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Property

Local Property Tax: Allowable Margins and Potential Liability

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EFC

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What happens if a house is sold at a considerably higher price than its valuation for Local Property Tax (LPT) purposes? We review steps to consider in order to ensure that no liability applies, whether you are buying or selling and we also look at the new Conditions of Valuation.

Purchaser:

The Purchaser needs to ask if the Local Property Tax valuation was reasonable considering the Vendor's asking price. If it is shown that the Vendor has undervalued the property at the previous valuation then there will be a potential liability for the Vendor at the date of sale.

Vendor:

If the Vendor has declared a valuation band or valuation on their 2013 Return honestly and in line with Revenue guidelines, this valuation will continue to apply until 31 October 2019.

The LPT online system can be used by the Vendor to obtain clearance from Revenue to prove that there are no outstanding LPT issues with the property. This is known as General Clearance and should apply in the majority of cases where certain conditions are met.

New Conditions of Valuation:

In November 2015, the Revenue made a number of changes to these conditions which are summarised as follows:

1. Where a property is sold for less than €300,000, general clearance applies and the valuation for LPT purposes is not taken into account.

2. The allowable valuation margins for the remaining valuation bands were increased and if the property is in Dublin city or county, the allowable margin was increased from 25% to 50% for all properties. The sales price must not exceed 50% above the upper limit of the valuation band.

3. In the rest of the country, the sales price should be no more than 25% (previously 15%) higher than the upper limit of the valuation band but where the value of the property exceeds €1,000,000, the sales price should be no more than 50% (previously 25%) higher than the upper limit of the valuation band. Otherwise there will be a potential liability at the date of sale for the Vendor.

   For example, if your Dublin property was valued in the band of €350,001 - €400,000 in 2013 and then, in 2015, you sell your home for €575,00, General Clearance will apply as you fall under the limit of €600,000 (€400,000 + 50% = €600,000).

4. Finally, General Clearance will apply where a Vendor has based the chargeable value on the known and verifiable sales prices of comparable properties in the area. The Vendor must have evidence of at least one comparable property sold within the period of nine months (increased from 6 months) prior to 1 May 2013.

Implications for Non-Compliance:

A Vendor may be liable for a €500 fixed penalty for not providing information to a Purchaser in respect of the chargeable value he or she declared to Revenue.

A Purchaser may be liable to a penalty if he or she fails to submit a revised chargeable value to Revenue in a case where the Vendor's value could not have been reasonably arrived at. This penalty would be the amount of the additional tax payable as a result of the correct value being declared, subject to a maximum penalty of €3,000.

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