



President's Message - November 2014

As usual, this month's newsletter will look back briefly at what we did during October, then look forward to November, and finally look at some topical property tax issues around the world.

One of IPTI's most important tasks during October was to facilitate consultation meetings in Ontario, Canada, between various industries, the Municipal Property Assessment Corporation (MPAC), municipalities, and the Ministry of Finance. Extending over a two-week period and held in different parts of the Province, these meetings brought together senior representatives from each of these four key groups of stakeholders in the Ontario property tax system to discuss important issues in the preparation of the forthcoming 2016 reassessment (revaluation).

These meetings were held in response to recommendations contained in a report published at the end of 2013 which contained the results of a major review into the way in which special purpose industrial properties were assessed in the Province. Among the recommendations in the report was one which stated: "The Province should require MPAC to (a) carry out iterative discussions with taxpayers, municipalities, and key experts to develop and disclose the parameters and guidelines for assessment methodologies; and (b) comply with and apply with consistency the agreed-upon assessment methodologies. This process will first be applied to special purpose business properties considered in the Review."

IPTI provided independent professional facilitation of the meetings and chaired the events in a manner which was intended to ensure that all parties were aware of the benefits to be derived from the consultation process and, in particular, the need to work together in partnership to improve awareness and understanding of the assessment methodology which, in turn, will increase the accuracy of the assessed values.

As readers will be aware, many large specialized industrial properties throughout the world are valued on the cost approach for property tax purposes as there is usually insufficient market transaction evidence of sales or leases to allow either the direct comparison approach or the income approach to be used. The cost approach can be complex when applied to these types of property and requires careful consideration when seeking to adjust cost to value, particularly in relation to such issues as reproduction or replacement, depreciation, obsolescence, etc. Many of these issues require the assessor to have a good knowledge not only of the property being valued, but also the industrial process taking place at the property and the wider industry in general.

The consultation meetings were an opportunity to outline the way in which MPAC propose to value these properties and invite views from the industry about the proposed valuation



methodology. The meetings also outlined the type of information that MPAC need from the industry to enable them to accurately value these complex properties.

I am pleased to report that, although these meetings were only the start of the consultation process planned for the 2016 reassessment in Ontario, they were well received by those attending and I am hopeful that they will produce useful further exchanges between the various parties involved over the coming months. I am also pleased that IPTI was invited to chair these meetings and we will continue to be involved in the various stages of the consultation process through 2015.

IPTI has also been asked to undertake a similar facilitation role in Calgary, Alberta in November where we have been asked to chair a meeting which has been arranged for key stakeholders to discuss a variety of policy options for property taxes in the Province. This will form part of the consultation process relating to a review of the Municipal Government Act and associated regulations.

We were involved in a number of other events during October. I was pleased to open our latest Caribbean conference held in Barbados on 21-22 October. Organized in partnership with RICS Americas, and kindly sponsored by Deloitte and KPMG, this conference brought together both local and international speakers to discuss a wide range of topical issues. Our keynote speaker was the Minister of Finance who used the opportunity to make important announcements about proposals for the registration of valuers in Barbados. As the media were in attendance, there was coverage of the event in local press and the published article can be seen on our website.

IPTI was also involved in making two presentations at the Society of Professional Assessors (SPA) conference held in Providence, Rhode Island, USA on 24-25 October. The two topics we covered related to giving evidence in property tax disputes and a review of global property tax issues. The latter session provided the lead into a lively debate on emerging tax policy and the current impediments which face practitioners in property assessment and taxation. There were also interesting presentations on the interaction between the US Affordable Care Act and the valuation of health care facilities.

We were also involved in a conference organized by our colleagues from the Council on State Taxation (COST) held at Hollywood, Florida on 20-22 October. This was a large event with in excess of 500 attendees. The conference focused on state and local taxes, with the primary focus being the US region. IPTI participated in the Property Tax Committee meeting held as part of the conference and reported on the outcome of the COST-IPTI International Scorecard. IPTI also participated in the Vendors' Fair at the conference which enabled us to provide information about our activities, particularly as they relate to the corporate sector.



Another event in which we participated was the property tax conference organized by the National Property Taxpayers Association (NPTA) which was held in Chicago on 22-23 October. The main focus of our presentation was again the International Scorecard and property tax issues of concern primarily to corporate taxpayers. Discussion at the event also included the current state of property taxation from a global perspective.

We continue to get quite a lot of media coverage for the COST-IPTI Scorecard we published in September. The Scorecard looked at various aspects of the administration of property taxes in the USA, UK, Ireland, Canada, Australia, New Zealand, South Africa and Hong Kong and ascribed a grade to key elements of the system. One of the interesting developments from the publication of the Scorecard is that additional jurisdictions have asked to be involved in future reviews. We have also been asked to make a number of presentations about the Scorecard, so it has clearly attracted a fair amount of interest which is encouraging.

So it will be seen that October was another busy month for us and November will be just as busy. One of the main events we are holding next month will be the local government conference to be held in Sydney, Australia on 13-14 November. This event will be very topical as there is a great deal happening concerning local government in Australia.

On my way to Sydney I will be stopping for a few days in Singapore where I will be having meetings with colleagues from the Inland Revenue Authority of Singapore (IRAS). I will also be making a presentation to the valuation staff of IRAS and having a discussion with them about current global property tax issues.

We will be holding another of our regular IMA-IPTI workshops in St John's, Newfoundland on the subject of the valuation of land for property tax purposes on 5 November. We are also running two three-day workshops in Ontario during November specifically for MPAC staff; one will be held in Toronto and the other in Ottawa. We are participating in the European American Chamber of Commerce meeting in New York on 13 November and we are holding another IPTI-RICS breakfast meeting in Toronto on 26 November to consider recent developments in property assessment and taxation.

We have been putting the finishing touches to the next COST-IPTI Property Tax Workshop to be held in Dallas, Texas on 21-22 January 2015 and our Annual Conference to be held in Brasilia, Brazil on 25-26 March 2015. More information on these and other future events are contained on our website.

Now for a quick look at property tax issues in various countries around the world. Having just mentioned Dallas, an interesting article referred to a multi-millionaire who has apparently not paid any property tax on his \$25 million estate in Dallas since 2005. The reason for this apparent anomaly is that the person concerned is a "senior citizen" who is



entitled to this dispensation in view of his age. This raises the policy issue about who should benefit from property tax exemptions and what criteria should be applied to determine their entitlement.

On the issue of exemption policy, I saw an interesting letter in the press from a taxpayer in Hawaii who said: "I believe there is a fundamental principle that should underlie good tax policy: the tax should be paid primarily by those who benefit from the revenue it generates. Applying this principle to our property tax system leads me to conclude it is very unfair and counterproductive. Our property tax is the primary source of revenue for county services. The primary beneficiaries of those services are those of us who live here. As much as I benefit from the homeowners exemption, especially as I've gotten older, it makes no sense to me from a policy perspective." Food for thought.

In New York, the real-estate industry is said to be mobilizing to oppose a proposed levy on non-resident owners of apartments valued at more than \$5 million, seeking to ensure the biggest U.S. city doesn't follow London, Hong Kong and Singapore in extracting extra cash from such properties. The industry's lobbying arm, the Real Estate Board of New York, says the measure will scare off investors who fuel a business supporting more than 500,000 jobs and generating 40 percent of the five boroughs' revenue. Brokers warn of economic calamity if officials slap a luxury tax on apartments owned by someone who lives in the city less than half the year. New York's real-estate industry accounted for \$15.4 billion of the city's \$41 billion in 2012 local revenue, more than enough to pay for its 70,000 teachers, 35,000 police officers, firefighters, sanitation workers, parks and libraries, according to a real estate board report.

The U.S. Supreme Court declined to take up a lawsuit that alleged Alabama's caps on property taxes were racially discriminatory and denied low-income students a proper education. The case, *Lynch v. Alabama*, was brought by families in Lawrence and Sumter counties. The plaintiffs argued that the property-tax cap embedded in the state Constitution prevented many school districts from providing adequate funding for schools, and particularly disadvantaged low and middle-income students, many of whom are black. "The Supreme Court's decision not to intervene confirms our consistent position that Alabama's property tax structure does not violate the United States Constitution, and equally as important, that the citizens of Alabama have a right to structure their own tax system," a spokesman said in a statement.

Moving on to New Zealand, the latest revaluation in Auckland shows average residential capital value increases of 34.8 per cent since 2011. It also shows increases of 16.2 per cent for commercial property; 15.7 per cent for industrial; 17.7 per cent for lifestyle and 4.6 per cent for rural property. The new values will be published online from 10 November 2014 and will be used to help set rates from 1 July 2015.



In France, the National Union of Property Owners (UNPI) has highlighted that municipal property taxes have increased on average by 21 percent over the last five years, describing the situation as "intolerable." The Union contrasted the hike with inflation, which rose by just 5.9 percent during the same period. UNPI's President explained that two factors were responsible: a 9.65 percent increase in the official rental value of properties, and higher property taxes set by locally elected officials. In large cities, tax rose most significantly in Paris (by 48.5 percent), followed by Courbevoie (36.4 percent), Argenteuil (35.5 percent), Reims (34.5 percent), and Saint-Denis Seine-Saint-Denis (32.45 percent).

I see that the Argentine government is using drones - miniature aircraft - to catch wealthy tax evaders who don't declare their mansions and swimming pools on their tax returns. Small drones fitted with cameras recently flew over an exclusive residential area of Buenos Aires, the capital city of Argentina, and took pictures of luxury houses declared on tax returns by their owners as empty lots. As many as 200 homes and 100 swimming pools were discovered. By using drones, the Argentine government caught tax evasion to the tune of \$2 million and is set to summons evaders in court, warning of large fines.

In Russia, the President signed a law switching the base used to calculate property tax rates from inventory values to cadastral values, heralding significant tax rises for many Russian homeowners. Two decades of growth in Russia have severed the connection between inventory real estate prices and market values. Cadastral values are an annually renewed government-set valuation that better reflects real market property prices. The law sets the basic tax rate at 0.1 percent of the cadastral value of the property. Local authorities will have authority to raise this rate to as high as 0.3 percent or to lower it to zero, the government said in a statement. Though 20 times lower than the current rate of tax, property owners will, on average, pay three times more under the 0.1 cadastral rate. Commercial real estate owners and owners of property worth over 300 million roubles (\$7.5 million) will pay tax at 2 percent of cadastral property values. Regional authorities will be able to introduce the new system from next year. By 2020, all regions must make the switch.

In Ghana, a Tax Policy Advisor at the Ministry of Finance, said property and rent taxes are areas that government is seeking to maximise revenue from in the 2015 budget year. "Revenue from property and rent taxes has been low. In the USA, as much as 7 percent of their collection is from property rates, but in Ghana it is .0025 percent," he said. Government this year directed all Metropolitan, Municipal and District Chief Executives to ensure all streets under their respective domains are named, following the launch of the National Urban Policy Framework and Action Plan. The Local Government Service has said that all streets have been named, and a house numbering project will soon follow. A spokesman said: "The whole programme (street-naming) is to be followed with the



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proper valuation of property. Most properties have not been valued for more than 20 years.”

And finally, Kansas tax revenues could get a boost with the sale of remote-control vibrating thongs and other sex toys. Thousands of adult novelty items, from lingerie to handcuffs, are for sale in an online auction as a result of a failure of a chain of erotic stores to pay taxes. Lots include a “fantasy love swing” in black and a 16-foot “Japanese silk love rope” in purple. Predictably, political opponents have accused the State of selling pornography to balance the budget! A spokeswoman for the Department of Revenue denied this and said “The property was released back to the owner, who then contracted with the auction company to sell the items, and then that money will be used to pay the taxes.” All good stuff!

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