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## *INTRODUCTION*

## *1.0 Aims & Objectives*

### Aim

To analyse the performance of tax incentive schemes and to show how these schemes have increased the supply of property both in urban and rural areas in Ireland.

### Objectives

- To introduce the reader to the selected topic and to clearly define the aims, objectives and research methodology of the project.
- Show the particular relevance of this topic to the quantity surveying profession.
- Discuss Section 23 and Section 50 tax incentives.
- Discuss Owner-Occupier type relief and the Living Over The Shop Scheme (LOTS).
- Show how the various tax incentives are calculated.
- Tax incentives and the supply of development land.
- Analyse the performance of tax incentives in the property market.
- Conclusions and recommendations.

### Subject's relevance to quantity surveying profession

The reports title 'meeting housing demand' offered our team a large number of topics to examine within the project scope. As a group we decided to tackle the issue from a national perspective, this allowed us to separate the topic up into parts selected by each member in respect of their profession. Tax incentive schemes were introduced with the sole intent of meeting housing demand, which displays the subject's relevance to the topic.

A fundamental aspect of the quantity surveying profession involves a thorough knowledge of property economics. Tax incentives were introduced to increase activity in the market by bringing both investors and developers back into the market. This

lead to a dramatic increase in the number of construction contracts, especially large-scale contracts. The increased level of activity in the market led to more jobs for construction professionals. Another point worth considering is the case where the tendering contractor is also the developer and where this is the case it is vital for the quantity surveyor/estimator to be aware of these incentives.

### The methodology for researching and preparing the report

This methodology identifies and discusses the different sources that I used for this project. My research was split into two main stages

- 1) Planning and Collection
- 2) Analysis

My sources primarily included Internet, articles from property journals and information collected from property companies.

Analysis of the relevant articles was carried out on an ongoing basis. The relevant sections were highlighted and marked accordingly.

The articles were categorized based on their relevance to a given chapter.

### Primary Source

My primary source material for this project was acquired from property agents such as Sherry Fitzgerald, Hook & McDonald and Hamilton Osborne King. They were able to give me their views on how the tax incentives have affected the market, which is one of the main objectives of my project.

### Secondary Source

As this subject is only relevant for a few years there have been no books as such written about the incentives in Ireland. Therefore my secondary research included the Internet, property journals and newspaper articles. Using these sources I was able to give an up to date reflection on the topic

**MAIN BODY**

### *Section 23 Tax Incentives*

Back in 1981 the Government, with the aim of modernizing the rental sector introduced Section 23 tax incentives for investors. Into the nineties these incentives dramatically changed the face of our city centres, especially in the city of Dublin.

#### What is Section 23 Tax Relief?

Section 23 Type tax relief provides tax relief for the capital expenditure incurred on the construction, refurbishment or conversion of rented residential accommodation (KPMG). This type of relief is a tax-deductible rental expense or loss. Any rental loss created as a result of this deduction may be set off against any other Irish rental income of the taxpayer in the current or subsequent periods. An example of a typical section 23-tax incentive scheme is given in Appendix 1.

#### How is it Calculated?

The calculation of the relief is based on a percentage (usually 80-95% or fraction (see below)) of total construction/conversion costs of the development. The percentage is the qualifying amount of the purchase price paid.

#### Example (Urban Area)

An apartment costing €250,000 which has a qualifying cost of 85% would attract a Section 23 allowance of €212,500.

### Example using Fraction (Rural Area)

Mr Smith purchases a house from a builder for €185,000

The builder's costs were:

Construction costs in qualifying period    100,000 ( A )

Total construction costs                      100,000 ( B )

Site Costs                                              50,000 ( C )

Mr Smith's qualifying expenditure is:

$$185,000 \times A/B+C = 185,000 \times 100,000 / 100,000+50,000 = €123,333$$

**(Information for both examples received from Government doc. IT 65)**

### How these incentives have affected the property market

According to Ken MacDonald of the Irish Times the rental market is now in a very healthy state. It is predicted that there will be a supply deficit in Dublin in the next few years. This should keep rents at a realistic level and the property kept in a good condition. Although I believe his opinion is valid in most areas in Dublin it does not mean it is true for the whole of Ireland.

As the scheme is coming to an end next year it is expected that there will still be high activity in this sector over the next year. The revitalisation of inner city areas has been an overwhelming success and in my opinion it would be a shame if the progress made so far were halted by the cessation of these incentives. There are still many areas of Cork, Limerick and Galway that could be rejuvenated under this scheme.

A good example of how these incentives have affected an area is the dockland area of Limerick. What was once a run-down area is now a vibrant and thriving riverside location. The success of this area is mainly due to the forward thinking of the planning authority and the incentive schemes available to the developers.

## *SECTION 50 TAX INCENTIVES AND THE L.O.T.S. SCHEME*

### Section 50

#### What is Section 50 Tax Relief?

Student rental properties in university cities like Limerick and Cork were always in short supply. This has now changed with the introduction of this type of tax relief. Limerick in particular, has had a large number of developments approved for section 50-relief. These properties are normally luxurious apartment style developments. An example of a typical section 50-tax relief property is provided in Appendix 2. Section 50-tax relief operates in the same manner as Section 23 relief but relates to qualifying student accommodation.

#### Qualifying Area

Properties qualifying for relief under the scheme should be located within qualifying areas. For the purposes the scheme qualifying areas are:

- (1) Campus areas of the educational institutions, or
- (2) Areas, within an 8 km radius of the main campus, which are approved by the certifying educational institution as being an area within which a qualifying development may take place.

This scheme is calculated in the same way as Section 23 relief, i.e. the calculation is based on a percentage (usually 80-95%) of total construction costs of the development.

**(The above information was received from Gunne Consultants)**



### How well has this scheme performed?

This scheme has been an overwhelming success in supplying student accommodation; there are now a large number of high quality and comfortable properties for students in the main cities. According to Gunne Consultants, there will be a rush to complete the schemes still running as the scheme, a long with the others will be ending in December 2004.

Although these schemes have overall been a success I decided to carry out some research into student rents in these apartments, to see if they have been affected by lower tax rates given to the developers. I have found that although the developers are profiting from these schemes, the students are not. The benefits of the tax breaks to the developer have not been passed down to the student. In Limerick the average monthly rent in section 50 built apartments is €360, this is considerably more expensive than accommodation found elsewhere in the city where the average is between €250-€300 per month.

When I asked students did they mind paying high rents, they replied that they did but at least they were getting good quality apartments with a lot of services. The facilities available in these apartments are second to none, such as cheap Internet access, low bills and a high level of security, which offset the high rents, so say the developers!

### Living over the Shop Scheme (LOTS)

#### What is the LOTS Scheme?

Increasing demand for residential property had become a major problem in the main cities. Ireland could no longer afford to allow upper floors to be left derelict.

This incentive was introduced to boost the supply of rental accommodation in major cities. 13,000 metres of street in Dublin, Cork, Limerick, Waterford and Galway were designated for the relief.

The local authority is allowed to decide which streets are to be used in this scheme.

Designations are based on proposals submitted by the county.

The incentive (100%) is the same for both new build and refurbishment projects. As well as providing incentives for existing space, incentives are also being provided for new construction to ensure that access to residential units is adequate and to allow for

the provision of essential facilities. An example of a LOTS scheme is given in Appendix 3

#### How well has the scheme performed?

This is the second time the scheme has been introduced; the previous time the scheme was used it did not work out as well as planned. Investors were scared to take up the scheme, for instance in Limerick only two developments took place. The reason for this was thought to be fire and building regulations that restricted developing the property. This time round local authorities have been holding workshops and open days to show developers that this scheme can work.

In total 1.5km of street, containing roughly 200 buildings was designated in Limerick. Most of these buildings could benefit from the tax incentives, as at least one quarter of them have at least one vacant upper floor. A planner has been engaged by the council to work specifically on this scheme in Limerick with the main aim of getting the message out.

Cork County Council have outlined a number of benefits of this scheme, these include:

- Property owners have been provided with an additional source of income to maintain the fabric of their properties.
- Visually rundown and unattractive properties were upgraded and led to an enhancement of the streetscape.
- A unique public/private sector partnership has been created with the assistance of the European Union.

**(Information received from Cork County Council Web Site)**

## *Owner Occupier Relief*

### Application in Rural Areas

It is generally accepted that rural areas have suffered particularly badly in the past decades in regard to social and economic conditions. Rural tax incentives were brought in to improve the economic and social situation of areas outside the main cities over the period of June 1998 to 31 December 2002.

The schemes cover all of the counties of Leitrim and Longford as well as certain areas in Co. Cavan, Roscommon and Sligo. The two schemes introduced were Owner-occupier and Rented residential accommodation (Section 23).

An example of a house sold under this scheme is given in Appendix 4.

### How is it Calculated?

An individual is entitled to claim the following tax relief on the construction, refurbishment, conversion or purchase of his house:

- 5% per annum of the expenditure for 10 years in respect of construction.
- 10% per annum of the expenditure for 10 years in respect of refurbishment or conversion.

The cost of the site does not qualify, and in refurbishment or conversion cases, neither does the cost of the building on which the work was carried out.

The relief is granted by either increasing an individual's tax-free allowance or by repayment of tax at the end of the year.

### Example

The construction of a new house in Co. Leitrim cost the buyers £200,000. A qualifying cost of 90% would attract an additional allowance of £9,000 (£180,000 @ 5%) which when relieved at the marginal rate of income tax would reduce the funding cost of the house by £3,960 per tax year for a period of 10 tax years.

**(Information received from IT65 leaflet)**

### *Owner Occupier Relief (Cond...)*

How well has the scheme performed?

In the rural areas the scheme has been a great success especially in the Midlands. Carrick-on-Shannon is a great example of an area where the schemes have kick started a number of developments.

When the schemes were introduced first the majority of purchasers were investors, but in the last year, increasing numbers of owner-occupiers have started to buy homes in the area. This is a huge boost to the town and the surrounding region.

(Hook & McDonald)

#### Application in Urban Areas

Both section 23 Type relief and owner-occupier relief are available under this scheme. These reliefs's have been granted to various areas around the country and are set out in Appendix 4.

*Tax Incentives and the supply of development land*

Due to the increased demand for property in Ireland the government decided to change its policy in relation to the sale of development land. In the past the taxation of gains on the selling of development land discouraged owners to sell their land (Capital Gains Tax). Changes have been made in recent times to minimise the impact of this type of taxation on the supply of development land.

Until 1<sup>st</sup> of December, 1999 businesses engaged in trading land had their gains treated as trading profits which are subject to higher rates of income tax or corporation tax. Since that date, gains made on the sale of land zoned for residential property are taxed at a rate of 20% as opposed to a rate of 40 %, which was charged in 1997. This tax is called capital gains tax.

The reduction in capital gains led to the freeing up of large areas of land for development. This year it is widely predicted that the Minister for Finance will raise capital gains tax back to the 1997 levels.

These incentives are aimed solely on the supply of land for residential development. This includes social and affordable housing development, which is discussed in another chapter of this project, and describes how all-new developments, must have at least 20% zoned for social and affordable housing.

This reduction in capital gains tax has not solved the problem of high house prices but it has helped in the removing of fiscal constraints on the provision of land for development. Which has gone a long way in increasing the supply of property.

**(Information received from the Law Society of Ireland)**

## CONCLUSION

### Summary of main points

- Section 23 was introduced to modernize the rental sector of the property market.
- The introduction of section 23 incentives has dramatically increased the supply of rental property in the city centres
- Section 50-tax relief operates in the same manner as Section 23 relief but relates to qualifying student accommodation.
- The introduction of section 50 incentives has dramatically increased the supply of student property near the university campuses
- The Living Over The Shop scheme was introduced to increase the supply of accommodation in town and city centres
- The scheme is still finding its feet, as many developers are scared away by building regulations and the like.
- Owner-occupier relief was brought in to develop both rural and urban areas.
- The scheme has been very successful in both areas.
- Capital Gains Tax was reduced to 20% to increase the supply of development land.
- Land was supplied and the government are now considering raising the rate back to the figure of 1997


### Recommendations

The tax incentives were introduced to increase the supply of property in Ireland, although this main aim has been delivered, the demand for housing is still much greater than what is being supplied. The area of demand and supply is dealt with in more detail in another chapter of this project.

Ken McDonald of Hook & McDonald recommends that Section 23 tax incentives should be extended beyond the deadline set by the Minister of finance. The completion of the redevelopment of our cities is not finished and an extension of the deadline would allow for the conclusion of these redevelopment schemes.

Although these schemes have led to a dramatic reduction in costs for developers it has not had an effect on house prices or rents. It would seem that the schemes were brought in solely for the purpose of increasing the supply and not the reduction of property prices. Personally, I believe that house prices should have fallen and developers made to pass down the benefits of tax relief to the house buyer.

**APPENDIX 1****Section 32**

<b>Property Address:</b>	Lis Cara, Carrick-on-Shannon, Co Leitrim.
<b>Category:</b>	For Sale
<b>Property Image:</b>	
<b>Property Description:</b>	Lis Cara is a superb development of Section 23 two and three bedroom houses at Carrick-on-Shannon, co. Leitrim. Situated within walking distance of this thriving provincial town. Great letting location. Full turnkey furniture package available.
<b>Location Map:</b>	
<b>Price:</b>	House - 2 Bedroom available from € 198,000 House - 3 Bedroom available from € 215,000
<b>Category:</b>	For Sale
<b>Completion:</b>	Completion from Spring 2003
<b>The Developer:</b>	Millwheel Construction Ltd.
<b>Viewing:</b>	On view Saturday & Sunday 2.30 - 4.30pm.
<b>Joint Agents with:</b>	Sherry Fitzgerald Farrell Tel 078 20976
<b>Full Colour Brochure:</b>	Available
<b>Contact:</b>	<a href="mailto:charliemc@hookemacdonald.ie">charliemc@hookemacdonald.ie</a>



## APPENDIX 2

### Section 50



Brookfield Hall is an exclusive modern development of luxury fully furnished apartments, located in the prime residential area of Castletroy, which is convenient to the University of Limerick and just three miles from Limerick City

High occupancy rates are projected due to demand (over 12,400 students at the university). Over 1,400 student accommodation places supplied by the university in its three student villages are already booked out for the 2003/2004 academic year. Their waiting lists are also closed.

Further details from: Castletroy Partnership, Tramore House, Reeveswood, Douglas, Cork  
Phone:(021)4292922 Fax:(021)4293800 Email:[info@brookfieldcastletroy.com](mailto:info@brookfieldcastletroy.com)

APPENDIX 3

LOTS



99 North Main St Cork Demonstration Project

## APPENDIX 4

### Owner-Occupier



**Price:- € 140,000**

**Description:-** Superb development of five detached private residences with extensive sites which are ideal for family/holiday use. Magnificent views over Lough Allen & surrounding countryside. Qualifies for Section 23 Type and Owner Occupier relief. Acc: Ent. Hall, Sitting, Kit/Dining, Utility, WC 3 Beds, Bath 100 sq.m. (1,076 sq. ft.) approx.

**Address:-** An Carraig, Stranagarvanagh, Ballinaglera, Co. Leitrim

### **Urban Renewal**

The areas qualifying for relief are listed below

- Dublin City –Ballymun, HARP, Inchicore/Kilmainham, Liberties/Coombe, O’Connell Street, North East Inner City
- Galway City – 3 suburban estates
- Cork City – City Docklands area, Blackpool/Shandon
- Limerick City – Parts of city centre
- Waterford City – Periphery of commercial centre
- Carlow – Carlow
- Clare – Shannon
- Cork – Mallow, passage West/Genbrook, Cobh, Bandon
- Donegal – Buncrana
- Dublin – Balbriggan, North West Blancharstown, Din Laoghaire, north Clondalkin, Tallagh
- Galway – Tuam
- Kerry – Tralee
- Kildare – Athy, Kildare
- Kilkenny – Kilkenny
- Laois – Portlaois
- Limerick – Newcastle West
- Longford – Longford
- Louth – Drogheda, Dundalk
- Mayo – Ballina
- Meath – Navan
- Monaghan
- Offaly – Tullamore, Birr
- Sligo – Sligo
- Tipperary – Roscrea, Thurlas, Carrig-on-Suir, Tipperary
- Waterford – Dungarvan
- Westmeath – Athlone, Mullingar
- Wexford – Gorey, New Ross
- Wicklow – Arklow, Bray, Wickow

**(Information received from the department of the environment)**

## Rural Renewal

The areas qualifying for relief are listed below

Carlow – Hacketstown, Tullow, Mulinbheag, Tinnahinch/Graiguenamanagh  
Cavan – Cavan, baileborough, Coothill, Ballyjamesduff  
Clare – Scarrif, Kilrush, Enistymon, Sixmilebridge, Miltown Malbay  
Cork – Cloyne, Charleville (Rathluirc), Kanturk, Fermoy, Skibbereen, Donerail, Bantry  
Donegal – Moville, Ramelto, Ballybofey/Stranorlar, Ardara, Ballyshannon  
Galway – Portumna, Loughrae, ballygar, Headford, Clifden  
Kerry – Listowel, Killorglin, Castleisland, Caherciveen  
Kildare – Kilcullen, Rathangan Monasterevin, Castledermot, Kilcock  
Kilkenny – Callen, Thomastown, Pilltown, Castlecomer, Urlingford  
Laois – Mountrath, Portarlinton, Rathdowney, Mountmellick  
Limerick – Abbeyfeale, Croom, Rathkaele, Castleconnell, Kilmallock  
Louth – Carlingford, Dunleer, Ardee, Castlebellingham  
Mayo – Ballinrobe, Claremorris, Newport, Bellmulit, Foxford  
Meath – Oldcastle, Kells, Dunleek, Trim  
Monaghan – Clones, Ballybay, Castleblaney  
Offaly – Clara, Edanderry, Ferbane, Banagher  
Roscommon – Roscommon  
Sligo – Rosses Point, Bellaghy, Charlestown  
Tipperary – Nemagh, Borrisokane, Templemore, Littleton, Cashel, Cahir, Killenaule, Fethard  
Waterford – Cappoquin, Kilmacthomas, Portlaw, tallow  
Westmeath – Kilbeggan, Moath, Castlepollard  
Wexford – Ferns, taghmon, Bunclody, Gorey  
Wicklow – Dunlavin, Carnew, Tinahely, Rathdrum, Baltinglass

**(Information received from the department of the environment)**

## Bibliography

The following research material was used to complete this topic

### Property Consultants, Direct Information & Web Sites

- ❑ Sherry Fitzgerald
- ❑ Hook & McDonald
- ❑ William Farrell & Sons Solicitors
- ❑ Gunne Property Consultants

### Newspaper and Magazine Articles

- ❑ Tax Incentives and the supply of development land – Becky Bristow – Irish Property Magazine
- ❑ Tax incentive properties – Neil Callanan – Sunday Business Post
- ❑ Tax Incentives – Sunday Tribune Supplement 09 November 2003
- ❑ Talking Property – Ken MacDonald – The Irish Times

### Web Sites

- ❑ [www.myhome.ie](http://www.myhome.ie)
- ❑ [www.viron.ie](http://www.viron.ie)
- ❑ [www.revenue.ie](http://www.revenue.ie)