President's Message – January 2014

First of all, may I wish everyone a very happy New Year. I hope that you had an enjoyable break over the festive period and had the chance to relax and enjoy the company of family and friends.

It looks as if 2014 is going to be another very busy year for IPTI with a large number of events planned and a variety of interesting projects to undertake. Before getting into what lies ahead, I should let you know about some of our activities that took place last month, December 2013.

In conjunction with the Institute of Chartered Accountants of Trinidad & Tobago (ICATT), we ran a special seminar in Port of Spain, Trinidad, on property tax policy. ICATT had asked IPTI if we could put on this event at short notice as the government was looking at the issues and it would be helpful to give them the benefit of IPTI's experience from around the world to assist them in making key policy decisions. Prior to the seminar we held meetings with the Chairman and Commissioners of the Inland Revenue Division which helped to give us a better understanding of the matters that were being considered and pave the way for the issues to be covered at the seminar. At the seminar we covered a wide range of policy issues concerning all aspects of property tax and it was clear that the audience appreciated the impartial and objective way in which these matters were presented and discussed. Depending upon decisions to be taken by the government, I think we are likely to have a continuing role to play in assisting key stakeholders in Trinidad over the coming year.

We moved on from Trinidad to Costa Rica where we had a meeting to discuss how IPTI may be able to provide similar assistance to those responsible for operating the property tax system in the country. There are a number of key issues concerning the existing system and it is likely that we will be running an event there during 2014 to provide the benefit of IPTI's knowledge and experience.

Whilst in Costa Rica, we completed work on a number of projects and also took the opportunity to review what we had done in 2013 and what we planned to do over the years ahead. I am pleased to say that IPTI is in greater demand now than ever before and this appears to be because so many countries – including those with the most sophisticated and developed property tax systems – are experiencing problems which benefit from the independent expert advice that IPTI is able to provide.

Another significant event that took place in December was that the UK Chancellor of the Exchequer made his Autumn Statement and announced a number of changes and initiatives about business rates, the annual property tax for non-residential properties. This included some of the issues which we had raised with HM Treasury in the UK when we met senior policy officials prior to the Autumn Statement. We have offered IPTI's continued assistance in taking some of these measures forward.

Another important report published in December was that relating to the Special Purpose Business Property Assessment Review (SPBPAR) in Ontario, Canada. This report was prepared for the Minister of Finance and the Minister of Municipal Affairs and Housing and IPTI was involved in preparing reports and attending meetings of the Technical Experts Forum to assist the Review. The report contains a significant number of recommendations intended to address issues that have arisen in connection with the assessment of specific property types, including mills and other large industrial properties, along with recommendations to strengthen the property assessment system in general. IPTI has offered to continue to assist with the implementation of the SPBPAR's recommendations.

IPTI is running a related event at the University of Toronto in January 2014 at which an invited audience of key stakeholders will discuss the issues arising from both the Ontario Property Tax Summit previously facilitated by IPTI and the report of the SPBPAR.

Readers may recall that IPTI contributed to a review of the land valuation system in New South Wales, Australia, undertaken by the Joint Standing Committee on the Office of the Valuer-General. The report was published earlier last year, but the NSW Government has recently issued its response which, broadly, accepts the Committee's findings and recommendations, although it states that further work is required in respect of some of the issues. IPTI will, of course, continue to provide assistance in connection with this review if requested to do so.

Looking ahead to what we will be doing in January, the first significant event will be a property tax workshop to be held in New Orleans on 7-9 January. Organised by the Council on State Taxation (COST) in conjunction with IPTI, we will be bringing the international dimension to what is always an interesting and informative event. Whilst we are with colleagues from COST, we will be discussing plans for more partnership working in 2014.

In January we will also be presenting another workshop with the Institute of Municipal Assessors (IMA) in Canada. This workshop will focus on the valuation of leisure properties for property tax purposes, in particular, golf courses, marinas and casinos. These properties often give rise to valuation problems and we outline a number of ways to address these challenges.

I am pleased to say that we are introducing a new training course this year in conjunction with the Osgoode Hall Law School in Ontario. This course relates to the writing of expert reports for property tax appeals and is a two-module training event taking place in February and March. It is designed to complement the existing expert witness course we run with Osgoode Hall which is aimed at those presenting cases before property tax appeal tribunals. The combination of report writing guidance and training for presentation should help individuals from both the public and private sectors improve their performance in these important areas.

As usual, I will now have a quick look at what is happening to property tax systems in a few selected countries.

It is understood that China will fast track legislation relating to real estate taxes on a nationwide basis to control rising house prices, consistent with policy goals set in the government's newly approved 60-point long-term reform plan. Housing demand - brought about by rapid urbanization along with speculation - has been driving prices up for both new and existing city homes despite sustained efforts by authorities at cooling down the overheating market. In October, China's National Bureau of Statistics said property prices in 69 of 70 major cities rose, with those in Beijing, Shanghai, Guangzhou and Shenzhen posting record year-on-year increases ranging from 16% to 21%. To date, measures that have already been set in place to curb speculative buying include a 20% capital gains tax on sale of second and subsequent homes; a 70% down payment requirement for purchases of second homes; a ban on mortgages for purchases of third and subsequent homes; a prohibition on pre-sales for high-end properties; and, a restriction on apartment sales to unregistered residents. On a pilot basis, and only for high-end and/or multiple properties, real estate taxation has also already been implemented in Shanghai and Chongqing from 2011.

Sri Lanka is introducing a new capital value basis for taxable properties to replace the current annual rental value basis and plans to raise more money from property tax for local councils in 2014. Assessment rates for properties in different local authority areas are expected to go up to coincide with the change in valuation basis.

In contrast, it seems that many taxpayers in Singapore will benefit from reduced property taxes in 2014; apparently some 95% of owner-occupied homes are likely to experience reductions. This results from the Progressive Property Tax Rates announced in Budget 2013 which will take effect from 1 January 2014. With the new property tax structure, the Annual Value (AV) exemption threshold for which no tax applies has been raised from $6,000 to $8,000. This means that property owners who live in their homes will not have to pay property tax on the first $8,000 of the AVs of their properties. The new property tax structure also increases the progressivity of the property tax structure by taxing properties with higher AVs more.

An interesting comment was made recently in respect of North Dakota, USA, but raises an issue which is universal. This was described as the practice of communities giving away the tax base as a "gimmick" for economic development. It was said that this usually involves a five or ten year forgiveness of property taxes as a part of a package deal offered on the promise of a rosier picture of new jobs than is ever delivered. The commentator went on to say that, unfortunately, every city and state is doing it, meaning that communities and states get into bidding wars in which the only winner is the recipient of the tax break. Meanwhile, the hometown taxpayers end up paying for the subsidy through higher property taxes to keep public services functioning.

Staying in the USA, I noted an interesting recent statistic which is that there are more than 18,361 taxing authorities collecting property tax in the United States. Many of these authorities have their own rules and regulations which makes life "challenging" for taxpayers who own properties in different States and need to properly manage their liability, payments, appeals, etc.

In Russia it is reported that the cadastral value of land, which determines its tax liability, will rise next year, with commercial land seeing the greatest increase. The cadastral value of real estate in Moscow will be raised by an average of 10 percent starting 1 January 2014, with the biggest hikes planned for office space and the lowest for recreational zones, the city's property chief said. The cadastral value of office space will rise to 45,389 rubles ($1,385) per square meter from 40,005 rubles per square meter. This 13 percent increase will be the highest among the various types of commercial real estate. Retail space will be valued at 49,730 rubles per square meter, up from

44,560 rubles. Residential space will have a cadastral value of 58,593 rubles per square meter, compared to the current 53,679 rubles, while the value of recreational zones will rise to about 17,800 rubles per square meter from 12,575 rubles.

Real estate owners in Greece will start paying the new Single Property Tax from July 2014 in six monthly instalments, according to a draft bill that was tabled in Parliament recently. May 2014 will see the completion of the payment process for this year's extraordinary tax paid via electricity bills, after which the payment of the new tax will start. The new tax is expected to raise a total of 2.65 billion euros. The new tax will shift the burden from small property owners to the 290,000 taxpayers whose property assets add up to at least 300,000 euros, as the latter will also pay the supplementary tax, totalling 380 million euros. Another 280 million euros will come from the supplementary tax to be paid by corporations.

The Italian Senate recently approved a "maxi-amendment" which completely replaces the proposals originally made by the Government in its draft 2014 Budget in October. The changes made to the Government's so-called "Stability Law" measures mainly concern residential and industrial local property taxes, and individual income tax deductions. With the abolition of the controversial local property tax (IMU) on first residences from January 1, 2014, the new "service tax" to fund all local services will now be called IUC (the unified local tax), rather than TRISE. IUC will be formed of IMU (levied on all property owned, except for first, non-luxury residences), TASI (a tax on general local services paid by all property owners, with 10 percent to 30 percent payable by lessees) and TARI (the current local tax on environmental and waste services, levied on either the property owner or lessee). The total rate of IMU plus TASI cannot be greater than 1.06 percent of a property's value. In addition, for businesses, there will be an increase to 30 percent for the deductibility of IMU against both federal and local corporate income tax in 2014. It is foreseen that the deduction will fall to 20 percent in the succeeding two years.

And finally, in part of South Africa, during the current revaluation process there were complaints that some valuers were taking photos inside houses which many residents felt was a security risk. That practice has apparently been stopped, but other problems have arisen. One of the valuers reportedly said “Some residents were very uncooperative. Some said that the newspaper reported that our valuers should not be allowed access. Some even set their dogs on us. They seemed to confuse us with municipal officials and would talk about the potholes and lack of water”.

I think at least some of those comments might resonate with property tax assessors around the world!

Once again, my very best wishes to you for the New Year.

Paul Sanderson
President
International Property Tax Institute