President’s Message - November 2013

I have just returned from a very interesting and enjoyable trip to Australia where IPTI had been invited to participate in the Australasian Valuers-General Conference. Held in Melbourne, the event was hosted by Rob Marsh, the V-G for Victoria, and involved the V-G for each State in Australia, the V-G for New Zealand, and V-G colleagues from a number of Pacific Islands. Among the many issues we discussed was a proposal for IPTI to run a benchmarking exercise to update the information we obtained from previous exercises. I will provide more detail about this proposal in due course.

Jerry Grad, who joined me in Melbourne, had been to Beijing on his way to Australia where he had been representing IPTI at a conference held by the China Appraisal Society (CAS) to mark their 20th anniversary. The event - the 2013 China Valuation Forum - was titled “Valuation, Growth and Exploration” and included over 400 people, mainly from China, but also a small number of special international guests invited from other parts of the world.

In October, IPTI also participated in the annual conference of the Council on State Taxation (COST) held in Phoenix, Arizona. This event involved some 500 participants and was regarded as a great success. IPTI Director Gerry Divaris made a presentation in the Property Tax session which was moderated by Doug Turner from General Electric who chairs our Corporate Advisory Committee. Gerry and Fred Nicely from COST both spoke about aspects of the COST-IPTI Survey & Scorecard which is due to be published in January 2014. I will provide more detail about this publication in due course.

Also in October, I gave a CPD talk in London on global property tax issues to an audience of UK-based property tax practitioners. It was interesting to compare and contrast what is happening in the rest of the world with what is happening in the UK, where both council tax (the property tax which applies to residential properties) and business rates (the property tax which applies to non-residential properties) continue to attract a great deal of political comment and media coverage. Inevitably, many of the issues are very similar - annual property tax rate increases, problems with appeals, lack of regular revaluations, etc - but the issues tend to be magnified in the UK as the tax burden, particularly for the non-residential sector, is relatively high.

During October I also attended the IRRV's "Valuer Day" at which the President of the Valuation Tribunal for England confirmed that he would be changing the existing appeal procedures to require the Valuation Office Agency (VOA) to provide more information about the basis for their business rates valuations. At present, most of the VOA's valuations are published on their website, but private sector practitioners complain that the VOA do not provide sufficient information about the evidence on which their valuations are based. It will be interesting to see whether the new procedures improve the transparency and efficiency of the system.

Looking forward, on 14-15 November we will be running a joint seminar with the IAAO on "Challenges in the Valuation of Unique and Leisure Properties". This event will be held in Hollywood, Florida and we have a very impressive array of speakers who will be making presentations and leading discussion on the key points. I hope that anyone involved in this interesting area of property taxation will be able to join us; please see our website for more information.

IPTI held two more property tax workshops in conjunction with the Institute of Municipal Assessors (IMA) in Canada during October. One covered the valuation of shopping centres and the other dealt with property tax policy. The feedback confirms that these workshops were well received by the delegates. We will be running another three workshops with the IMA during November: one relating to highest and best use; another relating to the valuation of office buildings; and the third covering the use of the cost approach.

Having mentioned the IMA, I should add that we completed work on the preparation of draft Professional Standards for the IMA which complement their existing Code of Ethics. IPTI's draft is currently with the IMA for consideration and we are looking forward to the next phase of this project.

Talking of projects, IPTI was invited to make a presentation to a meeting organised by the Ministry of Finance in Ontario which followed the receipt of our report on the valuation of large industrial properties for the purposes of property tax. Our report looked at how such special use properties were dealt with in Ontario in comparison with other Provinces in Canada and in selected countries around the world.

We made good progress with another interesting project taking place in Nova Scotia where we are providing assistance to the assessment agency - PVSC - in connection with the property tax system in the Province. Following a three-day workshop in Halifax in October, we will be providing further support to PVSC over the coming months.

I am pleased to say that we have now confirmed the date and venue for IPTI's 2014 Mass Appraisal Valuation Symposium. It will be held in Calgary, Alberta, Canada on 18-19 June 2014; more details will be available on our website in due course. At this stage, I mention it so you can put the date in diaries.

Regular readers of my monthly messages may recall that I referred to an interesting paper not so long ago titled "The Hated Property Tax". This paper was saying, effectively, that one of the main reasons why property tax is disliked is because it is so "salient", i.e. the tax is much more transparent in comparison with many other taxes we all have to pay. I am pleased to say that, more recently, I have come across a number of papers which have extolled the virtues of property tax and are much more positive about its strengths and other characteristics.

One of these papers is titled "Loving that property tax" and, although "loving" may be a bit too strong, it was very interesting to read why the author considered property taxes were so desirable. To make it even more interesting, the author is commenting on the advantages of the new Local Property Tax being which is being introduced in respect of residential properties in Ireland. The advantages cited include:

- The economic impact is expected to be relatively small since a recurrent tax on residential property is deemed much less distortionary than a tax on income or capital.
- It is a reliable, sustainable source of revenue. Revenue generated from immobile assets is more stable than from property transaction taxes such as Stamp Duty and Capital Gains Tax.
- It will give local authorities an independent source of revenue, and enable citizens to exercise choice over the amount of public services they receive.
- It is progressive since it is assessed on the market value of the property unlike the flat rate Household Charge.

Another very positive paper, looking at property taxes more widely, sets out the following points under the heading "Why are property taxes good?":

- They distort patterns of economic activity less than virtually all alternative major sources of tax revenue. Property is not mobile, and so cannot be moved around just to avoid tax. Taxing the occupation or ownership of land, houses or buildings generally has positive incentive effects. It encourages people to make the best use of those scarce resources, and not simply to accumulate them.
- Unlike most other taxes, the main burdens fall on more wealthy people.
- They are difficult to evade. Unlike many other assets, land and property cannot easily be hidden from any modestly competent tax authority.

The author goes on to say:

- Almost worldwide, they are the main single actual or potential revenue source for sub-national governments. In historical and comparative perspective, sub-national governments in most of contemporary Africa and Asia - and to a lesser extent Latin America - are grossly under-powered and under-funded. A revival of property tax revenues would almost inevitably signal a resurgence of district, provincial, municipal and metropolitan governments.

So, some encouraging comments there about property taxes that go some way to counteract those who continue to complain about them!

Let's have a brief look at some other property tax issues around the world.

First, some positive news from the USA. The National League of Cities, which advocates on behalf of 1,700 member cities, said its annual survey of local finance officers reflects a slowly brightening financial picture in many cities. The survey found that cities continue to suffer the effects of the recent economic downturn, as well as structural problems that are making it difficult for them to pay for core services such as public safety. But the survey found that after six straight years of decline, cities this year reported a small increase in general fund revenue - the locally generated taxes, fees and outside aid that officials have wide discretion to spend on services from public safety to parks. Sales and income tax revenue are reported to be up, but property taxes continue to decline because they typically reflect property values as much as several years before their collection. For cities, that means that their tax revenue is still depressed by the steep drop in property values that accompanied the downturn.

The USA continues to debate the extent to which certain types of property should be exempt from property taxes. A recent report from the New York State Comptroller says that more than 25 percent of real property value in New York is exempt from county, city and town property taxes. The report states that the total value of these exempt properties is $680 billion. The value increases to $826 billion for properties exempt from more than one type of local government or school district taxes.

One the same subject, a recent article from the USA stated "The Legislature must untangle the web of property tax exemptions that is costing the state and local governments - and ultimately taxpayers - millions of dollars in revenue each year."

In times of economic hardship, more and more countries are looking at the fairness or otherwise of their existing property tax exemptions, reliefs, discounts, tax ratios, etc. The main problem is that, once given, such adjustments are difficult to change even though, in many cases, the favourable treatment may no longer be justifiable.

Another recent article stated, "Ideally, property tax exemptions should be granted because the entity that operates on a piece of land creates benefits to the community that exceeds what it would have paid in taxes. If there are other considerations, then the tax authorities must make clear how one group not paying taxes benefits others. Like so much of government, clarity, transparency and accountability is the best policy when it comes to grant tax exemptions."

Property taxes in France, known as "taxes foncières", have increased in recent years at a rate above that of salaries, pensions and rents, according to a new report. Between 2007 and 2012 property taxes in France went up by an average of 21.17 percent; in the same period, inflation rose by 8.18 percent. The "taxe foncière" is an annual property tax levied by local authorities on home owners, even if they rent out the property; the money raised goes towards the funding of local services.

Property taxpayers in South Africa are making increased use of Special Rated Areas (SRAs). Previously known as City Improvement Districts, SRAs are specific geographic areas within which property owners agree to pay for supplementary services. Under the Municipal Property Rates Act 2004, which makes provision for the formation of SRAs, property owners can implement additional services in particular areas. Municipalities are obligated to maintain existing service levels after an SRA has been established. The City of Cape Town currently has 25 approved and fully operational SRAs resulting in improvement districts in both residential and commercial areas.

It has been reported that the proposed introduction of new property taxes in Russia is likely to be postponed until 2015. The bill was apparently submitted to the government in August but needs to be revised and submitted again in November. Rather than being tied to the artificially low inventory price of property, the new real estate tax that the Finance Ministry has initiated is to be calculated according to the cadastre value, which is closer to a property's market value. The Finance Ministry's proposal would allow the regions to set their own tax rates within given parameters. Taxes on residential buildings could be set at no more than 0.1 percent of their cadastral value, taxes on non-residential buildings at up to 0.5 percent, and taxes on properties worth more than 300 million rubles ($9.3 million) at up to 1 percent. The current tax rate is 2 percent of the inventory property value. Introducing the new system will increase property tax revenues by 5.6 times, to 137 billion rubles, the Federal Tax Service said.

And finally, it is not uncommon for property tax jurisdictions to offer discounts for early payment of the tax due. However, the city government of Marikina in the Philippines is encouraging its taxpayers to pay their real property tax payments early next year by offering them a 50 percent discount if they pay their taxes in full between January 14 and March 31. I think that should provide a significant incentive for prompt payment.

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