



President's Message - June 2014

I am pleased to say that IPTI has taken delivery of copies of the new book we have published called "Improving Mass Appraisal Valuation Models Using Spatio-Temporal Methods". Written by Rich Borst, Ph.D, a renowned international expert in this field, the book explains the latest techniques in the use of geostatistics and geographically weighted regression in the context of computer-assisted mass appraisal. Although this is a specialist area, the book is essentially aimed at practitioners so there is less focus on theory and much more on the practical aspects of some leading edge methodology involving the field of geostatistics. Rich will be signing copies of his book at our MAVS in Calgary in June which is another good reason to join us. Please visit our website (www.ipti.org) for more information about the book.

Just taking a quick look back to what we were doing in May, one of the many interesting events we held was a meeting in Amsterdam organised by the European Chapter of our Corporate Advisory Committee (ECAC). Kindly sponsored by Cushman & Wakefield, the meeting involved a number of presentations, one of which involved a speaker from the OECD who explained that property taxes were becoming a more important issue for that organization. We discussed ways in which IPTI and OECD could work more closely on areas of common interest. We also had a very interesting presentation on the property tax system in the Netherlands which is a very sophisticated system.

We also held another in our series of IMA-IPTI property tax workshops in May. This one was held in Ottawa, Canada, and concerned assessment appeal preparations from both the legal and valuation perspectives. On a similar topic, I am pleased to say that we have finalized plans for our next joint event with Osgoode Hall Law School which will be held in August in Toronto. This will be a very practical 3-day course on writing expert reports on property valuation disputes; details are available on our website.

May also saw us complete work on a number of projects. These included projecting future property tax revenue from the anticipated development of a rapidly growing area; the review of an assessment appeals process; a study of the advance disclosure process in a particular jurisdiction; an analysis of the property tax treatment of a particular class of properties; and an audit of a recent large-scale reassessment. Lots of interesting work and I am pleased to say that IPTI has been commissioned to carry out more projects over the coming months.



Another project which is now practically complete is the property tax survey and scorecard we have prepared jointly with the Council on State Taxation (COST). The scorecard looks at a number of key aspects of way in which property tax systems are administered in each of the States in the USA along with jurisdictions in Australia, Canada, Hong Kong, New Zealand, South Africa and the United Kingdom. There is a large amount of information contained in the main report and the associated addendum. The joint COST-IPTI publication will be officially launched at our MAVS in Calgary and details of how to obtain copies will be released at that event.

If you need another reason to attend our MAVS in Calgary, it will also see the launch of our new e-Learning platform along with details of the first modules that will be available. If you can't join us in Calgary, details of "e-Learning by IPTI" will be on our website shortly.

Another interesting event I attended in May was the UK's "National Rating Day" held in London. In addition to the usual updates on what is happening with business rates (the property tax which applies to non-residential properties in the UK), there was a particularly "lively" debate about the way in which the Valuation Office Agency currently deals with certain aspects of the appeal system. The UK Government has issued a recent consultation paper on the appeals system followed by a discussion paper on other aspects of the administration of business rates, and it seems clear that there will be changes intended to improve the present arrangements. I have been asked to chair the next UK "Rating Question Time" in London which will no doubt focus on some of these issues.

Another interesting contact I had in May was from a Japanese agency who are sponsoring a property tax project in Palestine. They are bringing a small study group to the UK in early June and I will be meeting them in London to discuss their project and how IPTI may be able to assist.

As already mentioned, our main event in June will be our annual Mass Appraisal Valuation Symposium (MAVS) which is being held in Calgary. We have a great line up of speakers who will be covering a wide range of topics as part of the theme of the MAVS which is "Ensuring Valuation Consistency in Turbulent Times - How to Deal with Natural Disasters and Economic Downturns". The MAVS is proving very popular so I hope you have already made your booking if you are planning to join us in Calgary.



After the MAVS, I will be attending the IMA's Annual Conference being held at Niagara Falls, Ontario. In addition to bringing greetings from IPTI at the start of the event, I will also be involved in a number of aspects of the conference including a workshop on the valuation of heritage properties and a post-conference seminar on preparing for an assessment appeal. IPTI will also be presenting a post-conference seminar on "Property Tax in Ontario – Challenges & Practical Applications".

Now for a quick look at what is happening around the world in terms of property tax systems.

We'll start in Nova Scotia, Canada, where quite a lot of publicity has been generated by the publication of a report commissioned by the Union of Nova Scotia Municipalities, the Association of Municipal Administrators, Nova Scotia and the Property Valuation Services Corporation into the property tax system in the Province. The independent study identified four assessment issues and six property tax issues. The assessment issues include: the choice of area-based or value-based assessment; exemptions and payments-in-lieu of property taxes; the lag between the annual assessment and the assessment base (i.e. valuation date); and the volatility of assessed property values. The property tax issues include: capping of residential assessment for tax purposes; commercial versus residential property tax rates; property tax incentives to encourage growth and development; provincial property taxes for funding education; the tax treatment of agricultural and resource properties that are no longer used for these purposes; and urban/rural property tax differentials. The report makes a number of recommendations for improvements, including the removal of capping, and the three organizations concerned will be working together over the coming months to determine their next steps.

In the USA, an interesting report has been released by researchers at Duke University whose study found that shale development is contributing significantly to the budgets of local governments across the country. To quote from the report: "Our research indicates that the net impact of recent oil and gas development has generally been positive for local public finances. While costs arising from new service demands have been large in many regions, increased revenues from a variety of sources have generally outweighed them or at least kept pace, allowing local governments to maintain and in some cases expand or improve the services they provide." This type of development, known as



“fracking”, is proving controversial in a number of countries, in particular the UK, so it will be interesting to see how this report is received around the world.

Staying in the USA, the New York State Assembly has passed legislation that will provide property tax relief to New York City homeowners who rebuilt or repaired their homes after Hurricane Sandy where the work increased the value of the properties concerned. Sandy victims who were forced to rebuild or repair their homes could have faced increased tax bills for fiscal year 2015. But the passage of the bill will allow for a tax abatement to avoid any increase in real property taxes that would otherwise come with an increase in the assessed value of the properties. A homeowner's tax liability for the upcoming fiscal year will be lowered to the pre-storm, fiscal year 2013 amount.

Moving on to Russia it is reported that Sochi's Olympic sports venues and hotels have been exempted from property tax for two years by the regional government. According to the law, all Olympic buildings will be freed from corporate property tax until 2015. The term "Olympic buildings" includes sporting venues, the Olympic village, the Games' media centre and the Russian International Olympic University in Sochi as well as transportation and engineering infrastructure and hotels built as part of the government-driven construction. According to a spokesperson, by lifting the tax - set locally at 2.2 percent of the net value of a company's assets - the regional budget will miss out on some 4 billion rubles (\$114 million), money it hopes to get back from the federal budget.

Staying in Russia, it is reported that the Finance Ministry wants to raise property tax on homeowners tenfold by pegging the tax rate to cadastral property values. According to proposed amendments to the Tax Code published on the ministry's website, from 2015, the new tax will replace an existing property tax and a land tax currently paid by homeowners. The proposal's main innovation is to scrap inventory book property values as a basis for calculating tax rates. Set by a state agency, these are often ten times lower than market prices. From 2015, the tax will be levied on the basis of cadastral values that better reflect real prices. As a result, homeowners are likely to see a big increase in tax bills.

In Burma the government is being urged to levy property taxes on unused land to curtail property speculation which is said to have fuelled property prices in the past years. Experts say that there has been a significant increase in land and



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property prices over the last two years and high land prices have driven property prices beyond the reach of ordinary people.

In Australia, it is reported that councils across Queensland could soon be forced to pay back hundreds of millions of dollars in rates levied on investors after a Supreme Court decision ruled their collection was invalid. At least 19 councils have been charging investors higher rates than those residents who live in their own homes - a decision recently ruled invalid by the Supreme Court. Apparently an appeal is being worked on, with the backing of the Local Government Association of Queensland, in a bid to have councils' interpretation of the differential rating system, which has been used by some councils for more than 20 years, declared legal. Council sources said the Supreme Court decision meant up to \$300 million a year - across the state - was now in doubt and if an appeal was not successful, general rates would have to be increased substantially to pay the refunds.

In New Zealand, the Christchurch City Council has decided to allow an extension to the time allowed for objecting to new rating assessments in the earthquake area known as the "Red Zone". They said that the extension was warranted following an approach from the Human Rights Commission which raised concerns about the way the revaluations were done in the Red Zone and the added stress for property owners. The objection period for the city's first post-earthquake valuation of more than 160,000 properties officially ended on 28 April, but those in the Red Zone now have an extended period in which to lodge objections. The Mayor said that the revaluation process complied with strict rules laid down by the Valuer General, but the Council is also mindful of the issues facing property owners in the Red Zone. However, despite the extension to the objection deadline, the basis for objections remains unchanged. Under the methodology adopted for the Rating Valuation, property owners cannot object solely on the grounds of earthquake damage.

An interesting recent decision from the European Court of Human Rights has ruled that the Mormon Church in the UK is not entitled to full local property tax exemption on a temple it owns in Chorley, Lancashire. The case goes back to 2005 when the Church of Latter Day Saints was told that it was not exempt from paying business tax on the temple, which is not open for public worship, but restricted only to the most devout members of the Church. The Mormons appealed the decision up the UK House of Lords in 2008, but the appeal was dismissed. Now their claim that their human rights were abused has also been



dismissed in the European Court, which said that the church members' right to practice their beliefs had not been violated.

A recent OECD paper reviews the literature and policy discussions about the role of property tax in connection with land use. It states that various externalities of the development of land, such as new infrastructure needs, the loss of open space or air pollution due to longer commutes as people locate far from city centres, are not internalised fully by property taxes or other policy instruments and this is often thought to contribute to excessive land use and urban sprawl. The impact of property taxes on land use intensity and sprawl is ambiguous, and it depends on tax design, as well as land use regulation policies and other taxes that can influence municipalities' incentives to convert land for development. Yet, there is some evidence suggesting that higher property taxes can limit urban sprawl, in particular when the tax on land is higher than on structures, although the effects are small relatively given a limited price elasticity of land use. Various property tax design options are discussed that may help to better internalise land use related externalities.

And finally, back to New York where the city's Independent Budget Office (IBO) said recently that Madison Square Garden's annual exemption from property taxes has tripled in value. The tax break will cost taxpayers \$54 million next year, up from \$17 million this year, the IBO said. That's because the Garden's recent \$1 billion renovation increased the building's value by nearly \$800 million. In contrast, a New Jersey appeals court recently ruled that the state's Major League Soccer franchise is liable for nearly \$3 million in property taxes to the town of Harrison. The New York Red Bulls have played at Red Bull Arena in Harrison since 2010. During that time, the town billed the team for about \$1.5 million for the 2010 tax year and about \$1.3 million for 2011, according to court documents. The team has paid the taxes, according to a team spokesman, but had filed a lawsuit to have them reimbursed. In the lawsuit, the Red Bulls claimed they are exempt from paying taxes under state law because the property and stadium are devoted to "an essential public purpose." These cases raise interesting arguments over the merits of property tax exemptions generally and, in particular, for any property which houses a multi-million dollar organization.

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