properties have characteristics which are likely to differentiate them from others in the area.

Recommendation 15.2

Property owners are required to estimate the value of their properties every three years for LPT purposes. Revenue should consider requiring information on basic characteristics of properties to be included in these returns.

Accounting Officer's response

Not agreed. Collection of data about individual properties was given serious consideration by Revenue at the LPT design stage and was decided against for a variety of reasons.

In addition, post-returns, Revenue has developed a process to assess and review valuation compliance and it is not clear that having this additional information on properties would offer significant assistance to the process.

Revenue is considering on an on-going basis options to improve the valuation model by capturing or collecting additional information from different sources that would place less burden on property owners. One option might be to seek information from Sustainable Energy Authority of Ireland (SEAI), which receives detailed property characteristics information through the Building Energy Rating (BER) certification process.

15.74 Revenue issued individual estimates of valuation to identified property owners in respect of 1.57 million properties, but the onus was on property owners themselves to assess the property value. Where estimated valuations were issued, two of every three properties were revalued by their owners. Overall, the declared values were lower than the estimates made by Revenue. Revenue faces a challenge in assessing whether the relative declared values in a location are reasonable.

Recommendation 15.3

In order to address the risk that property owners in a location may generally return values that are lower than the market value of their properties, Revenue should consider how it can use up-to-date technologies, including mapping tools, to compare valuations with actual sales prices of properties and other macro-economic data available to it. Revenue should also consider carrying out in-depth, on-site reviews, on a sample basis, of properties in designated areas, in order to validate the valuations submitted by property owners.

Accounting Officer's response

Agreed. Given the uncertainty in the property market on 1 May 2013, it is probable that site reviews are more likely to be relevant for one-off properties.

Revenue will be using a range of tools and data sources to assist with its evaluation for valuation compliance. This will include

- macro-economic assessment of valuations returned against third party sources of information to validate overall levels of valuations returned
- engagement with experts in this area (such as the Valuation Office) to ensure knowledge of any best practice in the field
- use of geographic information/systems driven analysis of returned valuations based on data that are geo-coded at the level of individual properties and grouped by locality (neighbourhood, small area, local authority, etc.)
- comparing returns for a property against those of its nearest neighbours and the average for the location of the property using a reporting tool developed by Revenue's Information Communications Technology and Logistics Division, in consultation with its Economic Research Branch that readily identifies properties where the return valuation differs from the neighbourhood average (this tool can be refined to identify only those furthest from the average).

15.75 The Department of Finance’s estimated yield of €250 million for 2013 was, of necessity, based around assumptions. The estimate was arrived at after assuming that around 16% of LPT would be unpaid each year due to exemptions and deferrals. However, the value of the tax foregone from properties that are exempt and the amount of deferrals claimed (combined just under 4%) are significantly lower than assumed. In the event, the yield for 2013, (€259 million), is almost 4% higher than the Department's estimate.

15.76 By the end of June 2014, the payment compliance rate for 2013 was very high, at 97%. Compliance steps taken by Revenue in regard to the 2013 tax include the application of mandatory deduction at source for 40,000 properties and the issuing of compliance letters to those who either failed to make a payment or file a return.

15.77 Revenue is actively pursuing outstanding amounts due in respect of the household charge. At end-June 2014, €25 million of these arrears had been collected, €17 million of which was received after household charge arrears letters were issued in April 2014.

15.78 The examination found that, from a sample of 50 exemptions claimed due to houses being on a designated unfinished housing estate, 40% were not supported by the available evidence.

Recommendation 15.4

Revenue should examine the validity of exemptions claimed under the unfinished housing estates category. Revenue should also consider what additional review of other exemptions claimed should be carried out.

Accounting Officer's response

Agreed. Revenue has already engaged in the process of compliance checks on exemption claims and will continue to do so across the various exemptions on a risk basis as is appropriate for a self-assessed tax. The onus is on the property owner to declare their liability to, or exemption from, LPT. The LPT Act provides for the application of penalties for false declarations. A dedicated exemption/deferral team has been established in Revenue's LPT Branch for the purpose of assessing and reviewing claims for exemption. To date, a total of 22,700 reviews of claims for exemption have been completed. It is estimated that approximately 14% of reviews relate to the unfinished housing estate category.

Work is on-going on the review of exemptions and the household charge project has brought additional scrutiny to the unfinished housing estates category. It is also clear that property owners can be confused with regard to this exemption where neighbouring properties are exempt, and some were exempt for household charge but are not exempt for LPT. As a result, contact has been made with a number of local authorities to confirm and clarify the full extent of unfinished housing estates within their catchment areas. The exemption team is currently focusing attention on a small number of large estates where the delineation between exempt and non-exempt properties is unclear.

Annex A Persons Liable for Local Property Tax

The following persons are liable for LPT in accordance with the Act

- owners of Irish residential property, regardless of whether they live in Ireland or not,
- local authorities or social housing organisations that own and provide social housing,
- holders of a life-interest in a residential property,
- persons with a long-term right of residence (for life or for 20 years or more) that entitles them to exclude any other person from the property,
- lessees who hold long-term leases of residential property for 20 years or more,
- landlords where the property is rented under a short-term lease (for less than 20 years),
- personal representatives for a deceased owner (e.g. executor/administrator of an estate),
- trustees, where a property is held in a trust and
- where none of the other categories of liable person applies, the person who occupies the property on a rent-free basis and without challenge to that occupation.

Annex B LPT Exemptions (2013)

Category of exemption	Number of properties[a]
	'000
Properties constructed and owned by a builder / developer that remain unsold	13.3
Residential properties owned by a charity or public body	7.3
Properties in specified unfinished housing estates	4.9
Properties previously occupied as sole or main residence, vacated for 12 months or more due to long-term mental or physical infirmity	4.8
Properties purchased between 01/01/2013 and 31/12/2013	2.9
New and previously unused properties purchased from builder / developer between 01/01/2013 and 31/10/2016	2.6
Properties fully subject to commercial rates	2.0
Residential properties purchased, built or adapted to make it suitable for occupation by a permanently and totally incapacitated individual	1.7
Residential properties certified as having significant pyrite damage	1.2
Registered nursing homes	0.7
Mobile homes, vehicles or vessels	0.4
Properties used by charitable bodies in connection with recreational activities	0.2
Diplomatic properties[b]	0.0
Exempt by Revenue[c]	10.0
Total	**52.0**

Source: Office of the Revenue Commissioners

Notes:
- a Revenue stated that it is reviewing the exemption categories assigned to properties on its systems and that until this exercise is complete the numbers in each category will not be finalised.
- b Exemptions were claimed for less than 50 diplomatic properties.
- c Revenue has not yet analysed these exemptions by category.

Annex C Distribution of properties by valuation band[a]

	LPT Valuation Band	Properties
	€	**%**
1	0 – 100,000	23.8%
2	100,001 – 150,000	28.8%
3	150,001 – 200,000	22.7%
4	200,001 – 250,000	10.3%
5	250,001 – 300,000	5.0%
6	300,001 – 350,000	2.8%
7	350,001 – 400,000	1.8%
8	400,001 – 450,000	1.2%
9	450,001 – 500,000	1.2%
10	500,001 – 550,000	0.6%
11	550,001 – 600,000	0.4%
12	600,001 – 650,000	0.3%
13	650,001 – 700,000	0.2%
14	700,001 – 750,000	0.2%
15	750,001 – 800,000	0.1%
16	800,001 – 850,000	0.1%
17	850,001 – 900,000	0.1%
18	900,001 – 950,000	0.1%
19	950,001 – 1,000,000	0.1%
20	Value greater than €1m	0.2%
	Total	**100.00%**

Source Office of the Revenue Commissioners

Note: a Based on 1.76 million properties.