President's Message - March 2014

I wrote my previous note (President's Message for February 2014) from Halifax, Nova Scotia where it was very cold - well below zero. I am pleased to say that I am writing this note from the warmth of Grand Cayman where we have just concluded a joint IPTI-RICS a professional meeting on valuation methods which was well-received. We were primarily concerned with the methodology of the sales comparison and income approaches and their use in valuations for a variety of purposes.

February was a busy month for us and included the first two days (module 1) of a new training course we conducted jointly with Osgoode Hall Law School in Toronto. This course was focussed on expert report writing and involved some interesting sessions including “How the Brain Works” and “Effective Writing Techniques”. The second part of this course (module 2) will be held in early March and it will be interesting to see how the candidates have managed in dealing with their “homework” between the two modules which was to draft an expert report relating to a property tax appeal based on the facts of a hypothetical property.

We held two meetings in Chicago in February. The first was an information session entitled “Recent Developments in Property Taxation” which we ran jointly with RICS Americas. There was an interesting range of topics discussed starting with a global review of assessment and taxation issues and then focussing in on current issues in the Cook County area and the Mid-West USA. The Deputy County Assessor for Cook Country talked about some of the challenges which Cook County faces and what steps they have taken to improve communication with taxpayers and streamline in-house processes.

The second meeting in Chicago was of IPTI's Corporate Advisory Committee (CAC) which took advantage of having many CAC members being in Chicago to attend the IPTI-RICS information session. The CAC was updated on a range of current IPTI activities and other issues that are of particular interest to corporate entities, particularly those which have properties both in the USA and elsewhere in the world.

One of those issues is the latest developments in the preparation of the COST-IPTI scorecard which is well-advanced and is planned for publication in late April. COST (the Council on State Taxation) has reviewed the property tax systems operating in all 50 States in the USA and IPTI has reviewed those systems in Australia, Canada, Hong Kong, Ireland, New Zealand, South Africa, and the United Kingdom. The results are very interesting and informative and it is hoped that both taxpayers and governments will want to use the scorecard results to identify areas for improvement in the various jurisdictions concerned.

In February we held another in the on-going series of IMA (Institute of Municipal Assessors)-IPTI Workshops; this one was entitled “Preparation for Litigation”. We were very pleased with the attendance at the workshop which was over-subscribed indicating a strong demand for training in this important area of professional activity. In view of the demand, we will be running another workshop on this subject in the coming months.

We also ran another professional meeting in conjunction with RICS Americas in February. This one was held in Barbados and dealt with the challenges of using the cost approach to value. This involved consideration of both theory and practice relating to the approach and, in particular, the meaning of function and utility, determining replacement cost new, and looking at the identification and calculation of depreciation.

We are planning another IPTI-RICS event in Barbados later in the year. This will look at both valuation and construction issues and will be held in Bridgetown on 21-22 October. I will provide more information about this event in due course.

Another interesting meeting took place in London during February. Last year, IPTI was invited to attend a meeting with senior policy advisers working at HM Treasury (HMT) in the UK. Some of the issues concerning the annual property tax relating to non-residential properties (“business rates” in the UK) discussed at that meeting were reflected in the UK Chancellor’s Autumn Statement in December last year. The UK Government have recently announced the terms of reference for a review of the administration of business rates and HMT approached us again to assist them by discussing some of the issues that will be covered in this review. We were able to provide them with both policy and practice information - from an entirely objective perspective - which they appreciated.

The latest UK review of business rates administration is related to a separate consultation being carried out by the Department for Communities and Local Government entitled “Checking and Challenging your Rateable Value”. This consultation is looking primarily at introducing greater transparency in the valuation process along with ways in which the existing appeal system can be improved.

It is interesting to note that the British Retail Consortium have recently published a paper looking at alternatives to business rates in the UK. One of their suggestions is that the property tax for business properties should be replaced with a new “energy tax” to encourage reduced energy consumption. Predictably, this has not gone down well with many businesses, particularly those which use a large amount of energy!

I am pleased to say that IPTI has been making good progress in connection with the development of new e-learning courses. We now have a team working on the production of the first modules and I will let you have more information about this exciting development soon.

Looking forward to what else is happening in March, we have another IMA-IPTI workshop on tax policy issues and challenges in Ontario which will be interesting as the subject is very topical. We also have an IPTI Panel at the annual World Bank Land and Poverty Conference which is being held in Washington. I will provide more information on these events next month.

Now a quick look at a number of current property tax issues that have arisen in various countries around the world.

In the USA, an interesting issue has arisen in Colorado where marijuana farmers and their eligibility for agricultural tax breaks are being debated. The decision has already been taken on how to tax finished marijuana - which is now legal in Colorado - but there is an issue on how the land on which marijuana is grown should be assessed for property taxes. Some argue that marijuana growers shouldn't be eligible for any of the taxation perks afforded to farmers that grow conventional crops. Others say that marijuana, while it's growing, should be treated like other crops including the hops and barley that go on to become highly taxed alcohol. Colorado voters last year overwhelmingly approved steep taxes on finished marijuana, which is taxed at least at 25 percent, in addition to local taxes. But Colorado law is still unclear on how growing marijuana should be taxed. On the same issue, Washington lawmakers are considering a bill to prohibit marijuana growers from qualifying for agriculture tax breaks for 10 years, reportedly to give the state time to collect information and make a decision.

It has been announced that the Australian Valuation Office (AVO) will close down at the end of June. The Government Minister responsible said "A compelling case for the commonwealth providing its own valuation services no longer exists, particularly given there is a highly competitive market of private sector providers." The AVO has been delivering valuation services exclusively for the government since 1910, but is reported to have expected losses of up to $4 million this financial year. It was also reported that a further $1 million would have been required to bring its IT equipment up to date so the financial position of the AVO was described as “unsustainable” by the Minister.

Staying in Australia, a councillor in Adelaide has recently taken a swipe at the many “freeloaders who just don’t pay anything towards the running of the city”. According to the councillor, these include state and federal government properties, universities, hospitals and health services, schools, Adelaide zoo, community service providers and many sporting organisations. He estimated the exemptions meant the council missed out on about $20 million a year. These views are reflected in many jurisdictions around the world at present as so many municipalities are looking carefully at whether such exemptions are justified, particularly at a time of economic difficulty.

Voters in the Swiss canton of Lucerne have adopted an initiative, put forward by the Lucerne housing association, calling for an end to the local property tax (Liegenschaftssteuer). The association argued that the tax is unfair to property owners as homeowners are already subject to wealth tax on their property. However, Lucerne's Governing Council and the majority of the cantonal council emphasized the importance of maintaining the property tax, insisting that the cantons and communes will not be able to manage without income from the tax.

Judges in Greece's Supreme Court recently ruled that the "emergency property tax of 2011 was unconstitutional and contrary to the European Convention of Human Rights." The emergency property tax - collected via electricity bills - has been controversial as taxpayers saw their power bills increase by several hundred euros, and faced having their power supply cut off if they did not pay. The emergency property tax was originally planned for two years (2011 and 2012) but it was retained and levies at least 500 euro for each household. Taxpayers have protested that this was unfair, particularly in times of recession, unemployment, strict austerity and severe cuts in salaries and pensions.

Slovenia's Constitutional Court has suspended property tax assessments after a challenge to the constitutionality of a new real estate tax that came into force at the start of 2014. The tax imposes a charge based on property value of between 0.15 percent for occupied residences through to 0.5 percent for empty homes and 0.75 for commercial properties. Public buildings, energy facilities, farms, farmland and forests are also liable. However, opponents of the tax complain that the tax legislation was rushed through late last year, and that it is unfair for a number of reasons. In particular, they claim that the amount payable is calculated on the basis of incomplete records held by the Mapping and Surveying Authority.

The Finnish Government is contemplating reducing the share of local governments of the real estate tax contributions of power plants, including wind farms. According to the proposal, municipalities would retain 50 per cent of their revenue from real estate taxes, while the other half would be used to balance tax revenues. Inequalities between the tax revenues of municipalities are balanced through a tax revenue based system of central government transfers to municipalities.

In the UK there has been severe and sustained flooding in many counties due to prolonged heavy rainfall and the Government has announced that flood victims who have been forced out of their homes will be exempt from council tax, the residential property tax. The Government has also said that business rates, the annual property tax which relates to non-residential properties, will be reduced for businesses that have been adversely affected by the floods. This approach is reflected in many parts of North America which have also been adversely affected over recent months by storms and resultant floods.

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China continues to consider whether or not to extend the property tax pilots that were introduced three years ago in Shanghai and Chongqing. The goals of the duties, which include combating speculation in property market and reining in home price rises, are said to be far from being achieved. That is one of the reasons why it is an issue for policymakers to decide whether to expand the pilot program beyond the original cities. In Shanghai, if a family has a housing area of more than 60 square meters per person, it is taxed at a rate of 0.4 percent or 0.6 percent of the total property price annually, depending on the apartment's price per sq m. If the price is above 27,740 yuan ($4,570) per sq m, the rate was 0.6 percent in 2013. In Chongqing, the trial tax is focused more on reducing investment speculation in high-end properties, with the rate set between 0.5 percent and 1.2 percent of the property price annually. But the two cities' real estate prices, along with other major cities, have continued to rise in the past three years.

And finally, as readers will be aware, one of the main principles of an annual ad valorem property tax is that it should, broadly, reflect "ability to pay". However, it is reported that the owner of the largest residential property available for purchase in the USA did not pay any property taxes for that property in either 2012 or 2013. The property's assessed market value was $11,834,880 in 2013 and the property is on the market at present with an asking price of just under $14,000,000! The owner paid no property tax in either of the last two years because, as he is over 65, he is fully exempt. Is this another exemption that warrants a review?

Paul Sanderson
President
International Property Tax Institute