



President's Message - August 2013

I hope that those of you who are enjoying a summer break have been able to relax and recharge your batteries. I also hope that if you have been travelling, you have found some new and interesting places to visit. I always find it useful when visiting a country I have not been to before to find out a bit about their property tax system in advance and then "test" what I have found out by talking to local residents and business people about the impact of property taxes on them. Part of my holiday this year involved a cruise down the River Danube - along with IPTI colleagues - and we found some interesting facts about property taxes in Germany, Austria, Slovakia and Hungary as we visited various towns and cities along the way.

I am pleased to say that, following a period of intense activity with so many events over the last few months, we managed to find time in July to concentrate on completing some important work on various projects we are undertaking. I am also pleased to report that we are also now working on some new and exciting property tax projects which will keep us very busy over the next few months. I will provide more information about these projects in due course.

Looking forward, can I remind you of our forthcoming Annual Conference in Scotland on 4th and 5th September. In addition to a great line up of international speakers, we also have a number of UK speakers who will be debating some of the key issues concerning property tax. IPTI has recently been in contact with UK Government Ministers over property tax issues of concern to our members who have properties in the UK, and these concerns will be explored at the conference along with similar issues from around the world. I should also add that, thanks to sponsorship obtained by the IRRV who are holding their Scottish Conference in conjunction with our Annual Conference, we are now able to offer a free golf competition on Tuesday 3rd September to any of our delegates who would like to play golf in Scotland which is, of course, the "home" of golf and where the Open was recently held.

I mentioned our recent contacts with the UK Government and I should add that we have a meeting in August with senior officials from the UK Government Treasury Department to discuss some of these important issues. I am planning to



provide feedback from that meeting at our Annual Conference in Scotland so, if you want to learn more, come and join us for what will be an important and enjoyable event.

I am looking forward to attending the IAAO's Annual International Conference which is being held in Grand Rapids, Michigan, on 25th to 28th August. As usual, the IAAO have a wide-ranging programme of plenary and education sessions along with a mix of events and exhibitions which will no doubt make it a very interesting conference. Don't forget that IPTI and IAAO are joining forces to put on a two-day valuation seminar in Florida on 14th and 15th November. More detail is available on our website.

Talking of the website, I hope that you are finding that our revamped website is helpful in providing you with the information you need about either IPTI itself or any of the events we organise. I also hope you like the "look and feel" of the website which is a critical part of the way in which we communicate with our members and with those who want to know more about us.

Further to recent discussion with Members of our Board of Advisors, we are planning to introduce new membership arrangements for IPTI next year. This will include new categories of membership, including student members, and new designatory letters that IPTI members will be able to use after their name if they choose to do so. I will provide more information about these changes after our Annual Conference in Scotland.

Taking a wider look around the world, although there are signs for optimism about the global recovery, there are still unfortunately many examples of municipalities struggling to balance the need to continue to provide essential local services with declining revenues due to the economic situation. One of the more extreme examples of this situation is in Detroit, Michigan, USA where the city has declared itself bankrupt. Whilst it would be inappropriate for me to offer any comment on individual cases such as Detroit, it is clear that running efficient and effective property tax systems is an important contribution to ensuring local services continue to be provided, even in difficult times. Indeed, as many other sources of revenue which are more directly tied to economic performance have declined,



property tax retains its traditional virtues of stability, reliability and predictability and, in particular, the benefit of being difficult to evade or avoid.

A related issue, which is very much in the forefront of debate around the world, is the extent to which businesses operating from traditional "bricks and mortar" properties feel that businesses operating primarily through the internet are at an advantage when it comes to taxation. The arguments are not limited to property tax, but that is where much of the debate is focussed as it is easier to identify the "bricks versus clicks" issue as it has become known. One of the interesting proposals from "traditional" retail companies is that companies who operate primarily through the internet should be charged a special tax on their goods or services which would put them in a similar position to competitors who are paying property and other taxes in the relevant jurisdiction. Needless to say, web-based companies who operate through the internet are opposing any such suggestion, so it will be interesting to see the outcome of this debate.

Another regular property tax debate around the world is to what extent, if at all, should different types of property pay different rates of property tax. The usual issue is the tax rate relating to residential properties in comparison with the tax rate relating to non-residential properties. Those of a cynical disposition may conclude that where the tax rate for residential properties is lower than that applied to non-residential properties, this reflects the fact that politicians recognise the importance of the issue to local voters! However, it does not mean that businesses are not able to complain that such differentials are unfair and debate on that issue is taking place in various countries at the present time. For example, in Vancouver, British Columbia, recent newspaper articles have indicated that, due to different tax rates, businesses are paying over four times the amount payable in respect of similar valued residential properties. Local businesses argue that they use far fewer municipal services than residents, so this "property tax gap" between residents and business owners has no reasonable justification. However, the position is rather more complex than this simple argument would suggest and it will be interesting to see the outcome of the debate.

Singapore is consulting on property tax amendments which include the removal of property tax refunds for unoccupied residential and non-residential properties with effect from 1 January 2014. This, it says, is to align with the policy intent of



property tax, which is to tax property wealth rather than use, and ensure consistency in the tax treatment of all vacant properties. Again, this is another interesting aspect of property tax which creates issues in many jurisdictions around the world. In addition, more progressive property tax rates for residential properties are to be introduced from January 1, 2014, with the effect of raising property tax rates for higher-value residential properties, with the largest increases applying to investment properties that are not occupied by their owners. The draft bill empowers the Minister of Finance to impose a maximum tax rate or rates in the future of up to, but not including, 36 percent on the annual values of the properties.

New increased property tax rates have recently been announced for properties in Cyprus. Full details of the new tax rates can be found on the website under IPTI Xtracts. It should be noted that the Immovable Property Tax (IPT) is calculated on the Land Registry's assessment of the value of the property as at January 1 1980 which would appear to indicate the need for a revaluation in Cyprus.

It seems that Italy is continuing to debate whether or not it should abolish its property tax (IMU) on primary residences. Various members of the Italian Government have been quoted recently as saying that the tax will be abolished later this year, but cancelling the tax would cost an estimated 4 billion euros and mean that the government would have to cut public spending or save public money earmarked for other projects. It may also lead to conflict with the European Union and others who have been assisting Italy in dealing with its economic problems.

I read an interesting paper recently which suggests that many of the economic problems being experienced at the present time, particularly in developed countries, result from the fact that property is not adequately taxed. The author looks back at the various schemes that attempted to capture or tax land value over the last few hundred years and concludes that we would all be much better off today (higher incomes, lower taxes, lower house prices, etc) if those schemes had been driven forward rather than allowed to decline. We know that property tax is important, but I am not sure it is the solution to all the world's problems!

The author of another recent paper I read states that "taxing land and property is one of the most efficient and least distorting ways for governments to raise



money. A pure land tax, one without regard to how land is used or what is built on it, is the best sort. Since the amount of land is fixed, taxing it cannot distort supply in the way that taxing work or savings might discourage effort or thrift. Instead a land tax encourages efficient land use." It also notes that a land tax "is likely to be progressive" because poor people generally don't own real estate. The debate on this issue continues!

And finally, an interesting and unusual story from the USA. Federal officials preparing to sell the New Hampshire compound of a tax-evading couple convicted of amassing an arsenal of weapons can't guarantee that explosives and other booby traps aren't hidden on the 103-acre spread. In fact, they openly warn bidders that land mines might be planted throughout the property and they say prospective buyers won't be allowed on the grounds until they submit a winning bid that frees the government of liability for dismemberment or death. The elderly owners of the property were convicted in 2009 of amassing weapons, explosives and booby traps and of plotting to kill federal agents who came to arrest them. By federal court order, the property must be sold as is, but it brings a whole new meaning to the concept of "buyer beware"!

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