Property Tax Reform: The Northern Ireland Experience

William J. McCluskey and Nigel D. Woods

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Abstract

This paper reviews the strategic approach, the policy development and the implementation of a major reform to the residential property tax in Northern Ireland. This reform, the first in some 150 years, was seen as fundamental in addressing many of the structural weaknesses and inequities of the previous property tax. The strategic approach to the review was to adopt a five stage process, including determining the facts and key issues; the development of policy options; consultation; decision making; and finally implementation. A key theme throughout the whole process was open consultation and communication with all the stakeholders, particularly taxpayers. The policy development process mainly examined the alternatives to the then existing rental value assessment basis for the residential property tax. An option was to adopt the banded value approach used in England, Scotland and Wales. The government ultimately decided to adopt an approach based on the discrete capital value of the dwelling. Implementation involved: preparing and passing the necessary legislation; the revaluation of all the dwellings in the Province (approximately 700,000), the previous revaluation being in 1976; and the subsequent publication and notification process for the new values, which contained a number of innovative elements.

This paper has evaluated the reform and identified a number of key lessons including, political buy-in and leadership, external inputs, time frame and the taxpayer notification and enquiry process. These key lessons whilst some are unique to the reform in Northern Ireland could be important for other jurisdictions considering major property tax reforms.

About the Authors

Dr William McCluskey (corresponding author) is a Reader in Real Estate and Valuation at the School of the Built Environment, University of Ulster, Northern Ireland. His major areas of research include the development and application of automated methods of valuation, property tax policy and aspects of public finance. He has published the results of his research in journals such as *Government and Planning, Land Use Policy, Journal of Real Estate Literature, Journal of Property Tax Assessment and Administration* and *Journal of Property Investment and Finance*.

University of Ulster
School of the Built Environment
Jordanstown
Co. Antrim
N. Ireland BT37 0QB
UK
E-mail wj.mccluskey@ulster.ac.uk

Nigel Woods is a Visiting Professor at the School of the Built Environment, University of Ulster, Northern Ireland. He was Commissioner of Valuation for Northern Ireland from 1998 to 2007, in charge of the rating assessment and appeal processes, as well as all other government valuation tasks. Since retiring in 2007 he has lectured regularly at the University and undertaken various consulting assignments, mainly in the field of property tax policy.

University of Ulster
School of the Built Environment
Jordanstown
Co. Antrim
N. Ireland BT37 0QB
UK
E-mail nigel.d.woods@btinternet.com

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Property Tax Reform: The Northern Ireland Experience

Introduction

Over the last several decades there has been an array of different tax reforms around the world. According to Alm et al (2006) major tax reforms have been undertaken in China, Colombia, Indonesia, Jamaica, Russia and for the most part in many of the countries of Central and Eastern Europe. Tax reform can involve a single tax such as Income Tax, Value Added Tax and of course the Property Tax as well as a more comprehensive reform of the entire tax system. Bahl (2006) comments that tax reform is not easily defined: he suggests that changes could deal with rates, tax base as well as special treatments of taxpayers and the tax objects. When one looks at the reforms that have involved the property tax there are several levels of reform: from the minor adjustments to legislation and policy to more fundamental root and branch reviews. In terms of the latter, South Africa, Philippines, Ontario Canada, and Slovenia are good examples. Northern Ireland in terms of the scale of its property tax reforms would equally fit into the category of major reform. Bahl (2006) takes the view that a comprehensive tax reform is a formal investigation of the tax system, by putting every piece of the tax structure on the table for review and puts each at risk in terms of being a candidate for reform; asks how the tax achieves desirable objectives when measured against desirable norms and includes consideration of administration, implementation and monitoring.

Undertaking major reforms of an existing property tax is not something that a government or jurisdiction will engage in lightly. Whilst there may be the opportunity for significant gain, there will inevitably be significant pain. Therefore, the old adage would still seem to apply, 'if it's not broken, why fix it?'. Assuming that it is broken a programme of review and reform normally is required. Clearly, one of the fundamental questions that requires answered, is 'why is the reform needed?' Before political support can be harnessed this question needs to be fully explored with solid, empirically based research that gives unequivocal and demonstrable answers. At this stage there may be no solutions, but that is what the reform process should be designed to deliver.

The reform process should have a beginning but even more importantly an end. Time may be of the essence but it is critical for a successful outcome that the reform processes are conducted logically and coherently, and this takes time. The process in Northern Ireland began in 2000[1] and substantially finished in 2007[2]. One could argue that it should have taken less time but the reality is that fundamental reform cannot be rushed.

Northern Ireland is part of the United Kingdom; it has a population of 1.7 million[3] and elects 18 Members to the UK Parliament at Westminster; it also has its own legislative assembly that is responsible for most central government functions such as health and education. Importantly however, in the context of this paper the only tax raising power of the Assembly is the property tax or rates: income, sales and all other taxes are "reserved" matters dealt with at Westminster. Local government consists of 26 district councils with limited functions.

1 The reform only began in earnest in 2002; a major problem was that devolution was suspended in 2003 which led to inertia in decision making
2 Other aspects of the reform including reliefs and the taxing of vacant property were finalised subsequent to 2007
3 2001 Census, Northern Ireland Statistics and Research Agency

Rates in Northern Ireland are levied both by the Assembly and the District Councils, the Regional and District Rate. Rating revenue (rates is the term given to the property based tax) from both the domestic and non-domestic sectors represents upwards of 60% of the total revenue to district councils. Prior to the review, residential property rates were based on the Net Annual Value (NAV) of individual properties with the bill being calculated by multiplying the NAV by the Regional and District rate poundages. Revenue derived from the district rates is allocated to the district councils and used to fund council services; whilst revenue raised from the regional rate is earmarked for the central government and used as a contribution to fund public services provided by government. District rate income raised in 2001-02 was £241m, whilst some £311m was yielded for the regional rate (DFP, 2001). The tax base consisted then of some 700,000 residential and 75,000 commercial properties.

The two main drivers for property tax reform in Northern Ireland were: the deficiencies within the existing residential rating system; and secondly, the need for government to raise sufficient revenue to meet increased public expenditure. In short, the system had to be made fairer, in order to raise more money from it.

In relation to the first aspect, to making the system fairer, the residential sector was valued on the basis of rental values prevalent in the late 1960s, the last revaluation having been published in 1976. Therefore, residential assessed values were outdated, with significant anomalies in the way they distributed the rate burden: inequities had built up over the years with the loss of a clear relationship between rate bills and assessments of value (DFP, 2001). In addition, and not surprisingly the then present system did not Target Social Need[4] as the distribution of the rate burden tended to fall disproportionately on those on low incomes (NIA, 2001). Also, it lacked clarity and transparency given that the assessed values in the valuation list were somewhat artificial and not easily understood by the ratepayer.

In respect to the second aspect, raising more money from the system, the Programme for Government in 2000, essentially the business plan for the Executive, put in place arrangements that would ensure that the rates provided an adequate level of funding for public expenditure and that there was an equitable distribution of the rate burden particularly on households. As a consequence the Programme for Government[5] set out the need for the Review of Rating Policy. Subsequently, the scope and terms of reference for the Review were agreed by the Executive in 2001.

When launching the document, the then Minister of Finance and Personnel, Dr Sean Farren, said[6]:

> "The Executive decided to embark on this review in recognition of the fact that the present system is unfair, out of date and does not meet our current needs. The subject is not easy to address: it is complex and provokes strong reactions…Any proposals for a local taxation system, which is what the rating system is, will touch the lives of all the

4 The stated aim of New Targeting Social Need (New TSN) was to tackle social need and social exclusion in Northern Ireland by targeting efforts and available resources on people, groups and areas in the greatest social need.
5 Details on the Programme for Government can be found at www.pfgni.gov.uk
6 *Northern Ireland Assembly Official Report*, Monday 27 May 2002, available at http://www.niassembly.gov.uk/record/reports/020527.htm#4

households and businesses in Northern Ireland. Therefore, we have been mindful of the consequences of radical change.

> I have been asked why the Executive cannot be more imaginative in seeking ways of raising local revenue. I have been asked why we have to look to the rates. The answer is that we do not have to restrict ourselves to rating property. However, our options are limited by the Northern Ireland Act 1998 – we cannot readily introduce anything like income tax or VAT.

> More importantly, international experience tells us that almost all developed countries continue successfully to operate property-value-based local taxes to help pay for local services. The consultation paper focuses on such systems, but other ideas are not ruled out, providing they can be easily administered, are stable, recurring, and fair to all, and do not have undesirable economic, social or environmental effects."

Dr Farren also explained some of the problems with the rating system[7]:

> "The present domestic rating system is very hard to defend. In presenting the options in the paper, we have included a dispassionate description of the existing system. However, it is quite difficult to find any defense for the existing domestic system. It does not target social need. On the contrary, in the distribution of the tax burden, it tends to disadvantage the less well off. Although there is a gradual upward curve, the amounts levied flatten out quite markedly for those in more expensive housing. Therefore, ratepayers with low incomes that are just above the housing benefit threshold pay more than they would do under a fairer system. In taxation language, the system is not progressive. The valuation list is relatively flat and discriminates little between market levels and sectors. A revaluation is long overdue."

As indicated, the Review was to assist the Executive[8] to put in place arrangements that would ensure that its responsibility and powers for regional revenue were used to best effect. It addressed the following aims for the system of local taxation:

- to yield revenue at levels appropriate to local needs and comparable with other regions;
- that a fair share of the tax burden should be borne by households and businesses;
- that the impact of the system should be consistent with the Executive's priorities and policy objectives;
- that it should provide an effective and appropriate means of financing local government ;
- that it should be a transparent and readily understood system that can improve local accountability; and
- that the system should be capable of contributing to particular economic and social objectives.

7 *Northern Ireland Assembly Official Report*, Monday 27 May 2002, available at http://www.niassembly.gov.uk/record/reports/020527.htm#4

8 At the heart of the system of government in NI is an Executive consisting of Ministers from various parties insuring representation by both sides of the historical religious divide.

Additionally, the Executive launched the Reinvestment and Reform Initiative[9] in May 2002. A central part of that Initiative was that the Executive would have, from 2004-05 onwards, a new power to borrow to finance infrastructure investment with the loans being paid for by additional local revenue. The Minister[10] made it clear that this power could only become a real option if a reformed and fair system for local revenue was in place and that the Review of Rating Policy was at the heart of this issue. Thus the focus and purpose of this Review was to move towards a local revenue system that was fair and takes account of the wider economic, social and environmental policies in the Executive's Programme for Government. Having a fair system was fundamentally important if the Executive and the Assembly were to choose, from 2004-05 onwards, to raise more locally to finance reinvestment in ageing infrastructure including hospitals, schools, public transport and water and sewerage systems. Thus through this Initiative there was the opportunity to create linkages between the reform of the rating system and the need to promote infrastructure investment in Northern Ireland. The Government decided to proceed with identifying a balanced package of measures to reform the domestic rating system to make it fairer, more open, easier to understand and acceptable as a means of sustaining local revenue generation in the 21st century.

The rationale for this working paper is to outline the various stages that resulted in delivering a successfully reformed residential property tax in Northern Ireland. The actual reform process was broader than just the assessment basis for residential property as it included a number of inter-related aspects such as:

- method of valuation;
- capping and minimum payment;
- transitional arrangements;
- provision of reliefs;
- rating of vacant domestic properties;
- appeal system;
- frequency of revaluations; and
- valuation assumptions.

Whilst these aspects individually are important the key element of the reform was the change in the basis for residential assessment and it is this element that the working paper focuses on.

The reform review followed a pre-determined process based on a number of Stages. Therefore it is would seem reasonable to follow the same approach when giving a broad overview of the whole process. The five key stages were as follows:

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9 2 May 2002 the Prime Minister, the Chancellor of the Exchequer, the First Minister and the Deputy First Minister announced a Reinvestment and Reform Initiative for Northern Ireland.

10 Minister of Finance & Personnel, Dr Seán Farren MLA

Stage 1	Facts and Issues
Stage 2	Development of Policy Options
Stage 3	Consultations
Stage 4	Decision Making
Stage 5	Implementation

Stage 1 - (Facts and Issues)

The objective of this stage was to provide some initial factual analysis and research surrounding the identification of the main issues and to confirm a range of policy options to be considered in the Rating Review.

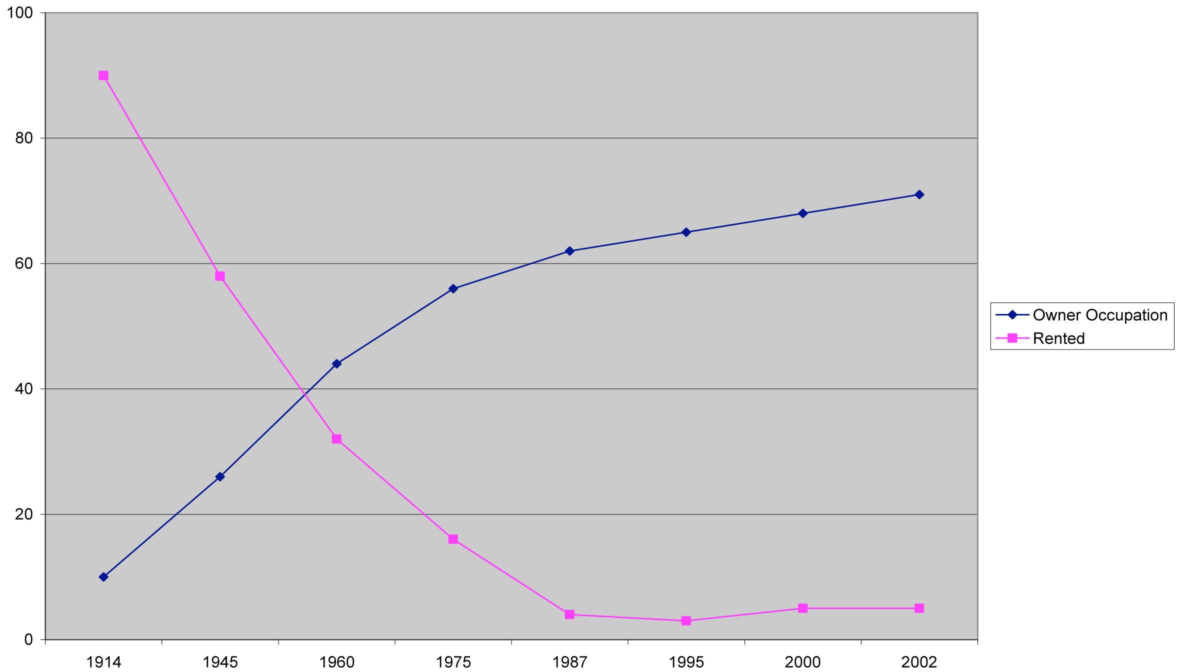
The pre-reform residential rating system

The rating system as used in the Northern Ireland, as in other places throughout the world is a taxing mechanism to distribute the cost of government and primarily local government among a group of taxpayers. Identifying taxpayers within an ad valorem property tax is normally a relatively simple exercise, in that it is either owners or occupiers of real property who are liable. Essentially, the rating system is based on a measure of a taxable property's value with tax liability being affected in proportion to the value of the property. Rating is based on determining the Net Annual Value (NAV) of a property and then multiplying this assessed value by the rate in the pound to get the tax/rate liability. Property rates are value based; therefore, to ensure an equitable distribution of the overall rating burden assessed values must be seen to be fair. Rates redistribution is needed when assessed values have moved out of line with underlying property values therefore necessitating a revaluation or re-assessment of each taxable property.

The pre-reform basis of rating in Northern Ireland for both domestic and non-domestic properties had its origins in 19th century legislation. The established basis since 1852 had been to determine the assessed value of taxable property on its letting value or net annual value[11]. The use of rental value as the basis of rating had a long tradition throughout Ireland and Great Britain. As most property in the 19th and early part of the 20th century's was rented there was a body of transaction evidence upon which to objectively determine net annual values. At the outset of the reform there was a dearth of suitable comparable rental evidence, which significantly weakened the case for a continuation of a rental based domestic rating system. As Figure 1 illustrates, there had been a significant structural change in the tenure of domestic property since the early 20th century. The predominance of owner occupation was therefore of fundamental importance when considering the future basis of the rating system. A critical success factor for a rating system is to ensure that the assessed values are supportable and ultimately defensible by reference to a body of open market comparable evidence. Therefore, there should be a relationship between the rating basis and the predominant form of property tenure. In simple terms, if the property market for a particular asset class is on a rental or capital basis then there is justification that the rating basis should emulate this.

11 Valuation (Ireland) Act 1852

Figure 1: Trends in levels of owner occupation and private rented



Source: Derived from Northern Ireland Housing Statistics

In the Northern Ireland context the domestic property market is dominated by capital sales as opposed to rental transactions. From this perspective alone one could conclude that the domestic rating basis should be predicated on capital values.

Ratepayer understanding of the rating system is of fundamental importance to its efficient administration. It is not possible to state with any degree of certainty what the level of understanding was for the then existing system. Whilst there was a high level of compliance (97%) this may have been the result of other factors rather than an in-depth understanding of the rating basis[12] such as, the relatively moderate size of the average tax bill, which if expressed as a percentage of the average house prices was 0.5 or half of 1%. It would be safe to say, however, that one would reasonably expect ratepayers to have a better comprehension of the capital value of their property as opposed to the hypothetical rental value.

There were significant anomalies in the way the previous rental based system distributed the rates burden, for example, limited progressivity at the high value end. There were also issues of comparability of domestic taxes between Northern Ireland and Great Britain (the average Council Tax Bill per chargeable dwelling for England was £741, whilst the comparable figure for Northern Ireland was £414 (2001/02). This disparity did suggest there was potential for increased revenue however, there were strong economic arguments for not moving to full parity such as lower average incomes and lower house prices.

As stated, the Review of Rating Policy had as its terms of reference a number of key issues, one of which was to investigate the opportunity for increasing locally based revenue (DFP, 2001).

12 Rates Collection Agency

The Northern Ireland revenue level needed to be locally acceptable and relative to the other regions of GB. Given that under the Northern Ireland Act most issues of taxation are 'excepted matters' there was no opportunity to interfere with national taxes such as income taxes, capital taxes, VAT, and Stamp Duty. This left the most feasible area for consideration to be a property based tax.

The initial review indicated those property tax options, not to be taken any further as possible solutions and those worthy of further study. Those considered but rejected included: site vale rating; a lump sum tax such as the Community Charge also called Poll Tax; property transaction charges (as they would too closely resemble Stamp Duty); and a charge based on a property's area or based on a property unit (not really applicable given the mature nature of the property market in Northern Ireland). The options identified for further analysis included: (1) the status quo or do nothing (retention of the current historic rental based system); (2) a modern rental value approach; (3) discrete capital value approach; and (4) a banded value system similar to that used in the rest of the UK for Council Tax[13].

Stage 2 - Development of Policy Options

The key components at this stage were the consideration and appraisal of the policy options (as identified in Stage 1) and the development of a set of recommendations for government. The options would require testing against the following main principles or requirements for a 'good' rating system:

- The revenue yield should be adequate;
- The distribution of the tax burden should be equitable;
- The incidence of the tax should consider the impact point at which the tax is imposed but also its effective incidence;
- There should be minimum interference with economic decisions in otherwise efficient markets;
- Revenue should be stable and certain;
- The tax structure should not threaten overall fiscal targets and its impact on benefit and rebate expenditure should be taken into account;
- The system should permit fair and non-arbitrary administration and it should be understandable to the ratepayer;
- Administration and compliance costs should be minimized as far as possible; and
- It should be difficult to evade.

Source: DFP (2004)

13 The Council Tax is effectively a property tax that is based on a number of value bands and is used in England, Scotland and Wales.

As previously mentioned the scope of the Review was constrained by the Northern Ireland Act 1998. Under this legislation most issues of taxation are beyond the powers of a local administration and there can be no interference with, or duplication of the national taxation system. This effectively ruled out alternative options such as a local sales tax or local income tax. The Northern Ireland Act (1998) essentially gave the Assembly limited scope to raise revenue, therefore, the focus of the reform was on the annual property tax – rates. Therefore, under this stage the key policy choices lay between keeping the existing assessment system or moving to one based on capital values, with or without banding.

The view stated in the Stage 1 Report – Review of Rating Policy (DFP, 2001) - was that keeping the existing system had the merit of being low cost, however, the system was regressive and since the assessed values had not been updated for over 30 years significant anomalies existed. Retaining a rental value based approach but with updated assessments, had the attraction of the greater inherent stability in rental values as opposed to a capital values. However, the main drawback of this approach was the shrinking rental market and consequently the limited open market rental transactions upon which to defend the valuation list. Adopting discrete capital values had the advantage of ample transaction evidence and being more readily understood by the ratepayer. It was the most widely used system internationally and modern statistically based valuation techniques could be employed.

The final option for consideration was a variant on discrete capital values, namely banded capital value. This was the approach used in the rest of the UK following the introduction of the Council Tax in 1993 and has the advantages of cost effective assessment and being relatively easy to implement. On the downside it is regressive requiring restructuring in terms of the number of bands and adjustment to the multiplier to achieve a more progressive tax system. The detail of the options were included in a consultation document a Review of Rating Policy (DFP, 2002) which formed part of the major consultation exercise covered in Stage 3.

Additionally and critically, any new system was required to meet the equality impacts and the objectives of the New Targeting Social Needs (TSN) legislation.

Table 1 shows an initial assessment of how each of the three policy options would address the criteria of an efficient property based tax.

Table 1: Assessment of Domestic Options with Tax System Criteria

Criteria	Historic Rental Value (Status Quo)	Modern Rental Value	Discrete Capital Value	Capital Value Banding
Adequate Revenue Yield	Increasing the yield would expose serious anomalies	Yes	Yes	Yes
Equitable Distribution	Poorest; regressive and causes major distributive anomalies. Not TSN positive	Moderate; more progressive, though higher earners pay proportionately less.	Best; progressive. Likely to be TSN positive	Good; provides stepped progression, however, inadequate at the top end. Imposes a ceiling for the most expensive houses. Those near bottom of bands may feel unfairly treated
Minimum Interference in Markets	None	Unlikely to affect housing market significantly	Could have slight moderating affect on house prices at top end of market, though unlikely at current tax rates.	Unlikely to affect housing market. Top end effect would be insignificant due to highest band being open ended
Stability and Certainty	Yes	Yes	Slightly more volatile than rental basis	
Should facilitate/ not interfere with Policy Objectives	Neutral	Neutral	Neutral	Neutral
Non-Arbitrary Administration	Moderate; evidence used is comparable assessments	Poor; insufficient evidence to construct and defend a new Valuation List	Best	Moderate; setting of bands is evidence based but calibration of bands is arbitrary
Transparent and easily understood	Worst; poor public understanding	Better public understanding	Best	Better public understanding
Low Administration and Compliance Costs	Lowest; no revaluation required	Moderate	Highest	Moderate
Difficult to Evade	Yes	Yes	Yes	Yes

Source: *DFP (2004)*

Stage 3 - Consultations

Carrying out an effective consultation programme was required under legislation to ensure that all interested parties and key stakeholders had an opportunity to contribute to the process and the appropriate time to respond. The consultation process had to be widely based, with emphasis on taking opinions outside of government and on both the proposals and options.

The background documentation to the consultation process highlighted the fact that the last revaluation of residential properties was in 1976 and was based on rental values. It was not considered viable to continue to use rental values, either historic or modern, because of the changes in housing tenure over the past 60 or so years, with high levels of owner-occupation (see Figure 1). The more feasible alternative was to change the basis of assessment to capital value i.e. the estimated sale price. The Consultation Paper presented a choice of using discrete capital values, where each property is given an individual value, or a banding system, where properties are grouped into different ranges of values.

The Consultation Paper on Review of Rating Policy was issued for public consultation in May 2002. The consultation document provided information on the existing rating system and discussed various options for change. The primary purpose of the Consultation Paper was to invite views from as many interested parties as possible to inform future policy: it was essential to seek ideas and test the acceptability of a range of proposals that could affect the majority of households in Northern Ireland.

The consultation process was advertised widely in the local press. A series of public consultation events and meetings took place during 2002[14]. The Consultation Paper was available on the Internet with the Web site being accessed on over 19,000 occasions, including 9,000 requests for downloading the document. A further 1,800 copies of the printed Consultation Paper were circulated to a variety of interest groups and individuals. The closing date for written responses was originally September 2002 but this was extended subsequently to October 2002 for District Councils and Assembly Committees to allow for further consultation because of the summer recess period[15].

The findings from the public consultation were published in the Public Consultation Report (DFP, 2002). On the Key Issue: “Should a capital value based system be examined in detail (individual or banded) for domestic properties?” - there was a substantial body of opinion in favour. Interestingly, no one suggested the retention of the existing system. It was recognised by many that, because the domestic element of the Valuation List was long out of date, significant anomalies had built up in the way the rate burden was distributed, making the then current system unfair. There was general agreement that a capital valuation based system would be fairer.

The point that over the preceding fifty years, there had been a substantial increase in owner occupation within the domestic sector (see Figure 1) was recognised. For this reason, many felt

14 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/10_june_2002_farren_encourages_full_turnout_for_rating_review_seminars.htm
15 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/17_september_2002_farren_in_final_appeal_for_views_as_rating_seminars_draw_to_a_close.htm

that the concept of the capital value of a property was more readily understood than its rental value. As to be expected it was also recognised that there were a much higher proportion of capital value transactions in comparison to rental transactions. It was argued by several respondents that it was therefore easier, from a valuation perspective, to obtain and maintain up to date information on capital values.

For all these reasons, overall opinion was strongly in favour of a move from rental to capital values for the domestic sector: bodies voicing this opinion included, the Committee for Finance and Personnel, the Committee on the Administration of Justice, the Northern Ireland Local Government Association and the Valuation Professions, as well as by the majority of those who spoke at the public conferences. No other alternatives to a capital valuation system emerged from the public meetings.

Feedback from the consultation process while clearly in favour of reform in the broad direction of a domestic rating system based on capital values, it was not however still not clear whether this should be based on a banded system or on individual assessment. The Minister noted that there were complex issues surrounding the choice of system and commissioned further work and analysis on the options[16].

The next stage would be to develop clear options for policy development. All key proposals had then to be subjected to New Targeting Social Need and Equality Impact Analysis, given that the reform was likely to give rise to a significant redistribution of the rating burden and the consequent need to avoid hardship to vulnerable groups.

Stage 4 - Decision Making

The objective of this stage was to make specific recommendations to the Executive based on the analysis drawn from Stages 2 and 3, with the aim of obtaining final decisions on way forward. The Policy Paper 'Reform of the Domestic Rating System in Northern Ireland: A Fairer Share', published in July 2004, assessed the various options for a new system based on capital values. It is important at this stage to be reminded that the overall aim of the Review of Rating Policy was to improve the rating system so that the powers and responsibilities for regional revenue of the Government could be used to best effect. There was a clear need to ensure that any new system distributed the rate burden among householders in a fairer way; was capable of yielding appropriate levels of income; had an impact that was consistent with the Government's priorities; and was readily understood and accountable.

As noted based on preliminary investigations and the evidence obtained from the consultation exercise undertaken in Stage 3 the Government took the decision to move to a rating system based on capital values. However, a decision on the method of assessment remained outstanding, whether to adopt a system of individual assessment or a banded approach similar to the Council Tax system used in the rest of the United Kingdom. Whilst both systems have administrative advantages and disadvantages they do give rise to quite different effects in terms of distributing

16 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/05_december_2002_the_price_of_a_house_will_be_a_fairer_measurement_of_rates_from_2006_-_pearson.htm

the rate burden. Research undertaken by the University of Ulster – '*Examination of Options for a Capital Value System*' provided the empirical evidence to allow recommendations to be made to the Executive.

The analysis by the University of Ulster indicated that a discrete capital value system in Northern Ireland would be more progressive than a banded system. This meant that those in higher valued properties would pay a greater amount of rates under a discrete system than they would do under a banded system. Based on the evidence, a discrete system was also likely to be more New TSN positive and easier to understand. Further analysis carried out by the University suggested that the owners of lower value properties were likely to fair better under a discrete capital value system. **A key political factor was that in revenue neutral terms a clear majority of taxpayers would either pay the same or less under such a system.**

Both the banded and individual assessment approaches met a number of the key criteria for a property tax system such as revenue yield, stability and difficulties with evasion (see Stage 2). Tables 2 and 3 summarise the general advantages and disadvantages of the systems as set out at the time.

Table 2: Advantages and Disadvantages of Banding

BANDING – Advantages
Fairly easy to understand by the taxpayer.
Straightforward to implement. In Great Britain, wide banding reduces the need for individual property valuations and therefore is administratively less costly and difficult to contest. However, in Northern Ireland the narrower range of house prices (compared to Great Britain) would require individual valuations to be carried out before placing properties into bands.
Properties of similar value have a similar tax burden.
A robust and stable system capable of containing relatively small property value movements.
The system can be modified to make it more progressive. A change in the width of bands and the ratio used could reduce somewhat the regressive nature of banding.
The system is restrained and recognises the 'benefit/ use of services' principle.

BANDING – Disadvantages
A regressive tax, which takes a smaller proportion of income as property value increases. To increase progressivity requires more and narrower bands, which in turn requires increased valuation accuracy, negating the main benefit of banding.

Tax burden is increased on lower valued properties while simultaneously reduced on higher valued properties.
With Northern Ireland's lower range of house prices, the bands will be narrower. Decisions at the margins of bands become more contentious given the potential for significant changes in tax liability as a result of band movement, which could lead to a higher number of appeals.
Possible negative New TSN and equality impacts.
Safeguards are needed for individuals who are least able to pay, affected by the poverty trap or are asset rich/income poor.
Caps the top end of the property market. This avoids high bills for those at the top end of the property market, while redistributing the rating burden towards lower valued properties.
System uses arbitrary levers (bands, band widths, range, relationship between bands, multipliers) to restrain the range of payments. This gives increased complexity to the system.
The banding system would have to be overhauled at every general revaluation.

Table 3: Advantages and Disadvantages of discrete capital value assessment

DISCRETE CAPITAL VALUE – Advantages
Easily understood by the taxpayer
Defensible and directly geared to capital value.
Robust tax base due to the availability of market evidence.
Likely to be positive in terms of New TSN.
The adoption of a proportional rate ensures an objective distribution of the local taxation burden.

DISCRETE CAPITAL VALUE - Disadvantages
Weak correlation between benefits received and tax liability.
Relatively expensive to set up but not excessively so compared to banding (see Table 4 above).

The initial appeal rate could be high.
Significant changes in the property market will not be reflected in the local taxation system unless there are frequent revaluations.
Safeguards are needed for individuals who are least able to pay, affected by the poverty trap or are asset rich/income poor.

Source: *Reform of the Domestic Rating System in Northern Ireland: A Fairer Share, Policy Paper, DFP, (2004)*

As already clearly stated the available options for reform were essentially two fold, an individual discrete assessment or a banded approach. Analysis and research undertaken as part of the policy development process highlighted that there were likely to be a number of difficulties with a banded approach. One of the key concerns was its regressive nature and the potential for negative New TSN and equality impacts. Modifying the structure to make it more progressive by increasing the number of bands would lead to a system that was unlikely to work in practice because of the narrow band widths and the differences in tax bills between bands all increasing the risk of a high number of appeals.

The alternative approach was one based on individual capital value assessments. This is by far the most frequently used basis of local taxation for residential property around the world. The empirical evidence indicated that this would result in a more equitable system than banding, with the better-off paying more towards the provision of local services. This would ensure a fairer distribution of the local tax burden, with rate liability varying in proportion with property value. On the whole the implementation of an individual capital value assessment as a means of local taxation was likely to be both equitable and impact positively upon those on lower incomes.

Analysis on the likely impact of an individual capital value system showed it to be more positive, in terms of New TSN, than banding. In accordance with the statutory duties contained in Section 75 of the Northern Ireland Act 1998, the Department of Finance and Personnel had to carry out an Equality Impact Assessment (EQIA) on each policy or group of co-joined policies where screening has indicated that there may be significant equality implications. Policy making must have regard to the need to promote equality of opportunity between the following categories of persons:

- Between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- Between men and women generally;
- Between persons with a disability and persons without;
- Between persons with dependents and persons without.

Without prejudice to the obligations above, any public authority in Northern Ireland must also have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group. An Equality Impact Assessment aims to identify whether, within each Section 75 category, the policy under consideration creates differential impacts between groups (that is, is one group affected more or less than another?) and whether those impacts are adverse, having an unfavourable impact or have the potential to enhance equality of opportunity between groups.

The EQIA process is a key part of public policy development and decision-making in Northern Ireland. The outcome of this assessment, including the 12-week consultation, was designed to inform the direction and development of policy for this important area of reform.

Given the positive outcome under the EQIA process the Government decided to proceed with a system based on individual capital values[17]. While the majority would benefit from the reformed system it was recognised that some households would have to pay more. The Government therefore accepted in principle that there may be a need for a transitional scheme to ease the burden for those most affected by the revaluation on a discrete capital value basis[18]. The exact nature of any transitional arrangements could not, however, be finalised until the revaluation had been completed.

Summary of the Key Reforms

The following lists the key reforms associated with the review of the domestic rating system and developed under Stages 1-3.

- The basis of the new system was to be on an individual assessment of the capital value of every residential property in Northern Ireland using sales evidence from the housing market;
- The objective was to publish a new Valuation List based on this approach in April 2006 with the new system taking effect from April 2007;
- The provision of an enabling power that would allow a maximum and/or minimum payment to be set when the exact impact of reform was known, if deemed necessary by a future Executive;
- Regular revaluations to be carried out, initially every five years, in order to ensure that the system is up-to-date and reflects changes in the property market;
- Transitional arrangements to be introduced to assist those who might experience large increases in their rate bill under the new system;

17 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/20_march_2003_surveys_for_new_tax_based_on_market_values_under_way.htm
18 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/03_march_2003_pearson_sets_out_the_case_for_a_new_domestic_property_tax.htm

- A rate relief scheme to be introduced to assist those on low incomes who are just above the housing benefit[19] threshold but might experience real difficulty in paying their rate bill under the new system. This would be distinct from transitional arrangements;
- People with a disability and whose property has been modified as a result would be eligible for a standard 25% reduction in their rate bill;
- The provision of an enabling power to cater for taxpayers that are asset rich and income poor that would allow a deferment scheme for owner-occupiers of pension age to be introduced, if deemed necessary by a future Executive; and
- A new appeal process would be established, incorporating an initial informal review stage, a formal review by the Commissioner of Valuation and an appeal to a new Independent Valuation Tribunal.

In conjunction with announcing the key decisions the Finance Minister, Ian Pearson MP, announced that the responsibility for producing the capital values lay with the Valuation & Lands Agency (VLA)[20]. He commented that:

> 'We need good data on capital values and the work on revaluing residential property in Northern Ireland has begun. VLA have set themselves the goal of producing house values that will achieve credibility with householders and from what I have seen here today of the preparations being made I am confident that they will succeed. Systems are being developed that can produce accurate valuations using the Agency's unique database that already holds the details of all houses and apartments in Northern Ireland. The market analysis tools the Agency are developing are among the best available globally, and far ahead of anything else in the British Isles at this time.'[21]

The next stage involved implementation, which essentially had three key elements: firstly, legislation to underpin the main recommendations; secondly, production of the assessed capital values for the then some 700,000 residential properties in Northern Ireland: and thirdly, publishing the final values and dealing with the subsequent enquiry and objection processes.

Stage 5 - Implementation

As with the whole process this next stage was overseen by the Department of Finance and Personnel who established a Programme Board and an associated full blown programme and project management structure to lead and manage the implementation of the policy. . There were three key projects involved in the implementation programme to firstly, develop and enact the underpinning legislation; secondly, deliver discrete capital values for the 700,000 residential properties in the Province; and thirdly, develop a public relation strategy to deal with information to be given to ratepayers and mechanisms to handle informal reviews and objections to the new assessed values.

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19 Housing Benefit is a scheme whereby ratepayers can be given financial help with their rates through rebates.
20 The Valuation & Lands Agency, which is an agency of the Department of Finance & Personnel,
21 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/03_march_2003_pearson_sets_out_the_case_for_a_new_domestic_property_tax.htm

Legislation

Underpinning the reform and ultimate implementation was key legislation giving force to the final recommendations. The target date for the reforms to take effect was 1 April 2007[22]. To achieve this target, a number of important legislative and administrative tasks had to be completed during 2005-06.

The situation in Northern Ireland was additionally complicated by the fact that the Assembly had been dissolved for an indefinite period and legislative power returned to Westminster[23]. It was clearly the Government's aim to restore devolution to Northern Ireland as soon as possible and if that happened it would then fall to the new Executive to consider the outcomes of the consultation on the policy. Under Direct Rule, the draft legislation would be processed under the Order in Council procedure at Westminster. This would include a 12-week consultation period on the draft Order, which would then be debated at the Northern Ireland Grand Committee before being laid for approval by both Houses of Parliament. It was envisaged that this process would be completed during the first half of 2006.

If devolution were to be restored at any stage during this process the policy and legislative proposals would require Executive approval. Legislative proposals would be issued for consultation purposes and subsequently introduced into the Assembly. Given the complexity of the subject matter under either a direct rule or devolution scenario, it was difficult to be exact in the early stages about the likely form of the legislative proposals and the related timing of each of the key legislative stages.

After the legislation received Royal Assent, the new Valuation List could then be published in April 2006 and allow domestic rate bills to issue in April 2007 based on the proposed reforms. In the event there were several pieces of legislation needed and approved under Direct Rule including: The Rates (Amendment)(Northern Ireland) Order 2006 No. 2954; The Rates (Capital Values)(Northern Ireland) Order 2006 No. 611; and The Rates (Amendment)(Northern Ireland) Order 2004 No. 703.

The Revaluation Exercise

A brief outline of the valuation process concluding with some key learning points highlighting some of the unique aspects of that exercise follows. follows. A detailed expert paper on the valuation exercise was published by Gloudemans and Montgomery (2008).

The task to be undertaken as indicated involved the revaluation of some 700,000 residential properties in Northern Ireland and was the first revaluation based on capital value: the last revaluation based on net annual values was completed in 1976.

22 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/02_february_2006_rooker_reviews_progress_on_capital_value_rating_plans.htm
23 The Assembly was suspended on 14 October 2002 and devolution restored on 8 May 2007

The Valuation and Lands Agency (VLA), which was later amalgamated into the newly created Land and Property Services (LPS), completed the revaluation over a three-year period with assessed values being published in the summer of 2006. The revaluation used modern mass valuation techniques and achieved or exceeded the recognized international quality benchmark statistics.
The three main elements of the revaluation process dealt with here are firstly, the statutory basis of valuation and value assumptions; secondly, data preparation; and thirdly, the valuation. The following gives a broad outline of these key elements.

Basis of Valuation and Value Assumptions

Fundamental to the revaluation project was the establishing of a clear and concise definition[24] of capital value. While in many jurisdictions case law has established the detailed legal definition for taxable value Northern Ireland had the opportunity to proscribe certain matters. Therefore, in addition, to the basic value definition a number of assumptions aimed at making the system equitable, fair, efficient and consistent were prescribed in the legislation[25]. The main valuation assumptions for Northern Ireland are:

- The interest sold is the fee simple absolute with vacant possession;
- Free from any encumbrance;
- The internal repair and fit out is assumed average for type and location; and
- Development potential should be ignored.

The repair and fit out provision was introduced for two reasons: to avoid the necessity for internal inspections for all properties and the need to make small differentials between very similar properties. Interestingly, this unique assumption was included in the consultation process and accepted by the public as fair and reasonable.

Data Preparation

Sales Inspection
The Valuation and Lands Agency developed a fairly standard approach, establishing a Sales Inspection Database – (SID) to record domestic sales information, e.g., sale price, sale date, new-build/second-hand sale and other physical characteristics (Gloudemans and Montgomery, 2008). This was a fundamental part of the pre-modelling process and involved the recording on SID all sales, which were then subject to an inspection and verification process.

Data Cleansing
The domestic property data stored on the VLA's then existing system had never been subjected to any form of mass analysis/valuation. Analyses indicated patterns of data inconsistencies and inaccuracies that had to be addressed. Extensive validation checks were introduced to address

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24 Article 8 of the Rates (Amendment)(Northern Ireland) Order 2006 states that the '..capital value of a hereditament shall be the amount which, on the assumptions mentioned in paragraphs 9 to 15, the hereditament might reasonably have expected to realise if it had been sold on the open market by a willing seller on the relevant capital valuation date.'
25 Article 8 of the Rates (Amendment)(Northern Ireland) Order 2006

obvious errors and a large proportion of the errors that would have been significant at the modeling stage were identified.

Data Enhancement

The CAMA techniques (multiple regression analysis) employed by VLA relied heavily on being able to precisely locate subject properties. Geo-codes for every domestic property were supplied by Ordnance Survey Northern Ireland. Other supplemental data such as, grade (quality of construction), external repair (condition), site-positive influences, and site-negative influences were deemed important and collected for all properties, an extremely resource intensive exercise.

Market Area and Neighborhood Delineation

The modeling approach that was adopted delineated Northern Ireland into 25 geographical regions, called Market Areas and for CAMA modeling purposes each of these was further delineated into neighborhoods (920 in total). In Northern Ireland, Census Output Areas were used as the building blocks for producing neighborhoods. These are small geographical regions, typically containing 125 households, and were by and large created by merging post code areas (analogous to zip or postal code areas in the United States and Canada).

Valuation

Pilot studies were used with the overarching aim to identify a CAMA process that would produce acceptable results that met international standards. An important objective was to estimate the time and resources required for the actual modeling and review effort and as such the pilot study was indicative of this as well as affording the opportunity to test the efficacy of the models.

A common problem faced by CAMA modelers is ensuring adequate representation through sales data. In essence, the sample of property sales information should reflect the significant features of the entire housing stock to which CAMA is applied. The four domestic property classes are detached, semidetached, terrace, and apartment, although apartments were not included in the CAMA process. The measure of representation adopted considered how many properties of each class existed in each neighborhood and depending upon neighborhood, an appropriate number or proportion of sales evidence was deemed necessary.

A neighborhood that required more market evidence were topped up with “beacons,” whereby professional valuers completed single-property valuations in areas where sales evidence was low. The utilization of beacon values was quite an innovative solution to address the representativeness of the sales data within neighborhoods. In all, approximately 47,000 sales and 11,000 beacons were used in the revaluation.

Models used sales from January 2002 through June 2005. The pilot study revealed that multiplicative models were more accurate and therefore they formed the basis for the revaluation project. GIS software was also used to produce value estimates based on the most comparable sales (or beacons) identified for each subject property. VLA staff field-reviewed value estimates for problems and inconsistencies. Final sales ratio analyses indicated that all 25 market areas exceeded IAAO ratio study standards in terms of both level and uniformity (Gloudemans and Montgomery, 2008). During the value review phase, a significant number of modeled capital values were changed. However, the vast majority were small changes with over two-thirds of the changes required the modeled value to be adjusted by less than 10 percent.

Key Learning Points from the Valuation Project

The revaluation represented an opportunity for the government valuation department (VLA) to complete a new revaluation using internationally recognized mass valuation/appraisal techniques and methodologies. In undertaking the project the VLA sought and received valuable assistance from other jurisdictions and in particular the leading professional body in the CAMA field, the International Association of Assessing Officers (IAAO). The possibly unique and key learning points were:

- Taxpayers recognized and accepted the common sense in adopting some broad assumptions on internal repair and fit out for similar properties in same locality, rather than trying to make minor adjustments for factors such as the bathroom and kitchen fittings, the value of which is often purely subjective.
- For modeling purposes neighborhoods and market areas can be developed from existing census delineations, at least in urban areas. Recognising however that ideally, the preferable approach would be for valuers to construct neighborhoods geospatially based on market knowledge and free from any constraints imposed by the census output areas.
- Beacons values provided by qualified valuers can supplement sale prices in neighborhoods for property types with few or a low proportion of sales.

Public Interface Project

Early in the process the VLA established a Public Interface Project (PIP) to handle the issues around the publication of the new valuation list of capital values. The main aims of the Public Interface Project was to provide residential ratepayers with open and transparent access to all policy and property information relevant to the domestic revaluation. To develop a citizen service strategy that would give ratepayers access to the Valuation and Lands Agency for the speedy resolution of queries following the publication of assessed values. The outcome sought was to create high credibility for the new assessment system while at the same time maintaining the high compliance and low objection culture that surrounded the existing system.

The main objectives were therefore:

To ensure widespread public acceptance of the valuation list

This aspect was fundamental as it focused on explaining why there was a need for a revaluation and why the move to capital vale assessment was necessary. Details on how the revaluation was carried out provided the necessary transparency of processes and procedures.

To provide written notifications of capital values to all domestic ratepayers within 2 months of the draft valuation list being published

The rationale for this objective was largely based around recommendations from Focus Groups. Given the number of assessment notices their delivery was phased in over an eight week period.

To effectively manage multi-channel access for ratepayers to VLA staff and information following the publication of the draft list.

Facilitating easy contact with VLA was designed to give ratepayers several options including, telephone, e-contacts, mail and face-to-face ‘walk-in’ discussions.

To minimise the number of informal reviews and appeals

Research indicated from an international perspective that following a revaluation, particularly after a lengthy period of time, or following a change in the basis of assessment, an appeal rate of 6-10% could be expected (University of Ulster, 2005). On this basis it was estimated that some 140,000 ratepayers would query their assessment (20%) and 9% or 65,000 appeals would result.

In pursuit of these objectives the following processes and mechanisms were employed:

Publicity

- Focus groups. The PIP planned and established focus groups conducted by invitation, across Northern Ireland. An independent consultancy firm was commissioned to facilitate the events and tasked with gaining advice from the public on the amount of information that the VLA should provide and develop and gauge the understanding among the general public of the domestic reforms and the VLA’s role in the change. These steps were seen as improving the openness of government with the general public and provided an opportunity to assess the privacy concerns that may arise from the domestic rating reform. A clear message from the focus groups was that ‘money’ - the effect of the new values on bills and not ‘values’ was the key element. As a result of this critical feedback the notification leaflets included indicative rate bills.

- Information leaflets to all 700,000 domestic properties (June 2006) illustrating the need for the reforms as proposed[26].

- DVDs to explain the revaluation process proved extremely useful particularly for media briefings and were also posted on the VLA website.

- Revaluation effects analysis showing where taxpayers would be paying more or less because of the new values, were produced at various geographical levels. This provided key information and addressed ‘head-on’ inaccurate or sensationalist headlines and importantly allowed for identification of “winners”. The “losers” in terms of tax redistribution inevitably seek and usually get wide press coverage while the “winners” do not – given the underlying objective of improving fairness in the system highlighting those benefiting from increased progression was important.

- Information packs for politicians

- Ministerial press releases

- Press briefings for local and regional newspapers, TV, radio. Packs for journalists

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26 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/14_june_2006_changes_to_rating_in_northern_ireland.htm

- Notification Letters on capital value issued to all 700,000 residential properties. These letters included an estimate of the capital value and some basic property data held by VLA such as type of property, size, heating system, garage details and importantly as indicated above following the focus group process an estimate of an indicative rates liability

- Website development which included the assessed values for all residential properties, revaluation effects, on-line facility to request an informal review, DVDs explaining the revaluation process and a series of FAQs

- Call Centre. Multi-channelled call centre handling telephone, written an email contacts was established. The call centre proved the capability and capacity of 'out-sourcing' the initial contacts by ratepayers. In many respects there was a recognition that VLA were not geared up to handle large scale public queries.

As noted the integrated approach of the Public Interface Project had the measurable key objective of ensuring the rate paying public were aware of the revaluation exercise so as to minimise the number of objections to the assessed values. The final statistics of the revaluation in terms of actual queries and appeals against estimated on basis of international experience were:

- Estimated number of informal enquiries was 135,000 (20%), the actual number was 57,000 (8%);

- Of the 57,000 some 29,000 enquiries were resolved at first contact;

- 28,000 queries were referred on for further examination and possible appeal, representing 4% of all properties.

Ultimately, the objective of minimising the number of queries and subsequent appeals was successful due in large to the proactive PR strategy. The multi-faceted approach clearly met the needs of the rate paying public. Information proved central to the overall success. By adopting a proactive role in providing revaluation effects, for example, limited the effects of negative press.

It is worth noting, however, that two factors one external and one internal, had an impact on public reaction to the new values and system. The external factor related to the timing of the revaluation and the correlation with the state of the residential property market. From 2005 through to 2007 the residential market was extremely buoyant with rapid house price inflation. The valuation date had been set as at 1 January 2005 and the operative date 1 April 2007. The Halifax House Price Index for the period 2004-2007 shows that prices rose by 115.8% whereas over the period 2001-2004 the increase was a modest 30.2%. Therefore, when taxpayers received their notification of assessed value during the summer of 2006 there was a 'feel good' factor which would have reduced the number of objections that would have been based purely on values. The internal factor was the decision post publication to introduce a valuation cap[27] for the

27 As part of the discussions around the restoration of devolved power back to the local Assembly direct rule Ministers (November 2006) decided to establish a ceiling on individual rate bills or in other words a maximum payment. This was to be achieved by having a maximum capital value, known as the 'cap'. The capital value level was originally set at £500,000 with the effect that all properties having a capital value in excess of the 'cap' would

most expensive properties (approximately 5,000 properties would have their valuation capped at £400,000, just less than 1% of all properties). The rationale for this was that occupiers of the highest value properties in Northern Ireland were going to have to pay more than their counterparts in GB under the Council Tax. The introduction and continuance of the cap for the small percentage of properties affected caused little or no reaction from the rest of the taxpayers.

Conclusions

The property tax is often considered by politicians and policy makers as one of the most difficult and unpopular taxes. The decision to undertake reforms to this tax can also be seen as being extremely difficult. The visibility of the tax and the fact that residential taxpayers are also voters adds additional complications from a political perspective. The residential property tax in Northern Ireland had been in existence for some 150 years, was working well in terms of compliance and created few headlines. Notwithstanding this fairly stable position residential property was last re-valued nearly 30 years ago and was riddled with anomalies and inequities. The basis of the tax on rental values no longer meant anything to householders, the majority of whom owned their home.

> In 2002, Dr Sean Farren MLA and Minister of Finance presented the case for reform. He said ‘The present domestic rating system does not Target Social Need. On the contrary, in distribution of the tax burden, it tends to disadvantage the less well off because, while there is a gradual upward curve, the amounts levied flattens out quite markedly for those in more expensive housing. The system means that a higher proportion is paid by those on low incomes – those just above the housing benefit threshold. In the language of taxation, it is not ‘progressive’. To put it another way, the Valuation List is a relatively flat one which does not discriminate much between levels and sectors of the market. A revaluation is long overdue. The last one occurred in 1976 and was based on rental values from the late 1960s which reflected the socio-economic conditions of that time’. The Minister said, ‘that the present system also lacks clarity and transparency. The figures in the Valuation List are meaningless to the ratepayer and because the rateable values are artificial, the vast majority of payers cannot understand the basis on which they are asked to pay. The inequities of the current system would be exposed all the more should the Assembly choose to increase revenues significantly using the current tax base.’[28]

In effect, there was clear empirical evidence to demonstrate that the existing system was fundamentally flawed and the only way to re-balance the system was to undertake a complete review leading to reform. The reform was designed on the basis of a five stage incremental process conducted over the period 2000-2007. The first stage examined facts and issues surrounding the existing system; Stage 2 developed policy options and within an evaluative

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have the same rate bill based on £500,000. Part of the reasoning for this was to ensure that the highest rate bills in Northern Ireland equated with the highest Council Tax bill in Great Britain. The effect of the ‘cap’ would be to reduce the tax bill on the high valued properties whilst redistributing the revenue lost across the rest of the taxable properties. One of the options considered during the Executive’s Review of domestic rating in 2007 was a change in the level of the cap, from the original £500,000 to £400,000 (effective from April 2009).

28 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/27_may_2002_launch_of_public_consultation.htm

framework identified the preferred options; Stage 3 instituted the public consultation process outlining the direction of the government's view; Stage 4 delivered the government's decisions on the reform; and Stage 5 involved implementation, planning and legislation. Through Stages 1 to 3 targeted independent research was undertaken to provide the evidence necessary to ultimately formulate policy.

The adopted policy on the basis of the residential property tax was to switch from rental value to discrete capital value. Stage 5 effectively became the operational component where systems and new procedures had to be developed in order to value the some 700,000 residential properties. In addition, underpinning legislation had to be written to support the new valuation basis. The new assessed values were notified to the public (by individual notification letter) during June-August 2006. From that time until 31 March 2007 ratepayers could informally query their assessed value. The Valuation and Lands Agency who undertook the assessments created a Public Interface project to handle information dissemination and dealing with queries. This project proved to be extremely successful in delivering the relevant messages to the public, politicians and press.

A major reform like this can create significant taxpayer unrest. The potential for excessively large numbers of aggrieved taxpayers is always a risk. To this extent then if the success of the reform can be measured in the number of objections, or lack thereof then the reform in Northern Ireland was extremely successful. Relatively low numbers of objections to the new assessed values demonstrated that there was widespread public acceptance.

Overall, the reform of the residential property tax was clearly needed, the process of reform was coherent, logical and followed a strategic plan from the outset. The reform delivered on the key objectives of having a more transparent and understandable valuation basis, provided for a progressive tax and had generally political and public support[29].

In addition, if one looks at what constitutes successful property tax reform then aspects such as low objections to the assessed values, high level of taxpayer compliance and a comprehensive understanding of the reformed system would be fundamental. Northern Ireland sought to achieve these by instituting processes that provided quality policy development, delivered fair and equitable assessments, provided quality and timely information to the key stakeholders and efficiently reacted to taxpayer queries.

Key Lessons

To what extent can some of the key lessons arising out of the property tax reform in Northern Ireland benefit other jurisdictions or country's needing to embark on a similar project? There are clearly lessons that are unique to Northern Ireland, but there are also generic lessons that would be of interest within the international context.

The reform of the residential property tax in Northern Ireland was the first comprehensive reform in over 150 years. The reform involved two key factors firstly, a revaluation, with the last revaluation being some 30 years before and secondly, it involved a change in the basis of the tax from annual rental value to capital value. Whilst revaluations are not normally considered as a

29 By the time bills were issued the system was fundamentally changed in character by the applications of a value cap, brought in at the insistence of local Ministers

reform the change in the tax basis clearly was. Viewed independently each of these factors could result in significant tax redistribution between taxpayers, even on a revenue neutral basis. Combined, the financial effects could be potentially far-reaching. Against this background of significant tax shifting, the reform was a considerable success notwithstanding the periodic lack of political support from local Northern Ireland Ministers. However, it was clearly evident that there was general taxpayer acceptance and a very the low objection rate to the new assessed values. Given this success it is possible to synthesise the reform process enabling one to identify several key lessons both specific and generic under the following headings:

- Evidence Base
- Policy Development and Administration
- Political Buy in and Leadership
- External Inputs
- Time Frame
- Public Consultation
- Valuation Approach
- Taxpayer Notification and Enquiry Process

Evidence Base

Establishing a credible evidence base for policy decisions was an important element in the reform process. Substantial use was made of property valuation data, census material, socio-economic evidence, impact assessment and views expressed during public and stakeholder consultation. A wide range of information sources and evidence were incorporated as part of the policy making process, taking into account international experience. New research was also commissioned from the University of Ulster, informing the decision to introduce a system based on individual capital values. Research was also commissioned from the Institute of Revenues, Rating and Valuation, Northern Ireland Statistics and Research Agency and other independent consultants such as the International Association of Assessing Officers as part of the wider reform programme.

The key lesson is to use external bodies with an established independent reputation to assist with developing an evidence base and ultimately helping to support the case for reform.

Policy Development and Administration

International experience would tend to suggest that the most successful property tax reforms are those that have the full support of the government. Possibly and even more importantly there needs to be a ‘champion’ for the reform from within the government. This is typically or normally Finance Departments. The reform in Northern Ireland had its home with the Department of Finance and Personnel with the process orchestrated and managed throughout by the Rating Policy Division. The overall aim of the Division was to provide advice on the policy for the local revenue system following the Review of Rating Policy, to develop and then appraise and evaluate new policy issues. The co-ordination of the reforms by the Division had several key advantages notably, being able to have strategic control of the reform in terms of each stage of the process. Whilst other government departments had important roles to play within specific ring-fenced areas, as well as external consultants, the Division had overall oversight and ultimately full control of the reform. The Division staff included professionals with considerable experience in both the assessment and economic fields who played a key role in ensuring all angles were covered at all times.

A dedicated policy group staffed by professionals with a good working knowledge of property tax is an essential element in undertaking any major reform of a property tax. This group has to have the ability to: identify all of the possible options for change, the pros and cons to allow ministers to make informed decisions; and to respond instantly with advice when the evitable problems arise.

Political Buy-in and Leadership

Strong, unified political support as has already been mentioned is fundamental to seeing reform to completion. There needs to be a clear commitment to reform; from the Northern Ireland perspective this was amply demonstrated as the reform was part of the Programme for Government and in 2000 and in 2001 terms of reference were agreed by the then Executive setting out the key aims and criteria for consideration. Often changes in government or ministers during the reform process can at best delay matters and at worst completely derail them. Northern Ireland is an excellent example of where changes in administration along with several changes in the position of Finance Minister during the process had no significant impact on the process. Clearly, changes in key ministerial positions do incur learning curves and briefing time and has the potential to push timelines back. Given the nature of the reform and the cross-cutting political effects it was essential particularly, during the policy formulation stages to have an inter-departmental steering group, with support from an inter-agency project team. As the review progressed and new policies crystallised there developed a need to introduce more programme management discipline to the reform process to deal with key stakeholders and the development of supporting legislation. The interdepartmental Programme Board and Rating Policy Division provided the stability and continuity within the process necessary to ensure the successful outcome of the reform.

The lesson learnt was that Ministers if well and objectively briefed on all the aspects of property tax are willing to champion the tax and the need to modernise it where and when necessary.

External Inputs

Whilst government and its internal advisors can and must take positions on the reform direction, credibility to the reform can be gained by out-sourcing key aspects to educational and other professional bodies for their independent research and advice. In many respects policy decisions are best formulated on the back of empirical research that tries to evaluate impact and effects. In this respect research was conducted on behalf of the Department of Finance and Personnel by teams from the University of Ulster and professional bodies including the Institute of Revenues

Rating and Valuation (IRRV), International Association of Assessing Officers (IAAO) and International Property Tax Institute (IPTI).

This may seem as something like a pre-requisite but it is quite fundamental to demonstrate need and to mobilise support for the reform. The reform has to identify structural weaknesses in the existing system that result in inequality and potential unfairness. There has to be clear and unequivocal evidence to support government when reforms to an existing system are being tentatively suggested. In Northern Ireland the reform was born out of a need to make the residential property tax a fairer system. Hence, empirical evidence and research supported the government when it stated that the current system was dated, unfair and had significant inequities and anomalies. This gave the rational and indeed the prima facia case to undertake the reform.

Time Frame

The reform must not be hurried. It takes time to put into place the ideals of the reform, to assess options, possible impacts and to allow for proper consultation. Comprehensive reform often requires new thinking about tax structure, legislation, policy and technical matters whilst at the same time ensuring that the taxpaying public are kept informed. Whilst the reform must take time, it must not become an unduly lengthy process otherwise momentum may be lost. The reform process began in Northern Ireland in 2000 and largely finished in 2007. Whilst the process took some seven years it could have been delivered in a much shorter time frame had the Assembly not been suspended[30] and if the systems and data necessary for CAMA assessment had been in place. Notwithstanding the political turmoil it was clear that those Ministers involved (both from the Northern Ireland Assembly and Westminster) were committed to seeing the reform completed. Whilst the hiatus of the Northern Ireland Assembly did cause some issues it did not overly delay the process, as the following quote from the direct rule Finance Minister Jeff Rooker illustrates: 'Reform is vital to bring the domestic rating system into the 21st century. We need to make it fairer and easier for ratepayers to understand. The new capital values will achieve this. It is almost 30 years since domestic property in Northern Ireland was last re-valued. <u>Delay is therefore not an option.</u>'[31] The time needed to put in place the IT systems (both for assessment and collection) and the database for the CAMA project did cause delay, if these had been in existence something like two years could have been shaved off the timeframe. A significant and valuable element in the timeframe was the early publication of the new values. It had originally been planned to publish these one year before they became effective for taxing purposes, in the end the period was nine months. This relatively lengthy period in international terms was judged to be of great help in winning acceptance of the new values.

The lesson learnt is to allow sufficient time for orderly production of options, related public consultation and for an ample period between publication of new values on a new basis and their coming into effect.

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30 The Assembly was suspended on 14 October 2002 with devolution being returned on 8 May 2007.
31 http://www.ratingreviewni.gov.uk/archive/archive-press-releases/10_2005_fairer_domestic_rating_system_a_step_nearer_says_rooker.htm

Public Consultation

Consultation with the general public to gauge opinions on policy options was a fundamental component. Equally important to this process was the consultative involvement of District Councils, councillors, politicians, professional bodies, and other organisations representing disadvantaged groups. It was important that the government's preferred key policy options are publicised through a transparent and inclusive public consultation process. The outcomes of such a process can give confidence to the policy makers that the right decisions are being made and to take cognisance of feedback that can be integrated into the shape of the policies.

Each stage of the reform though viewed as a separate component must fit into the overall process. There must be a clear articulation as to how each stage is developed and how it is linked vertically to each of the other stages. The project management of the process is fundamental to ensure that statutory timelines are adhered to (consultation and legislation approval) and that due regard is given to the delivery of key outputs such as legislation, assessed values and impact analysis.

Education about the reform is an essential prerequisite. The politicians, press and public are important stakeholders in the process and ensuring that they are kept informed at each stage is seen as fundamental. Tax reform behind closed doors can be construed as resulting in 'stealth taxes' and can result in serious problems from each of the stakeholders.

Impact analysis, equality impact assessment and the targeting of social need were fundamental components of the Northern Ireland reforms. The Equality Impact Assessment (EQIA) was carried out to assess any likely impacts that would be caused by moving from the current rental value base system to a capital value based system (NISRA, 2006). This EQIA aimed to identify which groups among the nine identified in Section 75 of the Northern Ireland Act 1998[32] are significantly affected, either positively or negatively, by changing from one system to the other. Whilst this is specific to Northern Ireland it would nonetheless be important for any country to undertake similar analyses to ensure that the policy impacts are not having any adverse effects on specific sectors of the community.

Valuation Approach

The reform required the capital value assessment of some 700,000 residential properties within and relatively short time frame. This aspect of the reform undertaken by the Valuation and Lands Agency necessitated the introduction of new approaches to valuation (automated valuation techniques), re-training of staff, deployment of new software and hardware systems and the development of innovative working practices. One of the key aspects of this part of the project was the availability of data and ensuring that quality assurance practices delivered quality data that could be used for valuation modelling.

The revaluation was a deemed success when measured against the number of objections and appeals received. The valuations also achieved or bettered the accepted international standards for accuracy and uniformity, though, unfortunately no external quality audit or ratio study was

32 Between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation; Between men and women generally; Between persons with a disability and persons without; Between persons with dependents and persons without.

undertaken to establish objectively the assessment ratio it is difficult to determine how good the actual assessments were. It is international best practice that such ratio studies are undertaken to demonstrate that properties when segmented by location, type etc are valued to the same assessment ratio (IAAO, 2010).

The value definition and the associated assumptions, in particular the one dealing with internal repair and fit out depending on local market factors may have wider application.

Taxpayer Notification and Enquiry Process

One of the key milestones of the project was the decision to publish the new capital values some nine months prior to the operative date of the valuation list. Each of the 700,000 dwellings was sent an assessment notification stating the assessed capital value as well as factual information on the dwelling and an indication as to the size of the tax bill. This nine month window allowed for the opportunity of aggrieved taxpayers to informally challenge the new value and to allow for the correction of any data errors.

The early establishment of a Public Interface Project (PIP) to handle the issues around the publication of the list of capital values for the domestic properties was seen as an important administrative component. The project was able to co-ordinate activities around information releases throughout the project and to establish focus groups conducted by invitation, across Northern Ireland.

One of the important outputs from the focus group process was the need to inform taxpayers as to their likely tax liability. Whilst wanting to know their assessed value it was deemed more important to know the effect on tax liability. As a result, the notification of value document also included an indicative tax liability.

The Call Centre proved to be extremely important from the perspective of handling inquires speedily and efficiently. Such an effective response can have the result of successfully dealing with queries that otherwise may turn into formal objections and appeals.

Appendix I: Chronology of Events for the Review of Rating Policy (2000-2007)

1976	Last domestic revaluation in Northern Ireland
Stage 1	**Facts and Issues**
2000	Rating Review launched by NI Executive
January 2001	Proposed terms of reference and arrangements for the rating policy review presented to the Executive
February 2001	First Steering Group meeting
Stage 2	**Development of Policy Options**
March 2001	Assembly notified of proposed terms of reference and arrangements for the rating policy review
March 2001	First project team meeting
April 2001	Draft stage 1 paper issued to the steering group for comment
April 2001	Steering Group meeting – discussion of the draft stage 1 paper
June 2001	Revised draft stage 1 paper circulated to steering group and project team for comment
July 2001	Steering group meeting - discussion of the revised draft of stage 1
July 2001	Steering group meeting - discussion of the revised draft of stage 1 report
July 2001	Stage 1 review of rating policy report circulated
September 2001	Stage 1 report issued to steering group and project team
September 2001	Project team meeting
September 2001	Steering group meeting|
October 2001	Draft Executive paper and draft stage 1 paper issued to steering group and project team
October 2001	Draft Executive paper and draft stage 1 paper issued to Minister for Finance and Personnel
November 2001	Executive Paper and full Stage 1 Report sent to OFMDFM advisors.
December 2001	Draft Executive paper discussed with the Minister for Finance and Personnel
Stage 3	**Consultations**
January 2002	Executive agrees DFP should proceed to prepare a draft consultation document on the review of rating policy
May 2002	Executive discuss Consultation paper
May 2002	Minister announces Launch of Public Consultation. The Consultation period would run 27 May 2002 until 16th September 2002
June 2002	Public Meetings commence December 2002 Announcement of move from rental to capital values
December 2002	Minister announces publication of Public Consultation Report

Stage 4	**Decision Making**
December 2002	Review Implementation Group (RIG) established
2003	Research by the Department and University of Ulster on the form of capital value system to be introduced
March 2003	Minister sets out the case for a new domestic property tax
June 2003	Minister announces publication of Initial EQIA on the Reform of the Domestic Rating System for consultation
July 2004	Publication of Policy Paper on Reform of the domestic rating system in NI
March 2005	Publication of consultation report on domestic rating reform setting out the Government's way forward
Stage 5	**Implementation**
October 2005	Draft Rates (Capital Values) Order 2005 published for consultation
April 2006	NI Revaluation to be completed and domestic capital values published
July 2006	Public consultation of the last of three Orders in Council associated with rating reform.
April 2007	Bills to be issued to NI ratepayers under new system. Rate relief scheme and transitional relief also introduced
Sept 2007	Review of Domestic Rating Consultation Report
December 2007	Outcome of NI Executive's 2007 Review of Domestic Rating

Appendix II: Timing of the Various Stages of Reform

The key timings proposed are as follows:

Stage 1: December 2001;

Stage 2: Complete by April 2002;

Stage 3: Consultation period – approximately April 2002 to June 2002;

Stage 4: Preparation of final report with specific recommendations to Executive by October 2002;

Stage 5: The objective was to take legislation through the Assembly in the 2003/2004 session.

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