



## **President's Message - December 2013**

As we look ahead to December, may I take this opportunity to wish all readers a very happy time with friends and family over the forthcoming festive season.

For IPTI, there is still a great deal to do before the holiday period arrives. We are heavily involved in writing reports and training material relating to various projects and courses, and we are conducting a special conference for policy-makers in Trinidad where property taxes are high on the agenda. The Trinidad conference, being held in Port of Spain, has been arranged in conjunction with the Institute of Chartered Accountants of Trinidad and Tobago (ICATT) who invited IPTI to put on this special event. Some of you may recall that we ran a two-day conference in Trinidad earlier this year in conjunction with RICS Americas, so we have already established a good relationship with key players in Trinidad which we are looking to build on.

We also had a very action-packed November when we conducted a number of events, one of which was a two-day valuation seminar we produced in partnership with the IAAO. Held in Hollywood, Florida, this seminar focused on the valuation of leisure properties and included sessions on the valuation of hotels, timeshare properties, golf courses, marinas, stadiums, arenas, casinos and amusement parks. We also had some very interesting presentations on how property tax systems cope with the challenges of natural disasters and a very practical session on preparing for litigation in relation to property tax assessments. The event included a tour of Port Everglades which raised interesting questions about the valuation of ports for property tax purposes.

Anyone interested in how property tax systems interact with natural disasters - e.g. storms, floods, fires, earthquakes, etc. - should plan to attend our MAVS in Calgary, Canada, in June 2014 where we will be looking at this subject in some detail.



November also saw us running three more of our popular IMA-IPTI workshops on "Highest and Best Use Analysis", the "Valuation of Office Buildings" and the "Cost Approach and Depreciation Analysis" all of which were well received by those attending. At present we have plans to hold another fourteen IMA-IPTI workshops in 2014; details will be posted on our website.

In November we also held an "Information Session" in conjunction with RICS Americas in Toronto and will be conducting other similar sessions in various cities in both Canada and the USA over the coming months.

Jerry Grad and I also made a presentation at a Rating Conference in London in November which was a high profile event organized by the RICS. Rating, i.e. the annual property tax imposed on non-residential properties in the UK, is attracting a huge amount of media and political attention at present, partly because the burden of property taxes in the UK has recently been confirmed by the OECD as the highest in the world, but also because the revaluation planned for 2015 has been postponed until 2017 which has created major problems for many businesses who are continuing to pay property taxes based on pre-recession values.

One of the speakers at the conference in London gave a very interesting analysis of the way in which the non-residential property tax base in the UK has gradually diminished over time as traditional manufacturing activities have closed down; warehousing needs have reduced; retailing trends have changed with a consequent reduction in demand for town centre shops; and there has been a significant change in the use of office accommodation with a reduced need for office space. Although the pace of change had accelerated during the recent recession, these trends were likely to continue in future and would therefore increasingly impact on the UK business rates system. There will be many other countries where these global trends will be having a similar impact.

Another event I will be speaking at in December organized by the Industrial Asset Management Association is concerned with the same issue, i.e. the burden of property tax being paid by its members, and it is clear that property tax continues to be a very important issue for taxpayers around the globe.



Whilst in London, Jerry Grad and I attended a meeting of IPTI's European Corporate Advisory Committee which was chaired by Philip Glenwright of Shell and included a very useful update from Andrew Hetherington, President of the Rating Surveyors' Association in the UK. Among other matters, we discussed the next meeting of the ECAC, probably to take place in Amsterdam in May 2014.

Those of you who have visited our website recently ([www.ipti.org](http://www.ipti.org)) may have noticed our "photo gallery". This covers many of our events held during 2012 and 2013. We usually end up with hundreds of photos from our various events, but we have introduced a strict limit of 6 photos for each one to keep it manageable. Although limited in number, I hope we have managed to capture the "essence" of each conference, seminar, workshop, etc., with these few photos which I hope you will enjoy.

Another relatively new feature we have introduced on the website is "Past Events". This enables anyone who is interested to see the range and type of events we have run over the previous 12 months. Past Events also has a link to the actual programme for the particular event which helps those who have attended an IPTI event and need to refer to it, but don't have the details to hand.

On the subject of our website, I hope that you find IPTI Xtracts a useful source of information about what is happening with property tax systems in countries around the world. Since we introduced this feature last year, we have accumulated over 2,000 articles in our records. We now receive up to 200 items a day relating to property tax so it is quite a task to sift out those that are likely to be of wider interest and include them in Xtracts. However, I hope you find them topical, interesting and informative.

Now it's time for a quick look around the world to see what is happening in terms of property taxes.

I have mentioned already the burden of property tax in the UK. It is reported that revenue from the country's taxes on commercial and residential property - including business rates - are worth 4.2% of GDP, more the twice the average of the 34 countries in the Organisation of Economic Co-operation and Development (OECD). In addition, business rates contribute more to the total tax take in the UK than anywhere else in Europe, according to OECD data. In 2011, which is the most recent set of figures available, tax from commercial property in the UK



accounted for 11.6% of total taxation, compared to just 2.4% in Germany. This factor, along with other issues concerning business rates, is contributing to pressure on the UK Chancellor, George Osborne, to announce a two-year freeze on the tax in his Autumn Statement next month and to commit to reviewing and reforming the system.

Azerbaijan has announced tax policy priorities in its draft concept of socio-economic development for 2014 and the next three years, which is currently being considered in parliament. One priority of the country's tax policy is the introduction of real estate tax which will be applied on the basis of property and land taxes. At the same time, the government intends to implement the system of calculating taxes on the basis of market prices. Azerbaijan has also extended the tax preferences of agricultural producers for five more years. According to the changes to the law, starting from January 1, 2014, individuals and legal entities engaged in the production, including industrial production, of agricultural products, will be once again exempt from all taxes except land tax for a period of five years.

In Burma, Rangoon's government recently introduced a new tax measure to cool an overheated property market which, it is reported, has resulted in a slowing down of high-end property prices. Land values in the commercial capital have risen dramatically since a lower 15% tax rate on sales was applied in 2007. A tax rise last year to 37% failed to curb rising prices, since buyers and sellers could declare low values for land being sold, and avoid paying tax on the bulk of a transaction's real value. But since October this year, the Rangoon Division government has applied fixed values, varying street by street based on an official assessment, with in-demand areas and property on main roads given higher rates. For example, anyone selling property on certain streets in the highest value area in the city, Golden Valley in Bahan Township, must now pay tax at 37% of a fixed price of 325,000 kyat (US\$350) per square foot of land.

In Russia, it is understood that the government has approved amendments to the Tax Code raising taxes on commercial real estate across the country. According to the amendments, which passed both the State Duma and the Federation Council, taxes will be calculated based on commercial properties' cadastral values - State estimates approximating market values - rather than substantially lower inventory book values as they are currently. Buildings will be subject to the new tax if 20% or more of their total area is occupied by retail facilities, food service or office



space. Supporting infrastructure, such as indoor parking, would be included in the percentage. Apparently, industrial facilities will be exempt from the tax following lobbying by the Russian Union of Industrialists and Entrepreneurs. Tax rates nationwide would rise to 2% of commercial properties' cadastral values by 2016. Taxes in Moscow would reach 1.5% in 2014 and 1.7% in 2015, while rates in the regions would climb at a gentler pace, to no higher than 1% in 2014 and 1.5% in 2015.

In the Punjab, India, legislation has been passed which imposes an annual property tax on the immovable assets falling in urban municipal limits across the state. The Punjab Municipal (Amendment) Bill, 2013 binds householders to annually pay Rs. 50 per square yard for the structures built on an area below 50 square yards and Rs. 150 per square yard for the structures on an area between 51 and 100 sq yd. The tax will be 3% for the self-occupied non-residential buildings, 1.5% for the self-occupied industrial buildings and 10% for the non-residential buildings under the occupation of tenants.

In the USA, it is reported that rising costs continue to push up municipal spending in Atlantic City, while a declining tax base is reducing revenue. In the short term, the city borrows in the bond market to pay for shortfalls and for unexpected revenue declines, primarily from tax appeals. The problem in Atlantic City has occurred because of drastically reduced property values, especially for the casinos. Historically casinos contributed up to 80% of total property tax revenue collected by Atlantic City. Because of recent tax appeals, that figure is now below 70% and it is considered that it is likely to fall further in the coming year as more casinos try to duplicate one casino's recent success where, following appeal, the court not only reduced its current assessment, but said it had been over-assessed since 2009. The court awarded it \$48 million, which Atlantic City will have to raise by selling bonds.

Staying in the USA, it was recently reported that New Jersey residents pay some of the highest property taxes in America. The statistics come from the State's Division of Taxation and show in which towns residents paid the highest average property taxes in 2012. The town which actually topped the list was Tavistock in Camden County with an average bill of \$23,870, but it only has a population of 5, so the statistic may be misleading. Loch Arbour has an average bill of \$23,329, but with only 194 residents it may also be unreliable. More reliable is Millburn,



Essex County, where the average bill is \$20,439; the average (2012) home sale price is \$1,058,000 and the population is 20,149.

In China, property taxes have been levied on home owners in a trial basis in Shanghai and Chongqing since 2011. The two cities now plan to fully implement the tax and have released details on how much property owners will have to pay each year. The property tax rate in Shanghai will float between 0.4% and 0.6% of the average square-meter value of property for the year. In Shanghai this year the tax will only be imposed on property valued at more than 27,000 yuan per square meter. The city of Chongqing will charge the tax on property with a market value of more 12,000 yuan per square meter, but will exempt many smaller homes and long-term home owners. People who purchased property of more than 180 square meters after 2011 will pay more.

And finally, although public toilets need to be taken seriously, I had to smile at the issue raised over whether St Keverne Parish Council, Cornwall in the UK can continue to afford funding public toilets. Apparently, the issue arose after the government refused to allow the council to stop paying rates on the conveniences. St Keverne members had argued that toilets were not businesses and therefore they should not have to pay the rates - but the government has responded by claiming it was not "business" rates the council was paying but "non-domestic rates" and therefore it was appropriate. Councillors reacted angrily when told of the decision at their last meeting, with one saying "That's weasel wording .... it's not a business, it's providing a service. When members of the government come down to Cornwall on holiday do they pee in the street or something?" Members voted to continue fighting the rate.

On that festive note, may I again send my best wishes to you for the forthcoming holiday period.

**Paul Sanderson**  
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**International Property Tax Institute**