President's Message - September 2014

I am writing this month's newsletter from Toronto where we have just concluded a number of interesting events.

In reverse chronological order, we were heavily involved in the Commonwealth Heads of Valuation Agencies (CHOVA) conference in Toronto which started with a reception on Friday 29 August and finished with a dinner on Sunday 31 August. Between those two enjoyable social events, the conference covered a wide range of topics which allowed the sharing of experiences from many different jurisdictions. IPTI made two presentations at CHOVA with Jerry Grad talking about our Scorecard relating to property tax systems in many of the countries represented at CHOVA. I made a presentation about the principles that should underlay an effective and efficient property tax appeals system, along with a look at best practices concerning property tax appeals from around the world.

In addition to the main CHOVA conference, IPTI organised a pre-CHOVA event on the morning of Friday 29 August. Again, this event included a number of diverse topics of interest to our attendees from around the globe. The presentations were split into two main sections with a look at some of the challenges facing those operating property tax assessment systems in the first part and the second part looking at solutions to some of those problems. I thought it was a very interesting and enjoyable event which provided a good introduction to the main CHOVA conference.

Particular thanks must go to Larry Hummel, Chief Assessor, and MPAC for hosting CHOVA so effectively and for inviting IPTI to participate in the event.

Following the pre-CHOVA event, we organised a meeting of what we are calling our Caribbean Committee to discuss the needs of the countries concerned and how we might be able to assist. At the meeting we had representatives from Jamaica, Trinidad & Tobago, Barbados and Grand Cayman. Colleagues from the RICS also participated in the meeting which looked ahead to what events and activities we may organise in the Caribbean during 2015.

Moving further backwards in time, prior to the CHOVA weekend, I had been in Sacramento for the IAAO Annual Conference in Sacramento. This conference is on a large scale with over 1100 attendees and covers a wide range of subject-matter. I made two presentations: one was concerned with the need for independent external audits of revaluations which provides benefits both in terms of practical considerations (identifying problems and, ideally, providing an opportunity to remedy them prior to the new values coming into force) and presentational advantages (being able to inform stakeholders that the new values have been objectively reviewed by an expert third party).

IPTI has experience of providing this type of impartial advice and I think more valuation agencies should embrace this approach.

The second presentation combined a look at a number of current issues concerning property tax systems around the world with consideration of the new COST-IPTI Scorecard which has now been finalised. The Scorecard - along with related material concerning property tax systems in the countries, states and provinces concerned - will be available on our website very shortly. I hope anyone interested in the Scorecard will find it contains useful information which, we anticipate, will assist in improving various administrative aspects of the property tax system operating in the jurisdictions concerned.

I was joined on the platform by IPTI colleagues for these two presentations, both of which appeared to be well received. One of those colleagues was Ruel Williamson who, I am pleased to announce, has recently joined IPTI as our Chief Operating Officer. Ruel will be well known to many in IPTI as he has an extensive background in property tax and has experience of operating in many different countries. Ruel brings an additional dimension to the senior management of IPTI and you will be seeing and hearing much more from him over the coming period. At this stage, I would just like to officially welcome Ruel and say how pleased we are to have him working with us.

I should add that, on my way to Sacramento, I stayed in San Francisco for a couple of days which proved to be quite "exciting" as we had an earthquake in California whilst I was there. Although it was the largest earthquake to hit that part of the world for over 30 years, fortunately the impact of it was limited. However, it was "interesting" to be woken up at 3:30am with the hotel shaking; it is a good job such buildings are now designed to withstand earthquakes!

Although I can't claim it was a "seismic" experience, the 3-day training course on writing valuation reports we held at Osgoode Hall Law School in Toronto during August was very well received by delegates. The course covers not only advice from property tax experts - including lawyers, appraisers and assessors - it also had some additional experts from outside the world of property tax. We had an excellent keynote opening address from the Hon. Justice Peter Lauwers, a very experienced judge from the Ontario Court of Appeal. We also had inputs from experts on "writing properly" and "how the brain works" which were very interesting and informative sessions. I think this course is really helpful and combines effectively with our related Osgoode/IPTI course on expert witnesses.

Prior to travelling to Toronto, I had a meeting in Belfast, Northern Ireland, with key officials involved in preparing for the next revaluation of non-residential properties which is due to come into effect next year. By way of background, other countries in the United Kingdom - England, Scotland and Wales - were due to have their next 5-year revaluation of non-residential properties also come into effect in 2015, but the government decided to postpone the revaluation in those countries until 2017. Northern Ireland decided to proceed with the 2015 revaluation and it will be interesting to see the impact of the updated valuations when they come into force next year.

So, August has been a very interesting and varied month for IPTI, and my brief review of our activities above has not included the many different projects we are working on which have continued to keep us very busy. Looking ahead, we will be working on many of these projects during the coming months as well as running the events we are holding in Canada, Australia and the Caribbean. Please visit our website (www.ipti.org) for more information about these events.

Now for a quick round up of matters which have caught my eye recently from around the property tax world.

Starting with Canada, the Ontario government issued a press release about their Special Purpose Business Property Assessment Review (SPBPAR). The Ministry of Finance, working with municipal partners and stakeholders, has now established a Reference Committee to guide implementation of the recommendations contained in the SPBPAR report. The Province is focused on implementing the recommended improvements in consultation and collaboration with municipalities and stakeholders. The report included specific recommendations related to the assessment of special purpose business properties, as well as 26 overarching recommendations for strengthening the overall property assessment system. IPTI continues to be involved in various parts of this project, providing advice to stakeholders as requested.

Moving on to Europe, a public consultation has been launched to gather Islanders' views on Jersey's property tax system. The review aims to ensure that Jersey's property tax system is joined-up, balanced and has no unintended consequences, while also supporting the State's strategic objectives. A spokesman said: "Fundamental changes to the way we tax property will take time and we understand that some of the issues raised in this consultation may provoke strong reactions. This review is the first step on the road to reforming our system. I would like to reassure Islanders that the primary purpose of this review is not to raise additional revenue, but rather to ensure that Jersey's property tax system is put on a sound footing. I would encourage everyone to take this opportunity to contribute to the development of policy in this important area."

The International Monetary Fund (IMF) has recommended a number of fiscal reforms for the United Kingdom, including an overhaul of property taxes. A reform of property taxation would stimulate housing supply, improve housing allocation, and boost revenues, the IMF said, in recommendations in its Article IV consultation report with the UK. Such a reform could include revaluing taxable property, it said. Residential properties have not been the subject of a revaluation since 1993 and the system is in urgent need of updating.

Staying in Europe, the Romanian Government plans to impose a building tax calculated on the market value of the property, rather than on the book value, as it is currently done. The Government says that the book value of a property can be substantially different to its market value, depending on the accountancy method used. The market value will be established by an authorized appraiser. For residential buildings owned by companies, the tax will be 0.1 percent of the value, and for non-residential buildings, between 0.25 and 1.5 percent of its value, using the new criteria. The actual tax rate will be decided by local authorities.

In New Zealand it has been suggested that Fire Service levies should be added to rates and vehicle registration so the cost would be spread among all, not just those with insurance. Adding fire service levies to rates and vehicle registration instead of insurance payments would spread the cost more evenly, the New Zealand Institute of Economic Research (NZIER) says. The Insurance Council of New Zealand commissioned the NZIER report which found the current model of insurance based funding for the Fire Service was the worst option as it is "deeply flawed and unsustainable". NZIER said the best option was to fund the Fire Service through general taxation. The second best was to fund it through a flat levy on motor vehicle registration, flat fees on residential properties and variable fees on commercial properties - both property levies would be collected through rates.

Staying in New Zealand, a recent article called for property revaluations for council rates to be reformed. It said that most councils receive more than 60% of their operating costs from rates and water rates, despite warnings that such a level of rates income will soon make rates unaffordable for many ratepayers. Reform is needed and soon it went on, and a start should be made on the revaluation system which causes rates to rise disproportionally and affecting ratepayers who have had no or little change in their financial circumstances. In any reform of local government funding it is inevitable and generally accepted, that some form of property tax will form part of a total funding package. However, the article called for a change in the valuation process, initially for residential properties. It was suggested that the new system would be called Council Tax Value (CTV). It said that each year all values would be increased by 2% on the previous year's value; values of individual homes would also be changed when they were sold and the actual sales price would become the new CTV; the CTV would also be changed if additions or alterations requiring a building and/or resource consent were carried out. It was said that this process would remove the requirement for triennial revaluations, and would avoid the swings in rating valuations under the present system which leads to, often significant, changes in rating incidence on individual properties.

News from China indicates that a nationwide property tax may be introduced as early as next year following trials in Chongqing and Shanghai. The National People's Congress, the top legislature, is drafting a property tax law that is expected to be completed later this year and be imposed in 2015, said an official from the NPC. Unlike the trials in Chongqing and Shanghai, where the property tax is levied on houses only, the planned national property tax will target houses and other land. "The method of taxation is still under discussion and is subject to changes" the official said, adding that the NPC is also soliciting opinions from experts and tax authorities. Specifically, the ratio of the tax has not been decided, nor is whether the tax will be levied on newly built properties or on properties already owned. The new tax will combine several existing taxes, including a land tax on property developers, a tax for occupying arable land and a tax for house transactions.

In Egypt, the Finance Minister said that the Real Estate Tax Authority began sending notification letters for the taxable real estate that was recently evaluated according to the market value, pointing out that the tax would be enforced as of 1 July 2013. The Minister added in a statement that real estate owners can challenge the tax assessment within 60 days of receiving notice; it also said that the appeal committees were to consider appeals within 30 days. He also explained that property built on farmland in accordance with regulations would be exempted from taxes on agricultural land so as to avoid double taxation. The Minster said the tax can be paid in two six-month installments, urging taxpayers not to be late in paying so as to avoid fines.

In the USA, a Board of Commissioners in Colorado has appealed against a recent decision to grant the YMCA's Snow Mountain Ranch a full property tax exemption for religious use. A spokesman said "I don't believe the YMCA property is used solely and exclusively for religious purposes". The exemption means that YMCA of the Rockies does not have to pay the more than $200,000 annual property tax bill for its Snow Mountain Ranch Property. It also means that Grand County will have to refund taxes paid in 2002, 2003 and 2004. YMCA of the Rockies, which is headquartered in Estes Park, first applied for religious purposes and charitable use property tax exemptions for two of its properties, Snow Mountain Ranch and the Estes Park Center, in December 2003. The Property Tax Administrator eventually granted both exemptions, though the Board of Assessment Appeals reversed them. The Colorado Court of Appeals vacated the Board of Assessment Appeals' decisions in April 2013. After the appellate ruling, the Board of Assessment Appeals reversed its previous ruling and granted YMCA of the Rockies religious use exemptions. It declined to rule on the charitable exemption.

Still in the USA, several states are using property tax abatement programs for businesses and homeowners installing solar projects. 38 states currently offer some type of program aimed at property tax exemption for renewable energy. According to the Solar Energy Industries Association (SEIA), an exemption typically excludes the added value created by the solar system to property valuations. In fact, they say the exemption makes it economically feasible for many. Homeowners, as an example, would not choose to install solar if faced with a property tax reassessment necessitated by the installation, notes the association. Tax abatement programs come in many forms. For example, New Jersey exempts solar systems from local property taxes if the system is used to meet on-site electricity, heating, cooling or general energy needs. One tax exemption in Nevada allows businesses to apply for a property tax abatement of up to 55% - for up to 20 years - if solar power is generated on the property. In New York the legislature approved a measure to extend a state property tax abatement program for renewable energy systems, including solar, wind and other energy systems until Jan. 1, 2025. The bill carries a 15-year property tax exemption for homeowners and residences installing qualified renewable energy systems. However, local governments are permitted to disallow the exemption in their jurisdictions.

The government in Japan is going to review fixed property tax breaks for housing land to reduce abandoned houses that are rapidly increasing in number across the country due to the shrinking population. Properties in poor repair will be disqualified from the tax incentives once they are labelled as unsafe by municipalities under standards to be compiled by the central government. The government plans to enact the taxation change in fiscal 2015, which starts next April, to encourage owners of such houses to demolish them at an early date. Many owners are reluctant to tear down such houses even if they are unoccupied because housing land is currently eligible for the tax breaks. Under the present system, tax burdens increase if those houses are demolished, creating vacant land.

And finally, perhaps it comes as no great surprise that there were no bids at an auction in the USA for the sale of a compound belonging to a property tax evading couple convicted of amassing an arsenal of weapons and holding federal law enforcement officials at bay for months. The auction of the fortress-like home on 100 acres in Plainfield was held at the U.S. District Court in Concord. The minimum price was set at $250,000 but there were no bids so the auction ended two minutes after it started. The sale was not helped by the fact that prospective bidders were not allowed to tour the properties, in part because the U.S. Marshals Service raised the possibility that explosives or other booby traps could be buried on the residential property. The joys of property tax enforcement!

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