

Finance (Local Property Tax) Act 2012

Guidance Notes on Residential Property Valuations for Practitioners



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SCSI Guidance Note

This is a guidance note. It provides advice to SCSI members on aspects of their work. Where procedures are recommended for specific professional tasks, these are intended to represent 'best practice', i.e. procedures which in the opinion of SCSI meet a high standard of professional competence. Members are not required to follow the advice and recommendations contained in the note. They should, however, note the following points. When an allegation of professional negligence is made against a surveyor, a court or tribunal is likely to take account of the contents of any relevant guidance notes published by SCSI in deciding whether or not the surveyor had acted with reasonable competence. In the opinion of SCSI, a member conforming to the practices recommended in this note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow

the guidance. Alternatively, it does not follow that members will be found negligent if they have not followed the practices recommended in this note. It is for each surveyor to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this note, they should do so only for a good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice. Also, if members have not followed this guidance, and their actions are questioned in an SCSI disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel. In addition, guidance notes are relevant to professional competence in that each surveyor should be up-to-date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

Introduction



The Finance (Local Property Tax) Act 2012 (as amended) will see home owners liable to an annual tax on their residential properties from 1st June 2013. This annual property tax will be calculated on the 'Chargeable Value' (which, in most cases, is equivalent to the 'Market Value') of the individual property and will be categorised into a number of tax bands, based on multiples of €50,000 of 'Chargeable Value'. The Revenue Commissioners will be responsible for the collection of this tax and they have produced guidance for homeowners who choose to self-assess their property in order to calculate the tax due.

As it is the homeowners' obligation to self-assess the value of their property, it may be the case that homeowners will engage the services of a competent qualified professional valuer in order to assess the most accurate 'Chargeable Value' of their property.

This Guidance Note has been prepared to provide advice to practitioners in relation to valuing property for the Local Property Tax as valuation for this type of service falls outside of the RICS Valuation Standards (Red Book).

What is the Question?

The question you are being asked is to provide a valuation in accordance with the definitions contained in the Act. Failure to understand and properly address the precise definitions may have serious professional and PI implications.

How is 'Residential Property' defined under the Act?

As defined in the Finance (Local Property Tax) Act 2012, 'residential property' means 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, appurtenant 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 for the purposes of this definition.

What does a Residential Property mean for the Local Property Tax?

A residential property means 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, appurtenant 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 for the purposes of this definition.

So how is 'Chargeable Value' defined?

According to the Finance (Local Property Tax) Act 2012, 'Chargeable Value' means the price which the unencumbered fee simple of the property might reasonably be expected to fetch on a sale in the open market were that property to be sold on the valuation date in such manner and subject to such conditions as might reasonably be calculated to obtain for the vendor the best price for the property and with the benefit of any easement necessary to afford the same access to the property as would have existed prior to that sale.

The Finance (Local Property Tax) Act 2012 outlines the 'Chargeable Value' for the "unencumbered fee simple" – this is not the same definition as 'Market Value'; however we consider it should not differ substantially except in a minority of cases (e.g. building on Grafton Street, Dublin being used for residential purposes and the higher value would be for retail). The definition ignores title defects and assumes easements. The value is for the highest possible use not the existing residential use.

The chargeable tax bands

Chargeable bands do not apply for valuations over €1m and a precise figure must be stated. The chargeable bands are set out in appendix of this document. If valuations are significantly incorrect, the Revenue Commissioners may seek an independent valuer to value the property and there is provision

for a reference to the Appeals Commissioners in the Act. By following best practice the valuer is giving the client the knowledge that should a valuation be questioned there is a documented logical valuation on file.

Why does the valuation of Residential Property for the Local Property Tax not fall under the remit of the RICS Valuation Standards (Red Book)?

The definition in the Act of 'Chargeable Value' is different from 'Market Value' as defined in the Red Book and as such would not be practical to follow the standards. There is an exclusion in the Red Book where a valuer "is performing a statutory function or has to comply with prescribed statutory or legal procedures." For this reason, the Society considers that property tax valuations are the subject of a statutory procedure where it would not be practical to follow the standard. We have to emphasise that it is good practice to comply with the

standards where possible and appropriate. The Red Book provides "special circumstances" where the mandatory application of the valuation standards may be inappropriate or impractical. Where a valuer has departed from the standards, a clear statement to that effect must be included in the terms of engagement and the report. On the whole the SCSI considers that property tax valuations are the subject of a statutory procedure in circumstances where it would not be practical to follow the standard.

How should I agree terms of engagement and what are the valuation options?

The SCSI considers that the taxpayer should have confidence in the professional they select to undertake the valuation for property tax purposes.

For values greater than €1m, a precise valuation figure must be included in the report from the valuer. In most cases, property valuations should be conducted by way of a site visit whilst

inspecting the property thoroughly in order to satisfy oneself with the 'Market Value' of the dwelling. The valuer should state in the terms of engagement what method the valuer will adopt in terms of carrying out the valuation. The particular option chosen will have an influence of the costs associated with carrying out the valuation.

Valuation Options

Site Visit Valuations

The Society of Chartered Surveyors Ireland notes The Revenue Commissioners' requirements that every property should be valued in isolation and on its own merits. In terms of best practice, site visits are the standard procedure when carrying property valuations. In almost all cases, the Society strongly recommends site visits to properties when carrying valuations with a 'Market Value' in excess of €1m.

For all valuations below €1m, the following valuations could be performed based upon the individual valuer's personal knowledge and experience of the property.

- Desktop Valuations
- Drive-by Valuations

Desktop valuations

A desktop valuation may be sufficient where the valuer is familiar with the property (for example, having sold or valued it in the recent past), therefore it may be more efficient to work

from details of the property which are recorded on file. If the house is a standard property the valuer may also be content valuing it on a desktop basis.

Drive-by Valuations

Where the valuer is unfamiliar with the specific individual property but it is standard in terms of measurement and layout (e.g. typical 3 bed semi-detached estate house), or where the valuer needs to refresh their memory, a drive-by valuation may be sufficient.

Note - The Society recommends all valuers to check with their individual Professional Indemnity Insurance provider in order to clarify insurance protection when carrying out drive-by or desktop valuations.

Comparable evidence & minimum requirements of the property valuation report

When setting out the Valuation Report for the Local Property Tax, the Society recommends the following information should be included at a minimum.

- Location map and photo
- Brief description
- Site size and building area
- Valuation approach
- Comparable evidence
- Chargeable value band

It is incumbent on the valuers' own professional ability to determine how the Valuation is addressed for properties below €1m, as the Revenue Commissioners require the homeowner to select into which band the house fits, rather than to provide a precise valuation figure. For properties above €1m, a more detailed report and a precise figure is necessary.

The Society of Chartered Surveyors Ireland recommends that the Valuer makes reference to all comparable evidence and assumptions that may have been made when arriving at a valuation.

Appendix

Local Property Tax Charge per valuation band at a tax rate of 0.18% 2013 and 2014

Valuation band	Mid-point of Valuation band	LPT in 2013 (half year charge)	LPT in 2014 (full year charge)
€	€	€	€
0 to 100,000	50,000	45	90
100,001 to 150,000	125,000	112	225
150,001 to 200,000	175,000	157	315
200,001 to 250,000	225,000	202	405
250,001 to 300,000	275,000	247	495
300,001 to 350,000	325,000	292	585
350,001 to 400,000	375,000	337	675
400,001 to 450,000	425,000	382	765
450,001 to 500,000	475,000	427	855
500,001 to 550,000	525,000	472	945
550,001 to 600,000	575,000	517	1,035
600,001 to 650,000	625,000	562	1,125
650,001 to 700,000	675,000	607	1,215
700,001 to 750,000	725,000	652	1,305
750,001 to 800,000	775,000	697	1,395
800,001 to 850,000	825,000	742	1,485
850,001 to 900,000	875,000	787	1,575
900,001 to 950,000	925,000	832	1,665
950,001 to 1,000,000*	975,000	877	1,755

*Properties valued over €1m will be assessed at the actual value (no banding will apply) at 0.18% on the first €1m in value and 0.25% on the portion of the value above €1m

Dating back to 1895, the Society of Chartered Surveyors www.scsi.ie Ireland is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in partnership with RICS, the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the world's leading qualification when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is the recognised mark of property professionalism.

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction, land and property industry.

All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and RICS, in the public interest.

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