

January 2007

**RADICAL CHANGE IN STAMP DUTY REGIME ESSENTIAL**  
**by**  
**Alan Shatter**

The stamp duty issue has not gone away.

Stamp duties in Ireland are the highest in Europe.

Two arguments are made for not reforming stamp duty. It is argued that to change our stamp duty laws would distort the housing market and that in the end only developers would benefit as any stamp duty reductions would rapidly be incorporated into the price of new homes. Both arguments are wrong and betray a fundamental lack of understanding of the present impact of stamp duty on the housing market.

First time home buyers can purchase either a new or second hand home. If they purchase a new home provided it does not exceed 1,250 square feet, no stamp duty is payable. Homes and apartments costing anything up to €750,000, depending on location can fall into this bracket.

If a first time home purchaser acquires a second hand home which costs over €317,500 it attracts stamp duty at a rate of 3%. This increases to 6% if the property costs in excess of €381,000 and to 9% for properties which cost over €635,000. Moreover, the stamp duty penalty is not graduated. A home purchased for €500,000 attracts duty of 6% on the entire of the price, not just on the excess over €317,500 which would be both fairer and more logical. Fine Gael's proposal to increase the exemption limit from €317,500 to €450,000 and that stamp duty only be paid on the excess would provide substantial relief to first time purchasers acquiring a second hand home.

The present stamp duty regime discourages the purchase and renovation of older houses by first time homebuyers and pushes them into purchasing newly built accommodation from developers. Developers in turn do not regard the second hand home market as competition because of their in-built stamp duty advantage. Developers benefit from the willingness of banks and building societies to provide mortgage finance for highly priced stamp duty exempt new accommodation and their unwillingness to lend the money required to discharge stamp duty on second hand homes.

Extension of stamp duty exemption for first time purchasers to all second hand homes up to 1,250 square feet in size would provide greater price competition in the housing

market and curtail the freedom of developers to increase the cost of newly built homes substantially beyond the price of similar accommodation in the second hand market.

To-date, much of the focus has been on the difficult plight of the first time buyer. There are others however who are significantly affected by the exorbitant levels of stamp duty whose predicament must be addressed. Apartments built over the past ten years, while suitable for individuals living alone and childless couples, are, thanks to the lack of insight of the Department of the Environment, local councils and An Bord Pleanála utterly lacking in the amenities necessary for families with young and growing children. Many now want to move from apartments to houses but many cannot afford to pay the 9% stamp duty which applies to most reasonably sized home with a small garden in Dublin and more particularly in South Dublin.

The current stamp duty regime is forcing these families to continue residing in unacceptable accommodation from which they wish to move and artificially depressing the value of their homes when compared with similar new stamp duty exempt developments. Essentially, should they be forced to move, they are hit by a double stamp duty whammy. The price of the home they are selling is diminished because of the stamp duty payable by any purchaser whilst they have to pay exorbitant levels of stamp duty on any new home they might acquire.

Retired people wishing to trade down are similarly affected. Upon retirement and after children have moved out, many retired couples, widows and widowers wish to move to smaller, more modest accommodation with reduced outgoings. The family home to be sold is frequently the only or main asset acquired during a lifetime of work and the capital that would be retained after such move is significantly and unfairly diminished by stamp duty payable on the new home. For some, it is not worth moving when account is taken of estate agents and solicitor's fees, advertising costs, stamp duty, moving costs and necessary replacement of carpets and furnishings.

Essentially, the existing stamp duty regime is grossly distorting the property market. It has not only created an unfair and, for some, an insurmountable financial barrier to trading up or down, it has also facilitated developers obtaining excessive profit in the new home market and facilitated cartel pricing in particular for newly constructed apartments. There is a need for fundamental reform and change which provides for exemptions for new and second hand home accommodation of identical size; for graduated and more modest stamp duty rates for accommodation above the exemption size and for a payment system which facilitates the discharge of home stamp duty liabilities by instalment over a specified period of years from the date of purchase so that the total burden is not imposed at the time of purchase

**Alan Shatter was a Fine Gael T.D. representing Dublin South from 1981 to 2002. He is again a Fine Gael candidate in Dublin South for the forthcoming General Election.**