

**Douglas
Newman
Good**

BUDGET SUBMISSION

SUBMITTED BY

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As Budget 2010 approaches, we wish to submit this proposal for consideration by you and your department officials as you frame what is undoubtedly the most challenging Budget in the lifetime of this, and many previous Administrations.

As I am sure you are well aware, the property market and the wider construction industry as a whole remain under severe pressure, and we believe that stimuli are required in order to breathe new life into a depressed housing market, which in turn will help generate much needed revenue for government and provide a much needed boost to the economy in the coming years.

We strongly believe that whilst an over reliance on construction help exacerbate the deep recession the country is now facing on a day to day basis, history shows that there has never been an economic recovery that has not coincided with a robust and well functioning housing market.

First Recommendation

Consideration should be given to the total abolition of stamp duty on residential property transactions, or at least a 50% reduction to the rates applicable at each band of the current structure.

As the Commission on Taxation highlighted in its recent report, "A transaction tax, such as stamp duty, discourages people from buying and selling houses, and so may discourage them from moving to areas where labour is in greatest demand. The tax works against the efficient use of the housing stock."

As the recently agreed "Programme for Government" reaffirms your commitment to move towards a wider based property or land value tax and presumably the ensuing abolition of stamp duty, the issue of exemptions from the new tax for those people who recently paid high levels of stamp duty will have to be addressed as part of the transmission mechanism from transaction tax to annual tax. In view of this, we feel there is strong justification for an immediate and complete removal of stamp duty on residential property transactions, as this will not only reduce the number of people eligible to claim an exemption from a new property or land value tax when introduced, but it will also go a long way to stimulating demand in the current market.

By examining the projected revenue from stamp duty for the current year (less than €200m in our estimation) versus the revenue it generated during the peak of the market in 2006 (€1.3bn), it seems clear to us that stamp duty has already effectively "abolished itself" and this presents a golden opportunity to take the legislative steps necessary to abolish it completely. A further benefit of acting decisively on this in the forthcoming budget would be to alleviate a potential "freezing" of the market in the period prior to transition to a wider based property tax, as we know from our recent history that this always occurs prior to any amendment to the tax treatment of property in Ireland.

If, for whatever reason, you do not see fit to abolish stamp duty entirely for the coming fiscal year, then consideration must be given to, at minimum, halving the current 9% rate to 4.5% and the 7% rate to 3.5% even as a temporary measure until the end of 2011 in order to boost the recovery needed in the property market.

Second Recommendation

The introduction of a first time buyer's tax credit or grant, of €6,000 when purchasing a new home

This policy has been pursued with great success in both Australia and the US in recent times as a way of stimulating their respective housing markets in the face of the global recession.

In Australia, whilst the system is complex, eligible first time buyers can avail of grants and "top up bonuses" worth between AUD \$7,000 (€4,358) and \$21,000 (€13,074) depending on what type of property they buy and where it is located. Larger grants are available in more economically deprived areas and areas requiring a greater economic stimulus and we believe that a similar approach in Ireland could be used as an incentive for people to consider purchasing properties in areas with the largest over supply of unsold homes or areas requiring the greatest level of urban regeneration. The Australian government extended the scheme due to its success in stimulating the re-sale market and selling standing stock in the new homes sector, Building licences increased dramatically as a result of this initiative.

In the US the "Home Buyers Tax Credit" system was also recently extended due to its success in stimulating activity into one of the world's worst hit housing markets in the current global recession. A tax credit worth US \$8,000 (€5,320) was available to first time buyers and \$6,500 (4,322) to existing homeowners for a limited period of time.

We believe that the introduction of such a policy in Ireland would not only pay for itself but provide a net revenue benefit to the Exchequer of approximately €152.4m in the form of VAT from the sale of new homes, in a full fiscal year based on the conservative assumption that at least 50% of first time buyers' purchase a new home. Indeed consideration could be given to only providing the grant or tax credit where a first time buyer purchases a new home.

Whilst the tax credit in Australia was made available for re-sale properties too we do not believe that this is necessary in Ireland.

Approximately 14,600 first time buyer mortgages per annum (source IBF)

Average price of a new home (ex VAT) €244,036

VAT on the average price of a new home €32,944

VAT from 7,300 new home sales p.a. (50% of all sales to first time buyers) €240m

Cost of tax credit or grant to the Exchequer €87.6m (14,600 x €6,000)

Net revenue €152.4m

The net revenue figure does not even take into account the plethora of other tax revenues generated from the construction and sale of a new home (Income Tax, PRSI etc) or the fact that it would greatly assist employment levels within the construction sector itself or the fact that whilst new homes prices are falling, so is the value of the VAT locked up in the unsold properties.

We therefore urge you Minister to give serious consideration to our proposals as part of framing Budget 2010, as we believe that a robust and active housing market is vital to constructing a solid and sustainable economic recovery for Ireland in the years ahead.

Yours sincerely,



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