President's Message - August 2014

I imagine many of you, at least those in the Northern hemisphere, are looking forward to a summer holiday over the next few weeks; if so, I hope you have a very enjoyable break. I am pleased to report that the weather in the UK has, unusually, been very pleasant over the last couple of weeks, and I hope the weather where you are is equally nice.

Anyway, back to business. Let me start by telling you that PK Tang, the new Commissioner at the Rating and Valuation Department (RVD) in Hong Kong, has now joined IPTI's Board of Advisors. Mimi Brown, the previous RVD Commissioner, who was on our Board, has retired and PK has accepted our invitation to take Mimi's place on the Board. PK has spoken at many IPTI events over the years and we are very pleased to welcome him in his new role. I should add that Mimi was a strong supporter of IPTI and I would like to thank her for her many contributions to IPTI over the years.

Many of you may recall that Mimi's predecessor as Commissioner, Kenneth Pang, was also a strong supporter of IPTI, so we are very fortunate to continue to have valuable inputs from the Hong Kong RVD which is a very progressive valuation agency.

It is no coincidence that Hong Kong came out "top of the world" in our recent COST-IPTI Scorecard which looks at property tax systems in various countries including the USA, Canada, Australia, Ireland, New Zealand, South Africa and the UK. The Scorecard looks primarily at the administration of property tax systems under the various headings of transparency, simplicity, consistency and fairness, and it contains some interesting results. The objective of the Scorecard is not to criticise systems but to identify areas where they can be improved for the benefit of all stakeholders. Although Hong Kong came out with the highest overall score, I am pleased to say that most other jurisdictions were not too far behind. The Scorecard will be available on our website shortly.

Just taking a quick look back over the last month, we have spent most of July working on various projects, some of which are quite substantial in terms of their scope and the amount of work involved. I am pleased to say that we are on track with all of them and we are discussing possible further projects with both existing and potential new clients.

We are also getting ready for a very busy August with more report writing to be done, and then a series of events from the middle to the end of the month including a sold out Osgoode-IPTI valuation report writing course and our workshop in Toronto which is being run as part of the Commonwealth Heads of Valuation Agencies (CHOVA) Conference. CHOVA promises to be a very interesting event and I look forward to seeing IPTI members at our pre-CHOVA workshop.

I am also due to participate in two sessions at the forthcoming IAAO Annual Conference in Sacramento which is being held in August. One of these sessions includes a round-up of current issues concerning property tax systems around the world and I thought you might like to see the topics I will be covering. They include:

- The "popularity" of property taxes
- How to improve public acceptance of property taxes
- How to improve political awareness and understanding of property taxes
- How to improve the progressivity of property taxes
- Linking property tax liability with "ability to pay"
- How to link "benefits" with property taxes
- How property taxes cope with recession
- How property taxes cope with natural disasters
- Is market value the right basis for property tax?
- Is market value more important than equity?
- The scope for self-assessment of property taxes
- Capital value, rental value, land value, etc.
- How frequently should properties be reassessed?
- Using property taxes to drive desired behaviour
- Exemptions, reliefs and other "adjustments"
- Supplements, capping, clawback, etc
- How to reduce the number of property tax appeals
- The need for standards

That list - which, of course, could have been much longer - should keep us busy for a while!

Having mentioned the international perspective, let me draw your attention to a few matters that I have recently come across from around the world.

There is a report that major water districts in California, USA, are considering using property taxes to help fund the construction of two massive tunnels through the Sacramento-San Joaquin River Delta estimated to cost some $25 billion. Most property tax increases in California require a two-thirds vote, as required under Proposition 13 which voters passed in 1978, but the water agencies contend they are not bound by that requirement. Until recently it had been assumed that water agencies supporting the tunnels project would be raising water rates to pay for the tunnels. Apparently, the Metropolitan Water District of Southern California, which provides water to 19 million people in and around Los Angeles, is also discussing using that agency's property tax authority to help pay its share of the cost. Anti-tax groups say they fear that residents of Silicon Valley, Los Angeles and other urban areas could be left paying for major cost overruns and that their property taxes could be increased significantly without a public vote. Both the Metropolitan and Santa Clara Valley districts are expected to decide the issue later this year. It will be interesting to see how this matter progresses.

Staying in the USA, a Pennsylvania county judge has again ruled against a widow who lost her home because of an unpaid $6.30 interest charge for paying her school taxes late. The judge ruled that the taxpayer had been properly notified about the September 2011 tax sale of her home, which was valued at about $280,000 and sold at auction for $116,000. The taxpayer said "I paid everything, and didn't know about the $6.30. For the house to be sold just because of $6.30 is crazy." The taxpayer's attorney said that it was "something out of the ordinary" for a home to be sold for such a small tax claim, but the county's solicitor defended the decision stating "The county never wants to see anybody lose their home, but at the same time the tax sale law, the tax real estate law, doesn't give a whole lot of room for error, either."

An interesting initiative from a city in the UK allows the public to play the role of the city council's finance chiefs by setting a budget on a simulator. The idea, launched by Derby City Council, is part of an exercise where it is asking people to have their say on what they think the council's priorities should be in the face of a mounting need for cuts. It is said that this will be a "zero base" review looking at how services work from scratch to see how they can be made more efficient. It is planned to take about two years, with the aim of having a long-term vision for the council that takes into account multi-million-pound cuts. For each area the public can choose to increase funding by 10%, keep the funding the same, or decrease it by up to 100%. The consequences of each change in funding are displayed in summary automatically or in detail when they press an information button. In addition, they will see options for fees and charges and council tax. As they make their decision, those using the simulator will see, at the top of the screen, how far away they are from balancing the budget. Once they have achieved the set level of savings they will be able to submit their budget and it will be taken into account when the authority makes its long-term plans.

In Australia, a rather different approach to balancing the books is being proposed by a council in New South Wales which has made an application to increase rates higher than the Consumer Price Index (CPI). Council rate rises are annually set by the Independent Pricing and Regulatory Tribunal, a system known as rate pegging, and are usually capped at CPI. However, councillors approved a plan to prioritise spending on community infrastructure projects by means of a Special Rate Variation (SRV). It was stated that "The cost of local government services has risen faster than inflation and the council's income is limited by the state government rate pegging that has been at least 0.5 per cent below inflation each year for the past 10 years. There is a financial gap with the current level of funding … this leads to a significant and growing annual infrastructure renewal gap." The options facing the council were to increase revenue by a rate increase above the rate peg amount, reduce services or service levels in council's general fund operations, or allow infrastructure assets to continue to deteriorate. "An SRV is one way of providing additional funds to deliver and provide community infrastructure requested by the community that cannot be funded from current revenue," it was said.

In India, Karimangar Municipal Corporation (KMC) has issued orders to KMC officials to impose a Vacant Land Tax (VLT) in the town with immediate effect. It is reported that the VLT will be based on the area of the land concerned and the amount collected through the VLT system would be used for the development of the town. It was pointed out that most of the vacant land in the town was being turned into garbage dumping spots and were also turning into cesspools during the rainy season, becoming a breeding ground for mosquitoes.

On a similar topic, I note that a city in Maryland, USA, is taking action to deal with vacant and blighted properties. An official for Takoma Park said that such properties deny the city government needed tax revenues, consume city staff time, erode the value of nearby homes, pose health and safety risks, and negatively impact neighbourhoods. The plan is to introduce a vacant and blighted property tax which would allow the city to establish a tax incentive program to encourage property owners to remediate or redevelop blighted properties. The property taxes would be increased on blighted properties and can subsequently decrease once the property is remediated or redeveloped. It was said that a blight tax could motivate property owners to stabilize and improve the blighted conditions on their properties or sell to others who are willing to do the work. It also allows the city to recover the public service costs associated with blighted properties. If a property is vacant or underutilized, the higher tax may encourage the owner to rent it in order to pay the extra taxes. These actions could subsequently increase the blighted property's value and that of nearby properties.

Lawmakers in Cyprus have voted to retain 1980 property valuations as the basis for calculating the country's Immovable Property Tax for the year ahead, postponing an agreement made with bailout lenders that the country would update property values. Party leaders agreed on a bill that amends current legislation while keeping old values. The bill pushes back the deadline for making payment by one month to the end of November, and increases a discount for early payment by five percentage points to 15 percent. It also specifies that the tax is payable by the user of a property, rather than its registered owner. It is now intended that property values as at January 1, 2013, will be used after an overhaul planned for 2015.

Egypt's Cabinet recently approved changes to the real estate tax law which will see 25 percent of revenue directed to developing slum areas and 25 percent for local development in rural and other marginalized areas.

The new rules will also exempt private residences with a market value "in the range of LE2 million." Egypt has been attempting to introduce a property tax since at least 2008 when parliament issued a law that was never implemented due to widespread opposition. It is reported that the country will face a major logistical challenge in determining property values since Egypt lacks a central, computerized database recording property sales and, according to a 2004 study, more than 90 percent of property transactions in urban areas are never formally recorded with authorities.

And finally, there's a very "fashionable" book and its author doing the rounds at the moment. The book is called "Capital in the 21st Century" and the author is Professor Thomas Piketty, a French academic. His view is that the gap between rich and poor is as big now as it was before the French Revolution. To solve the problem, he proposes imposing massive wealth taxes on the rich, an idea that would no doubt be very popular with everyone other than the rich! He argues that property tax should not be a charge for local services but, instead, a wealth tax and that ownership of one's home counts as wealth. However, he says that the tax should not be based on the value of the house, as it is now, but on how much of that house you actually own. So people with mortgages would pay less property tax than those who've paid off their mortgage. Would this be sensible, desirable and fair? I will leave you to consider those issues!

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