



Research for new economic policies

Budget 2016 and Housing

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Disclaimer

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Some opening remarks...

- ▶ **Budgetary policy alone does not a housing system make**
 - ▶ Nonetheless, fiscal and monetary policy are more instrumental than ever before in determining effectiveness of Irish housing policy
 - ▶ Construction 2020
 - ▶ Social Housing Strategy 2020

- ▶ **Budget 2016 remains unfinished business for Irish Housing**
 - ▶ Disappointing for some i.e. little to no real details
 - ▶ Finance Bill, 2016 may yet be quite revealing

Budget 2016: the housing details that are known..

- ▶ **DECLG vote for 2016 is €1.495bn**
 - ▶ €539 Capital and €956 Current
 - ▶ 12% increase on 2015 (€1.328bn) and 83% increase on 2014 (€255m)
- ▶ **Housing capital is €432m (up from €376m in 2015: approx 15%)**
 - ▶ To deliver 1,000 new social housing units (only 284 delivered in 2014)
- ▶ **Housing current expenditure is €379m (up from €310m in 2014; approx 22%)**
 - ▶ RAS, HAP and social housing current expenditure (renovations etc)

Budget 2016: the housing details that are known..

- ▶ **Allocation of additional €17m for homeless services (funding under S10, 1988 Housing Act)**
 - ▶ Gives €70m allocation in 2016
 - ▶ Dublin's expenditure is ahead of this in 2015
- ▶ **Dublin's Pilot HAP for Homeless**
 - ▶ New rent limits and eligibility criteria
- ▶ **Mortgage to Rent scheme**
 - ▶ €17m allocation in 2016
- ▶ **Pyrite Remediation Scheme**
 - ▶ €17m allocation in 2016

Budget 2016: the housing 'add-ons'...

- ▶ **NAMA to deliver 20,000 new dwelling units**
 - ▶ 90% located in GDA
 - ▶ Expectation that Part V arrangements deliver 2,000 for social rental
 - ▶ No detail on budgets, financing, delivery etc etc

- ▶ **New PPP for social housing (not private housing)**
 - ▶ 'Availability model' previously used to deliver roads, schools and courthouses
 - ▶ Procurement of a consortium (design, build, finance, maintain for 25 years)
 - ▶ Sites remain in public ownership and units returned to state after 25 years
 - ▶ 500 units to be delivered on 6 publicly owned sites
 - ▶ Capital of €100m
 - ▶ Social Housing Strategy 2020 provides for €300m capital investment in social housing via PPP to deliver 1,500 units

Irish housing tenure allowances: not 'tenure neutral'

- ▶ MITR for new loans abolished from Dec 2012 – however...
- ▶ For mortgages taken out between Jan 1st 2004 and 31st Dec 2012, entitlement to MITR continues to 2017
 - ▶ Years 1&2 @ 25%;
 - ▶ Years 3,4&5 @ 22.5%;
 - ▶ Years 6&7 @ 20%; and
 - ▶ Ceiling €20k (couple).
- ▶ Higher rates of MITR for 'bubble' FTB (Jan 2004-Dec 2008)
 - ▶ 30% MITR for years 2012 to 2017
 - ▶ Ceiling €6k (2004/5) raised to €20k (2006/7/8) (couple)
- ▶ Tax allowance for owner-occupiers who rent out a room to a private tenant remains in place
 - ▶ Ceiling raised from €10k to €12k p.a. in 2015 and stays for 2016

Irish housing tenure allowances: not 'tenure neutral'

- ▶ Where is equivalent for tenants?
- ▶ No equivalent exists!
 - ▶ Tax credit (at standard rate of 20%) for single person under 55 years is €800 in 2014 (worth €160)
 - ▶ REDUCED to €600 in 2015 (worth €120)
 - ▶ Tax credit is not available for individuals who began renting after 7 December 2010
 - ▶ Tax credit will cease in 2017
- ▶ Why does Irish fiscal policy continue to maintain this inequity?
 - ▶ Tenants pay income tax but do not have equivalent tax treatment (allowances/ reliefs) as owner-occupiers and landlords
 - ▶ Homeowners (and those who are also acting as landlords) vs tenants?

Budget 2016: the housing ‘vexatious’

- ▶ Rent Certainty – how (CPI?) and duration (4 years or 2 or less?)
 - ▶ New tax allowances for landlords ‘to sugar the pill’?
- ▶ Targeted?
 - ▶ Registered and fully compliant landlord with low-income (HAP or SWA rent allowance) tenants who agrees to rent certainty and ‘fixes’ a rate of annual rental inflation for the period
- ▶ Or open-ended?
 - ▶ What value of tax foregone?
- ▶ Previously: ‘Highly adverse equity effects alongside a regressive distributional impact in terms of net benefits to higher income earners’ (Goodbody, 2005).

Using fiscal policy to deliver rent stability: some 'framing principles' and a proposal

- ▶ Ensure rent certainty = income certainty for landlords = cost certainty for tenants
- ▶ Recognise shift to rental under the overall macro-prudential position in Ireland is very relevant
 - ▶ QE by ECB
 - ▶ Low interest rates (ECB)
 - ▶ EZ inflation is -0.1%
- ▶ Tax equity between homeowners and tenants is required
 - ▶ Requires immediate attention and new allowances
- ▶ Introduce windfall taxation on income from 'hyper' rates of rental inflation?
 - ▶ Measured via increases in declared rental income in a tax year where no additional units purchased and no other allowable expenditure incurred – needs refining but the principle is straightforward
 - ▶ Rental inflation – allow an increase once a year and no higher than 10% above market in an area for similar SPACE standards and BER ratings
- ▶ Uncertainty leads to increased 'price taking' at present
- ▶ Low-income households being squeezed out of private rental and into homelessness – not just a Dublin phenomenon