

Housing Taxation Policy

1. Introduction

- 1.1 The main purpose of any tax is to raise revenue for the Exchequer. However, the tax system is also used to promote various economic or social objectives. This can be done by way of tax exemptions, low tax rates, differential tax rates or special reliefs and incentives. In the housing sector, there are various special tax arrangements which depart from tax neutrality and are aimed at promoting special housing policy objectives such as increasing the supply of new houses, helping owner-occupiers, increasing the supply of rented accommodation and promoting residential development in particular geographical areas.
- 1.2 It is widely recognised that specific interventions in the taxation area targeted at certain sectors of the housing market, for example, tax changes directed at owner occupiers generally or perhaps a subset of owner occupiers, such as first time buyers or residential investors need careful consideration of their implications for the wider housing market. Interventions intended to benefit one area can sometimes trigger unexpected and unplanned consequences in other sectors. Given that the construction sector accounts for about 20% of Ireland's economic output at present, and given the major risks to the economy of any volatility in this sector, caution should be exercised before launching any new interventions in this area which might tend to aggravate the risks.

2. Taxation measures directly affecting the housing market

- 2.1 Taxation measures that directly affect the housing market include:
- Mortgage interest relief for owner-occupiers with larger relief for first-time buyers;
 - Rent relief for tenants;
 - Mortgage interest relief for investors in residential accommodation;
 - Capital Gains Tax exemption for a person's principal private residence;
 - Stamp duty exemption and relief for new houses bought by owner-occupiers;
 - Stamp duty relief for second-hand houses bought and occupied by first-time buyers (note that the stamp duty exemption threshold for first-time buyers of second-hand houses was increased significantly in the 2005 Budget);
 - Dwelling house exemption for Capital Acquisitions Tax purposes;
 - Special tax regime for rented accommodation;
 - Special tax incentives for housing under the urban, town and rural renewal schemes and for student accommodation;
 - Higher rate of corporation tax for dealing in development land;
 - Rent a Room Scheme;
 - VAT where a reduced rate of 13.5% applies rather than the standard rate of 21%.

- 2.2 Specific and targeted changes were made to certain taxation measures that affect the housing market in response to the Bacon reports on housing which were produced for the Department of the Environment, Heritage and Local Government in the period 1998 to 2000. The outcome of these interventions demonstrates that there is considerable market sensitivity to changes in taxation. Specifically, tax changes such as the abolition of mortgage interest relief on investment properties and the increase to 9% in Stamp Duty on investment properties in an effort to improve the position of first-time buyers were seen to have a negative effect on the rental market and industry indications subsequently suggested that supply was threatened due to a lack of confidence in the market.

3. Housing Market Trends

Housing Sector and the Economy

- 3.1 Housing construction in 2004 accounted for a share of approximately 11% of total GNP. The sustained growth of housing output in recent years has also led to significant increases in people employed in the construction industry, from 124,000 in 1998 to 223,000 last year, growth of 88% in 6 years. Construction in the first quarter of 2005 made up about 12% of total employment, up from 8% six years ago. Furthermore, significant revenue for the Exchequer is gained from activity in the housing market. The Stamp Duty yield from residential transactions totalled €752 million in 2004. The VAT yield from the sale of new housing in 2005 is estimated at approx. €1,740m with an estimated additional €375m being raised from VAT on the maintenance and repair of all housing.
- 3.2 In the recent *Economic Review and Outlook*, the Department of Finance noted that, while the outlook for the Irish economy is one of growth, there are significant downside risks which could alter this picture. One of the key risks to the scenario is the pace at which new housing output adjusts downwards to more sustainable levels given that sector's importance in terms of real growth in the economy.

Housing supply

- 3.3 Recent Government initiatives in this area whether through the tax code or the planning system have predominantly been aimed at increasing supply. In recent years housing output has risen to record levels showing an impressive supply response to demand pressures. New home completions increased by 100% from 38,482 in 1997 to 76,954 in 2004¹. Appendix 1 details the annual statistics in relation to housing completions from 1997 to 2004. For 2005, the rate of house building continues to be strong. Figures from the Department of the Environment, Heritage and Local Government indicate that house completions for the first 6 months of this year stand at 35,307 units, compared with 35,957 in the same period last year. The number of completed homes in 2005 is likely to be around 75,000 – broadly in line with the high completion figure of 77,000 achieved in 2004. In *per capita* terms, the level of house building in the State, at around 20 homes per 1,000 of population, is about four times the average level achieved in the remainder of Western Europe.

¹ DOEHLG Housing Statistics Annual Bulletin 2004

- 3.4 Home ownership remains high in Ireland with over 78% of private dwellings in the State being owner-occupied in 2003. In the majority of other EU States the rates of owner occupancy are in the 50% to 70% range².

House Prices

- 3.5 The latest figures from the Housing Statistics Bulletin produced by the Department of the Environment, Heritage and Local Government for the period January to March 2005 show that the average nationwide price for a new home was €64,472 while the average price for a second hand home was €304,839. Dublin continues to have the most expensive house prices: new homes in Dublin cost on average €42,304 and the average cost of a second hand home in the capital was €402,698.
- 3.6 Nationally, prices for new homes increased by 11% in 2004 and by 11.2% for second hand homes during the same period. There is some evidence that price increases have begun to moderate. The Housing Statistics Bulletin for the first quarter of 2005 shows that average new house prices increased nationally by 0.8% and by 3.9% in the Dublin area during the first quarter of 2005. Prices for second hand houses showed a decline of 1.3% nationally and 2.1% in the Dublin area in the same period. (Appendix 2 sets out details of price levels on new and second hand houses for the period 1997 to 2004.) On the other hand, more recent data are suggestive of a continued buoyancy in house prices, under the influence of a range of countervailing pressures including competition among mortgage providers, the stimulus provided by 100% mortgages, and sustained demand from investors – see paras. 3.11 - 3.13 below.

First-time Buyers

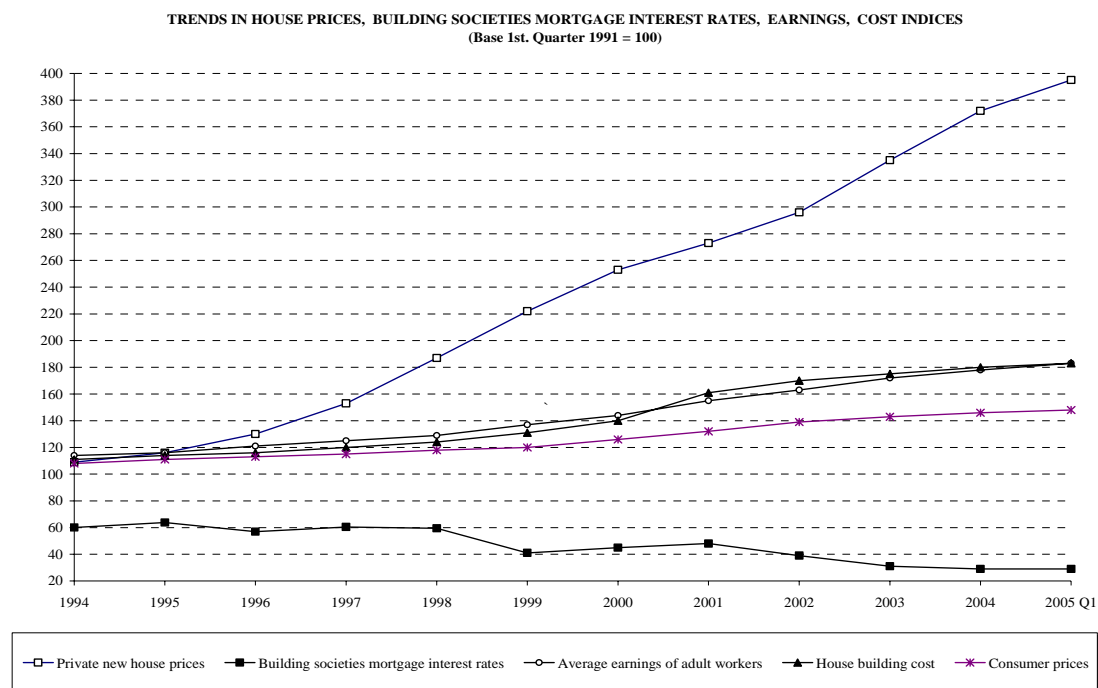
- 3.7 The available data indicate that first-time buyers remain competitive in the housing market, despite rising house prices. In relation to first-time buyers of new houses, average prices paid nationally have risen from €223,519 in Q3 of 2004 to €251,583 in Q2 of 2005; average Dublin prices for first-time buyers of new houses have risen from €294,224 to €308,170 over the same period. The first-time buyers' share of the national new-homes market has increased from 42% in Q3 of 2004 to 44% in Q2 of 2005 (the figures for Dublin are 42% and 47% respectively).
- 3.8 As regards first-time buyers of second-hand houses, the average house prices nationally have increased from €236,524 in Q3 of 2004 to €263,686 in Q2 of 2005; the average prices in Dublin have increased from €310,788 to €330,701 over the period. The first-time buyers' share of the national second-hand market has increased from 27% in Q3 of 2004 to 30% in Q2 of 2005 (the figures for Dublin are 28% and 31% respectively). These statistics are all based on estimated data supplied by the Department of Environment, Heritage and Local Government. These estimates are broadly borne out by independent market analysts³.

² Housing markets, wealth and the Business cycle in OECD countries, OECD April 2004.

³ Sherry Fitzgerald note that first-time buyers accounted for 36% of all second-hand properties sold in Q1 2005, up from 33% in Q1 2004. Hooke and MacDonald note, in their summer 2005 review, that first-time buyers continue to account for about 60% of all new properties sold in Dublin (this relatively high proportion might be attributable to the sample looked at by H&M).

Link between Price, Affordability and Supply

3.9 The following graph provided by the Department of the Environment, Heritage and Local Government in the Housing Statistics Bulletin March Quarter 2005 shows since 1994 the changes in new house prices, house building costs, average adult earnings, consumer prices and mortgage interest rates. It shows that, particularly from the 1996-97 period, the increase in house prices has greatly outpaced the increase in house building costs.



3.10 A report commissioned by the Combat Poverty Agency⁴ produced by the ESRI in 2004 examined the issue of affordability in the context of prices, earnings and the cost of servicing debt taken on for house purchase. It found that despite the significant rate of increase in prices 1995-2000, aggregate measures of affordability constructed in this way for Ireland show only a moderate worsening of the situation during the 1990s. In 2000 and 2001, the situation was somewhat worse than in the mid-90s but still reasonably low by historical standards: for example, for an individual borrowing 90% of the average new house price over a 20-year term and paying the current mortgage rate in each year, the repayments as a percentage of household disposable income rose from just under 24% in 1996 to an estimated 28% in 2003. This compares favorably to corresponding levels of over 30% in the period 1989-1991 and over 45% in the late 1970s and early 1980s.

Rental Market

3.11 In last year's TSG paper on this subject, it was noted that investor demand had increased in recent years, following the repeal of the anti-investor measures introduced in the light of the Bacon Reports on housing. It was also noted that there were indications of a softening in rents in some areas, brought about by the increased

⁴ Housing, Poverty and Wealth, Combat Poverty Report produced by the ESRI

numbers of investors entering the market. However, it now appears (based on data from the CSO and from independent analysts) that the rental market has been stabilising, with the decline in rents reversed in the first half of 2005, and there is evidence that demand from investors is still relatively buoyant. However, over the medium to longer term, it is generally accepted that the property market will decelerate. Although many industry analysts insist that the majority of investors are in residential property for long-term investment reasons rather than for short-term speculative gain, it cannot be guaranteed that investor interest will persist indefinitely at current levels, given the risks of falling rents and diminishing yields, and given the existence of investment opportunities in non-residential areas and overseas.

Latest Perspectives on the Housing Market

- 3.12 The experience of 2005 to date supports the view that the housing market is moving towards equilibrium. Most independent economic forecasters anticipate a moderation in house price inflation, and an increase of 6.5% for the year appears to be in prospect. Over time, price growth is generally anticipated to decelerate with some industry analysts projecting rates of 3% to 4% next year. A consumer survey carried out by the ESRI in February 2005 indicated that consumers generally expected prices to rise by 6.5% for the year ahead followed by about 5½% over the medium term. A more recent survey in July 2005 carried out on first-time buyers only (ESRI and Irish Permanent TSB) indicated that first time buyers were anticipating higher increases than this over the following year – of the order of about 8% or more. Indeed, latest data from Department of the Environment, Heritage and Local Government suggests continued upward momentum in house prices. Indications are that activity in this sector is being stimulated by sharp competition among mortgage providers for market share: the recent extension of 100% mortgages to first-time buyers is seen as adding to the upward pressure on house prices.
- 3.13 Data from the Central Bank also indicate strong activity by lenders. The Central Bank Monthly Statistics Report for July 2005 indicates that lending for residential purchases rose by €1.8 billion, an underlying increase of 25.3% per annum. The Bank noted that June and July 2005 “represent the two largest monthly increases in residential mortgages on record.” The total outstanding adjusted residential mortgage lending at the end of July 2005 was €87.5bn compared with a July 2004 level of €69.86 billion. Both figures were up strongly from a total of €38.67 billion at the end of January 2002. Compared with a rate of increase of 27.8% in July 2004, the annual adjusted underlying growth rate had stabilised at around 26% per cent in the first five months of this year.
- 3.14 In its 2004 Annual Report, the Central Bank expressed concern about mortgage credit growth and continuing strong increases in house prices and highlighted the risk of a significant correction in the market if house price increases nationally of the order of 14% continued. In terms of affordability, the Bank warned that there is clearly a limit to the extent that borrowers can sustain rates of credit growth that are substantially above nominal income increases while noting that the debt to income ratios of Irish households, after being significantly less than those obtaining elsewhere for many years, are now on a par with other high-income countries. The Central Bank noted on publication of its Summer 2005 Quarterly Economic Bulletin that “the easing of house price increases and somewhat reduced housing construction should, with a lag,

contribute to a lowering in private sector credit to a more sustainable pace. However, until there is more evidence of this, mortgage credit growth, while easing a little, continues to be a matter of concern. Non-mortgage lending has picked up in the recent past and a significant part of this is related to the broad property sector. This, accompanied by the mortgage credit increases, underlines the need for caution in decision making on the part of borrowers and lenders.”

- 3.15 As regards the medium-term outlook for the housing sector, there is a general consensus that a falling-off in the current high levels of activity is likely in the years ahead. The level of housing supply is projected to remain at very high levels again in 2005 (the Department of the Environment, Heritage and Local Government is currently projecting 76,000 units). However, output is well in excess of underlying medium-term demand, which was estimated recently by Goodbody Economic Consultants at 50,000 units p.a. The supply of housing must therefore decelerate to a more sustainable level over time, with excess supply helping to dampen house price inflation. However, price developments are subject to speculative demand, which makes it difficult to call the turning-point in the housing price trend.

4. International Comparisons and Developments

- 4.1 Ireland is not unique in having experienced a sustained period of house price increases and house prices have outpaced inflation in recent years in a significant number of OECD countries with the notable exception of Germany and Japan, where prices continue to fall. An analysis of international housing markets published in the Economist magazine in 2003 indicated that prices were now at record levels in relation to average wages and rents in the USA, Australia, Britain, the Netherlands, New Zealand and Spain. More recently, residential property yields have begun to fall sharply in key markets around the globe, indicating that a simultaneous worldwide slowdown in house prices is a possibility. Notably, house-price inflation in the UK has fallen from 19% to 2% over the past year, and house prices in Australia have actually fallen. In a recent research note, Lehman Brothers observed that “residential yields (rent as a proportion of capital value) are at record lows of 2.1% in the Republic, 3.4% in Britain and 1.9% in Australia. In Italy, housing yields are towards the bottom of their historical range at 3.9% and in the US the current net yield is the lowest recorded since at least 1976, although the decline there has been more gradual.” Lehman note that very low yields have predictive power in terms of house prices, but they are not predicting a global housing market crash.
- 4.2 It should be noted, however, that Ireland is dissimilar to many other markets in that it has a high rate of owner occupancy, a fiscal policy which is supportive of home ownership, strong inward migration flows and strong economic and employment growth. For these reasons, price may not be as sensitive to rents as might be the case in other countries. Domestic commentators note that investors are more responsive to the outlook for long term capital gain than short term trends in rents.

5. Recent reports and Commentaries – tax issues raised in relation to housing

- 5.1 Taxation issues raised in some recent commentaries and reports on the housing market are set out overleaf.

IMF

- 5.2 The IMF in the Concluding Statement to its 2004 mission notes that while rapidly rising property prices in the face of slow growth have been a feature of many countries recently, the Irish experience sets it apart. The Statement indicates that the dynamics of house prices have also been impacted by tax changes such as the reintroduction of mortgage interest relief for investors. Their view now is that there are good reasons to believe that the impact of these changes have worked through the system particularly in the light of the huge increases in supply. However the report does suggest that the removal of mortgage interest relief on primary dwellings and the introduction of a market-based wealth tax mentioning in particular second homes should be considered. The IMF also viewed the strong preference in Ireland for owning property as a compelling reason not to provide additional incentives in the form of subsidies to home ownership.

All Party Oireachtas Committee on the Constitution

- 5.3 This All Party Oireachtas Committee on the Constitution (APOCC) reported to the Taoiseach on Private Property in its ninth report in 2004. The report was in response to a request from the Taoiseach to the Committee to consider the present constitutional provisions in respect of property rights and specifically the necessity for updating those provisions which pertain to planning controls and infrastructural development.
- 5.4 The APOCC concluded that the 1973 Kenny Report⁵ recommendations should now be acted upon: it considered the Designated Area scheme as envisaged by the Kenny Report to be the most secure scheme both for capturing betterment for the community and for controlling the price of building land. The Committee did state that if Kenny was not to be proceeded with then an alternative set of instruments including development charges and levies, planning gain agreements, taxation instruments (from taxing the gains from increases in value to an annual site value tax) and CPO of land at existing use value should be considered. APOCC's Report was taken into account by NESC in its consideration of housing policy issues (see below).

NESC Study on housing

- 5.5 NESC published its report "Housing in Ireland: Performance and Policy" in November 2004, in line with the commitment to this effect given in the context of the *Sustaining Progress Agreement*. In the report, NESC finds *inter alia* that:-
- the housing market is dynamic, and has been characterised by a series of imbalances, including as between: demand and supply; provision of private and social housing; home ownership and rental
 - the instruments that can address the various policy challenges are to be found more in the areas of planning, urban design, infrastructural investment and land management than in manipulating tax instruments to alter the supply or demand for land or housing.

⁵ Report of the Committee on the Price of Building Land 1973

- 5.6 The NESC Report puts forward a range of policy recommendations to address the multi-faceted policy issues involved. In particular the Report recommends an increase in the social housing stock of about 70,000 units, at a cost of about €600m each year over the period to 2012. The Government has been giving careful consideration to housing policy issues in light of the NESC Report. In this context, it is notable that the Affordable Homes Partnership was launched in recent weeks by the Minister for the Environment, Heritage and Local Government, with the aim of speeding up the delivery of affordable houses.
- 5.7 On tax policy, the NESC Report does not suggest any changes to the main tax reliefs (such as the mortgage interest tax reliefs for owner-occupiers and for investors), and advises against any abolition of stamp duty, which is now the main form of property taxation and a major source of revenue. However, the Report does make the following points:-
- possible amendments to the stamp duty provisions should be kept under review
 - the Government should explore ways of providing support to those seeking to build a deposit for owner-occupied housing, e.g. by providing tax relief for a specific savings vehicle. However, the Report notes the need to have regard to the position of the housing cycle, the overall level of indebtedness and the vulnerability to interest rate changes
 - consideration should be given to the introduction of a separate tax on second homes.
- 5.8 The suggested amendments to the stamp duty provisions include: levelling the treatment of new housing (which is generally exempt from stamp duty) and old housing (which is not generally exempt); widening the stamp duty bands so that more people pay stamp duty at lower rates; and levying stamp duty on a marginal basis, to avoid 'black spots' in the price spectrum. All of these changes would involve very significant Exchequer costs and are not seen as realistic options for the present. Other changes to place existing owner occupiers in direct competition with first time buyers would inevitably remove any advantage currently being enjoyed by the first time buyers.
- 5.9 As regards the suggestion that the Government subsidise mortgage deposits, it should be noted that the SSIA savings scheme has proven to be very costly to the Exchequer. The current scheme begins to mature from 2006 onwards and the economic and budgetary consequences of any new initiatives in this area would have to be considered very carefully (note that the SSIA issue will be addressed in a subsequent TSG paper). Moreover, any scheme which provides some form of State support for the purchase of a house would inevitably lead to part or all of the subvention being capitalised into the purchase price and have an inflationary effect on prices. As outlined earlier, great caution should be exercised to avoid policy initiatives that might further stoke house price inflation, given the current state of the housing market and the exposure of the economy in this regard.
- 5.10 As regards the suggested tax on second homes, it should be noted that, at present, development levies are increasingly being used by local authorities to recover the full costs of services from owners of second homes. If set at an inappropriate level, a tax on second homes could adversely affect the supply of rented accommodation. A similar tax was introduced in Finance Act (No. 2) 2000 to come into effect the

following April. However, it was abolished in Finance Act 2001 as it was considered to be a deterrent to an increase in housing supply particularly in the rented residential sector. In considering any proposal of this nature, it would be necessary to consider the possible impact not only on the demand for such houses but also on the supply of new residences and on employment and output in the construction sector generally. Finally, it should be pointed out that the tax treatment of second-hand homes is already significantly less favourable than the tax treatment of primary dwellings. For example, mortgage interest relief is not available for second homes (unless they are rented out); capital gains tax arises on the sale of a second home; and stamp duty is levied on new homes that are not owner-occupied. In current economic circumstances, such a suggested tax is not regarded as an appropriate policy option.

6. Possible Tax Interventions in the housing market

Stamp Duty on Residential Property

- 6.1 Several changes were made to the stamp duty arrangements for residential property in recent years for housing policy reasons. The present position is that new residential property up to 125 square metres is exempt from stamp duty where it has been purchased by, or on behalf of, persons who will occupy it as their only or principal place of residence. Partial relief is granted in respect of new residential property which is greater than 125 square metres where it has been purchased by, or on behalf of, persons who occupy it as their only or principal place of residence.
- 6.2 The 2005 Budget introduced a stamp duty relieving measure for first-time house purchasers who are owner-occupiers of second-hand houses by increasing the stamp duty exemption threshold for such purchasers from €190,500 to €317,500 and by having reduced rates for house values up to €635,000. This relieving measure was intended to further assist affordability for first-time buyers and help some first-time buyers to afford a starter home who might not otherwise be able to do so. It was also intended to help in opening the second-hand market more to first-time buyers who had been increasingly deterred by the impact of stamp duty. As the discussion at paras. 3.7 and 3.8 above illustrates, first-time buyers have remained significant players in the housing market – both new and second-hand – into 2005. The Budget 2005 stamp duty measure for first-time buyers was estimated to cost €60 million in 2005 and €63 million in a full year and was expected to benefit over 8,000 people.
- 6.3 The table below shows the current stamp duty rates applying on the transfer of second-hand residential property.

Price Band	First Time Buyer Rate	Other Owner Occupier /Investors
Up to €127,000	Exempt	Exempt
€127,001 to €190,500	Exempt	3%
€190,501 to €254,000	Exempt	4%
€254,001 to €317,500	Exempt	5%
€317,501 to €381,000	3%	6%
€381,001 to €635,000	6%	7.5%
Over €635,000	9%	9%

Stamp Duty Yield from Residential Property

- 6.4 The following table details the yield from stamp duty on residential property over recent years:

<u>Year</u>	<u>Yield (€m)</u>
1997(est.)	194
1998(est.)	213
1999(est.)	263
2000(est.)	282
2001	265
2002	349
2003	528
2004	752

Threshold crossing in the context of rising prices

- 6.5 Apart from the 2005 Budget stamp duty changes for first-time buyers, the previous changes made in stamp duty rates on residential property were in the context of Finance Act (No. 2) 2000 and Budget 2002. As house prices have increased since then, this would have resulted in some houses 'crossing thresholds' in the context of stamp duty, making the increase in stamp duty payable higher than house price inflation. This has particularly been the case in the context of owner occupiers, other than first time buyers, purchasing second-hand houses, as their rates have been unchanged since 15 June 2000. For example, between June 2000 and March 2005, the cost of an average second-hand house in Dublin rose by 63%, from €247,039 to €402,698. This meant that the stamp duty payable on an average house in Dublin rose by 206% for such other owner occupiers (i.e. from €9,882 to €30,202).

6.6 *Stamp Duty Options*

Given the supply and demand factors in this market there is no guarantee that the tax revenue foregone by reducing the rates or increasing the thresholds for owner-occupiers would fully accrue to the purchaser as there would most likely be some consequent increase in house prices. For that reason, one option would be to leave the stamp duty rates and thresholds unchanged for the present, but to keep them under review. If, however, the current exemption limit of €317,500 for first time buyers was to be further increased to, say, €350,000, the estimated full year cost of this option would be around €5.5 million per annum and would benefit a further 500 first time purchasers. If there was an abolition of stamp duty for first time buyers, the cost would be around €8 million per annum involving some 2,500 purchasers in a year.

Other Options

- 6.7 Other tax proposals in this area include the introduction of a tax on second homes and an increase in the rate of Capital Gains Tax (CGT) on land. The issue of a tax on second homes is addressed at 5.10 above. As regards CGT, the current rate of CGT on land is consistent with the 20% rate of tax on all capital gains. The reduction in the CGT rate has been part of the general policy of lowering tax rates and a broader tax base, and indeed has been successful in facilitating economic activity and generating extra revenues. To amend the rate in respect of CGT for land transactions alone would run counter to current Government policy in this area.
- 6.8 More generally, in order to have the desired effect, such measures would have to depress to some extent the level of demand for housing. In the past Government

interventions in the taxation of housing to depress demand in one sector of the housing market have had adverse affects on other sectors of that market. A case in point is the removal of mortgage interest relief in 1998 followed by the increase in stamp duty to 9 per cent for investors in 2000. This had a knock-on effect on private sector tenants who were faced with a shortage in rental accommodation and a rapid increase in rents.

- 6.9 Many economic commentators have expressed the view that the housing market is approaching a degree of equilibrium in that supply is beginning to match the demand for housing. At this stage of the property cycle it is must be carefully considered whether or not the overall market would be best served by interventions that decrease demand or affect supply. Again the point that the wider impact on the market must be considered and the impact that such measures would have on confidence in the property market given current prices, levels of consumer debt etc. would also need to be borne in mind.

7. Housing Aspects of the Consultancy Studies of Various Tax Reliefs

- 7.1 There are additional tax incentives for housing, both rented and owner-occupied, in the four area-based renewal schemes, i.e. the Urban Renewal Scheme, the Rural Renewal Scheme, the Town Renewal Scheme and the Living Over the Shop Scheme. There is also a special scheme for third level student accommodation. The housing aspects of all of these schemes will be commented upon in subsequent TSG papers, including as regards any proposals for changes or for transitional measures relating to the 31 July 2006 deadline for qualifying expenditure.

8. Preliminary Conclusions

- 8.1 In light of the above analysis, the following preliminary conclusions appear warranted:-

- The Irish economy is significantly exposed to fluctuations in the construction sector; the pace at which the housing market eases to sustainable levels is identified as a key downside risk to the outlook for future economic growth.
- Caution should be exercised before adopting any policy measures which could tend to exacerbate house price inflation. While there have been some preliminary signs of a moderation in house price inflation, the mortgage market is very competitive at present and the effects of 100% mortgages are likely to be inflationary. The danger is that a further stimulus to house price inflation at this time could aggravate the economic impact of the expected future downturn in the sector.
- Data indicate that first-time buyers are competing effectively in the housing market. The higher stamp duty threshold for second-hand houses, introduced in Budget 2005, has undoubtedly assisted in this regard; although another way of looking at this is that the value of the stamp duty relief has simply been capitalised into higher house prices paid by first-time buyers and by buyers generally.

- The main stamp duty policy option at this stage is whether to increase the €17,500 threshold for first-time buyers of second-hand houses to say €50,000, to take account of the continued increase in house prices. Given the need to avoid further upward pressure on house price inflation, and given the robust performance of first-time buyers in the marketplace, it is not considered appropriate to pursue this policy option at this stage.
- The option of a tax on second-hand homes, as suggested for consideration by NESC, is not considered appropriate for reasons outlined in para. 5.10.
- In conclusion, it would appear appropriate to refrain from introducing any new tax interventions affecting the housing market in this year's Budget.

8.2 It may be useful for the Group to have a discussion on the current position in light of the analysis and preliminary conclusions presented.

APPENDIX 1

Data from Department of the Environment, Heritage and Local Government, Annual Housing Statistics Bulletin 2002, 2003 and 2004

Year	Number of House Completions
1997	38,842
1998	42,349
1999	46,512
2000	49,812
2001	52,602
2002	57,695
2003	68,819
2004	76,954

APPENDIX 2

Data from Department of the Environment, Heritage and Local Government, Annual Housing Statistics Bulletin 2002, 2003 and 2004

Year	New House Prices (€)		Second Hand House Prices (€)	
	Nationally	Dublin	Nationally	Dublin
1997	102,222	122,036	102,712	131,258
1998	125,302	160,699	134,529	176,420
1999	148,521	193,526	163,316	210,610
2000	169,191	221,724	190,550	247,039
2001	182,863	243,095	206,117	267,939
2002	198,087	256,109	227,799	297,424
2003	224,567	291,646	264,898	355,451
2004	249,191	322,628	294,667	389,791