Pre-Budget 2023 Submission

August 2022

About us

IPAV was established in 1971 as a representative professional body for qualified, Licensed Auctioneers, Valuers and Estate Agents. It is the only Irish representative body catering solely for the professional and educational requirements of Auctioneers and Valuers.

IPAV currently has more than 1,400 members nationwide and one of its primary objectives is to uphold, advance and promote professional standards and competence among its members. In 2021, the Institute celebrated its 50th anniversary, a major milestone.

IPAV operates a comprehensive system of professional education and development for existing members and for those wishing to enter the profession. IPAV introduced the 'Blue Book' European valuation standards to Ireland in 2013. This is the standard recognised by the Irish Central Bank and the European Central Bank for which it holds default status over all other valuation standards in the event of any valuation conflict arising.

IPAV works with other stakeholders and with policymakers to try and influence the development of a sustainable property market where people can buy, sell, or rent properties according to their needs.

About us

Founded in 1993, the Irish Property Owners' Association is a non-profit organisation that seeks to protect and promote the interests of private residential property owners and encourage the supply of good quality accommodation and professional standards of property management.

IPOA believe:

- In an industry that is professional, one that provides decent quality properties and high standards of property management.
- That Letting Property should be recognised as legitimate business.
- In the implementation of reasonable and fair legislation, without imposing unreasonable and impractical burdens on both owners and tenants.
- In the fair and equal tax treatment of our members comparable to other service industries and business.
- That bad practice and lawlessness should not be tolerated.
- In a fair and truthful portrayal of the business in all media.
- That education and training improve standards.

Introduction

The private rental sector is a very important sector for the State, assisting the Government in its role of providing accommodation for its citizens. It is essential that the State value and encourage investment in the sector.

The sector and its investor profile have changed significantly over the past three to four years. The traditional private investor has declined while we have witnessed the rising role of overseas funds that have been heavily incentivised by the State, through a combination of fast-track planning measures that in many cases have breached local planning guidelines without any regard to adjoining property owners' rights, through to tax free status on rental income which is in stark contrast to the tax regime in place for private landlords that sees rental income taxed at marginal rates of up to 55%.

The Government defends this policy, by stating that this private equity led supply is required due to a lack of domestic capital. When one looks at the number of apartments schemes that have been granted planning (currently in excess of 75,000), it is clear that there is now a real risk of serious oversupply of these high-end properties and the generous incentives that exist for private equity players are now no longer required. The State cannot afford to allow funds with annual rental profits of hundreds of millions of euro to operate on a tax-free basis whilst their smaller private counterparts pay tax at 55%. There is no other sector of the economy that operates a discriminatory dual taxation regime, and an urgent rebalancing of the tax code is required to ensure fairness and allow private property owners remain in business and continue to supply their much-needed stock, stock that is worth no less to the sector than that provided by the private equity players. Our submission provides solutions as to how these imbalances can be addressed on a cost neutral basis for the Exchequer.

Public perception wonders why landlords would leave when rents are at such a high level. Our appendices indicate the cashflow effect of trying to manage a property investment and show that landlords with borrowing costs are forced to significantly subsidize their investments annually. Historically landlords were satisfied to suffer the burden in the hope of securing an independent source of pension income over the long term, but the risks and exposures for landlords has changed dramatically since 2006 resulting in many deciding that the exposures and potential liabilities are not worth the investment preferring more passive, risk averse and higher yielding investments.

We have carried out extensive research within our collective membership to establish the reasons for their exit. Our analysis has concluded that a penal tax regime is the main reason landlords are leaving the market. We are satisfied that property owners would remain if the tax environment was more benign, and accordingly we urge the Government to implement fiscal policies that assist in that regard.

Government needs to take bold measures to address the supply side of the sector rather than small insignificant changes that will have little impact. Our recommendations are thus simple yet significant measures. The measures are designed to retain existing supply, stop the exodus of landlords from the market and encourage new investment. This pre-budget submission is intended to help the Government implement policies that will help create a sustainable property market and provide solutions for what is the most economically and socially challenging issue facing Ireland now.

IPAV and IPOA are determined to help the Government address the housing market challenge. It is in the interests of all stakeholders to ensure that a properly functioning housing market is enabled.

Such a market should be characterised by sufficient supply of suitable housing that is affordable; a moderation of rental price inflation; social mobility that is not constrained by housing and a high quality and sustainable housing stock that enhances the overall competitiveness of the Irish economy.

Taxation Measures

IPAV and IPOA recommend that a new rate of tax on residential rental income of 25% (inclusive of USC and PRSI) be introduced for residential rental profit to encourage private investors to stay in the market and support new investment.

This should be funded from the introduction of a tax rate of 25% for all investment funds/REITS operating in the residential rental market. It is entirely inequitable that two different investors both providing identical product and service can have such disparity in tax treatment. The small private investor is taxed at a marginal rate of up to 55% whilst the private equity fund/REIT pays 0% tax on rental profit. The loss to the Exchequer is astounding when one considers that REITs make rental profits totaling hundreds of millions of euro. The Exchequer gain from subjecting funds to a 25% rate of tax should be used to encourage small landlords to stay through a tax reduction which would allow them to remain viable and continue providing much needed accommodation. It is only just to ensure the equal treatment of investors and these measures would help with the retention and increase of supply.

IPAV and IPOA propose the introduction of roll-over relief in relation to Capital Gains tax on the sale of all assets where the proceeds are reinvested in residential property within twelve months.

This will encourage existing and new investors to reinvest in the market, in short enabling the retention of supply and incentivisation of new investment.

IPAV and IPOA call for a reduction in Capital Acquisitions Tax on the inheritance of residential investment properties.

Many families are forced to pay large CAT bills on the inheritance of residential property which forces the sale of the residential property to fund same. A reduction in the tax charge by reducing the taxable value by 90%, as applies to the inheritance of agricultural property and business assets, should be introduced for the inheritance of residential property. This will encourage current property owners to pass assets to the next generation, allow the next generation to remain in the market, and encourage other individuals to invest in the market to take advantage of the relief. This would assist with the retention of supply and incentivising new investment.

Rent Pressure Zones

Rent Pressure Zones (RPZs) were introduced in December 2016 to help control rapidly rising rents. The legislation was due to expire at the end of 2021 but has been extended to the end of 2024. It is now quite clear that the effect of the system is to vastly distort the market and to cause rents to rise. It is in the context of the effect of RPZs that the above asks on taxation are made.

Initially, rent increases of no more than 4 per cent were allowed in RPZs, but this favours landlords with higher rents. Since 16th July 2021, the 4 per cent formula was replaced by the Harmonised Index of the Consumer Price (HICP) and later still this was restricted to 2 per cent.

A recently published study by economist Jim Power and commissioned jointly by IPAV and IPOA has concluded the rental market is in a state of crisis exacerbated with the exit of non-institutional landlords in significant numbers, reducing supply and putting upward pressure on rents.

Among the study's findings were:

- The constantly changing and very challenging regulatory and taxation environment that treats private landlords very differently from institutional landlords, is largely responsible for private non-institutional landlords leaving the market;

- RPZs (Rent Pressure Zones) are creating a two-tier rental market and leading to a situation where maintenance of quality accommodation is not economically justifiable and negatively impacting on capital values where the property is the subject of the RPZ rules;

- It is likely that landlords that historically charged rents under market rate and are confined to minimal increases arising from RPZ regulation are exiting the market in greatest numbers;

- These landlords are replaced in the market in part by new properties at much higher rents and owned by institutional landlords with no evidence available to confirm if any net additional new properties have come onto the rental system;

- Rent Pressure Zone regulation has prevented rents from falling as well as rising beyond the limits set.

Rent Pressure Zones

The study said there has been a collapse in private investor participation in the market, dropping from 19.9 per cent of total mortgage lending in 2006 or €7.9 billion to 1.4 per cent in 2021 or €143 million. It concluded there has to be a move away from policies that discriminate against private landlords and which give them little incentive to participate in the rental market. “If private landlords continue to exit the market, the situation is going to get worse,” it warns.
Unfortunately, for some landlords there has been so much intervention with the legislation that they are holding properties out of the rental market fearing what the Government may do next. New legislation passed through the Houses of the Oireachtas in June 2022 which increases the notice periods for termination notices from landlords will hasten yet again the exit of small landlords from the market. Certainty is required here from government to the rental sector to gain long lost trust. The Government needs to go back to the drawing board and bring back equity to rents which now run on what is effectively a two-tier system. We need to lower the high rents and increase the low rents to bring them to open market rent levels. As long as properties are rented below market rent, it disincentivises such landlords from entering into long term leases. For long term leases, landlords would need far more confidence about their long-term prospects than they have currently.

IPAV and IPOA believe landlords in an RPZ, on re- renting their property when a tenant leaves, should be allowed to charge market rent on that property.

Pension Provision

IPAV and IPOA argue that rental income should be treated as relevant income for pension purposes. Capital loan repayments should also be available for pension relief as our analysis confirms the majority of small landlords are investing for pension purposes. This would alleviate the cash flow difficulties faced by landlords in subsidising investments and loan repayments thereby retaining supply.

IPAV and IPOA call for the rescinding of the IORP II pension regulations limiting investment by occupational or company schemes to 50% of fund assets. Private self-administered pension schemes are a valuable source of rental accommodation stock and typically the pension investors are financially aware and astute individuals that fully understand property investment and the risks associated with same. This would increase the stock of rental accommodation and allow pension investors flexibility to invest in residential property for pension provision purposes.

APPENDIX

SAMPLE RENTAL ACCOUNTS

Purchase Price €285,000. Borrowing €200,000.

Interest 4.5%. 20 Years Term Rent €1500 pm.

Cash flow		**€**
Rental Income		18,000
Less outgoings		
Capital repayments	(6,313)	
Interest repayments	(8,870)	
Local Property tax	(405)	
RTB registration	(90)	
Repairs and Maintenance	(450)	
Insurance	(450)	

Service charges	(1,200)	
Accountants	(500)	
Gardening	(520)	
Letting fee	(900)	
Management fee	(900)	
Fixture & Fitting	(750)	
Income tax charge	(1,710)	
USC - 8%	(342)	
PRSI - 4%	(171)	
		(23,572)
Net Cash (Shortfall)		**(5,572)**

Taxation

Rental Income		18,000
Less tax deductible items		
Interest repayments	(8,870)	
RTB registration	(90)	
Repairs and Maintenance	(450)	
Insurance	(450)	
Service charges	(1,200)	
Accountants	(250)	
Gardening	(520)	
Letting fee	(900)	
Fixture & Fitting	(94)	
Management fee	(900)	
		(13,724)

Profit for tax purposes	4,276
Income tax	1,710
USC 8%	342.08
PRSI	171.04
Total tax payable	**2,224**

Purchase Price €350,000. Borrowing €245,000.

Interest 4.5%. 20 Years term. Rent €2,000 pm.

Cash flow		**€**
Rental Income		24,000
Less outgoings		
Capital repayments	(7,734)	
Interest repayments	(10,866)	
Local Property tax	(405)	
RTB registration	(90)	
Repairs and Maintenance	(450)	
Insurance	(450)	
Service charges	(1,200)	

Accountants	(500)	
Gardening	(520)	
Letting fee	(900)	
Management fee	(900)	
Fixture & Fitting	(750)	
Income tax charge	(3,312)	
USC - 8%	(662)	
PRSI - 4%	(331)	
		(29,071)
Net Cash (Shortfall)		**(5,071)**

Taxation	**€**
Rental Income	24,000

Less tax deductible items

Interest repayments	(10,866)	
RTB registration	(90)	
Repairs and Maintenance	(450)	
Insurance	(450)	
Service charges	(1,200)	
Accountants	(250)	
Gardening	(520)	
Letting fee	(900)	
Fixture & Fitting	(94)	
Management fee	(900)	
		(15,720)
Profit for tax purposes		8,280

Income tax	3,312
USC 8%	662.4
PRSI	331.2
Total tax payable	**4,306**

Purchase Price €350,000. Borrowing €0. Rent €2,000 pm.

Cash flow		**€**
Rental Income		24,000
Less outgoings		
Capital repayments	0	
Interest repayments	0	
Local Property tax	(405)	
RTB registration	(90)	
Repairs and Maintenance	(450)	
Insurance	(450)	
Service charges	(1,200)	

Accountants	(500)	
Gardening	(520)	
Letting fee	(900)	
Management fee	(900)	
Fixture & Fitting	(750)	
Income tax charge	(7,658)	
USC - 8%	(1,532)	
PRSI - 4%	(766)	
		(16,121)
Net Cash (Shortfall)		**7,879**

Taxation		**€**
Rental Income		24,000

Less tax-deductible items

Interest repayments	0	
RTB registration	(90)	
Repairs and Maintenance	(450)	
Insurance	(450)	
Service charges	(1,200)	
Accountants	(250)	
Gardening	(520)	
Letting fee	(900)	
Fixture & Fitting	(94)	
Management fee	(900)	
		(4,854)
Profit for tax purposes		19,146

Income tax	7,658
USC 8%	1,532
PRSI	765.84
Total tax payable	**9,956**

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