



President's Message - October 2014

In the UK, we are in the middle of the political party conference season and property tax is one of the big issues being debated. IPTI, of course, maintains strict political neutrality, but that does not prevent us from noting the "entertaining" debate that is often found when politicians argue for particular positions on property tax.

The main debate in the UK has been around the so-called "mansion tax" which, according to the leader of the Labour Party, should be imposed on anyone owning a house worth more than £2 million (in round terms, about \$3 million US dollars). This appeals to those elements of society who consider it is appropriate to "soak the rich", particularly at time when the economy is still recovering from recession and funding for public services remains under constraint. The Conservative Party say the mansion tax is a terrible idea and will have a very adverse impact on the property market, raise little additional funding and cost a great deal to administer.

The "popular" view is that Conservative Party members all live in mansions and Labour Party members all live in modest terraced houses, so people divide down party lines on this property tax issue. The real position is, as usual, far more complex than this "popular" view, but it is very interesting to see the heat that is generated by this particular debate, fuelled by the fact that there is to be a general election in the UK next year.

As already indicated, it would be inappropriate for IPTI to express a view one way or the other on this particular issue, but I think we can say that, looked at objectively, there are more important property tax issues that should be addressed by UK politicians. For example, they should deal with the fact that the residential property tax system (council tax) has not been the subject of a revaluation since it was introduced in 1993 and the fact that the revaluation of non-residential properties that was due to take place in 2015 has been postponed to 2017, meaning that non-residential properties continue to pay property tax (business rates) based on pre-recession (2008) levels of value which do not reflect current values. Politicians would be far better advised dealing with these problems than "grandstanding" from opposing positions over a mansion tax!

The concept of a mansion tax is not limited to the UK; I note that the Mayor of New York is considering a proposal that would place a property tax surcharge on residences that are worth \$5 million or more and owned by non-New Yorkers. The tax surcharge would be added to the property owner's tax liability, starting at 0.5 percent for a property's value greater than \$5 million and increasing to 4 percent for properties greater than \$25 million. The surcharge would be based on the market value of the properties rather than the assessed value, which makes the surcharge more burdensome than other property taxes. Under the current property tax structure, property taxes are paid based on assessed value rather than market value. In New York City, this is 6 percent or 45 percent of market



value, depending on property type, giving current New York City effective tax rates ranging from 1 to 5 percent of home values. It will be interesting to see how this idea progresses.

Also trying to get some traction on the UK political agenda is the introduction of Land Value Tax (LVT). In September, I was invited to speak at a "colloquium" on LVT held at the RICS headquarters in London. Many of the speakers were keen supporters of LVT, but I made clear that IPTI was neither in favour or opposed to LVT; it was simply one form of property tax and, as with most other forms of property tax, it has strengths and weaknesses. My main contribution to the event was to share IPTI's knowledge about LVT systems in other countries, including Australia, Denmark, Jamaica, etc. Following the colloquium, a number of articles were published in the British press outlining the benefits of LVT, but there does not appear to be any significant political support for its introduction at this stage.

All this goes to show, if anyone was ever in doubt, that property tax is very much a "real" political issue and this is reflected in many of the articles from around the world contained in IPTI Xtracts on our website.

Another interesting event I attended during September was the annual conference of the RICS Rating Diploma Holders Section (RDHS). The RDHS are the "crème de la crème" of property tax practitioners in the UK as their members take a high level qualification in this specialist area. Their conference is therefore often concerned with some of the more "cerebral" aspects of non-residential property tax valuation work such as the underlying concept of the cost approach (known as the "contractor's basis" in the UK). The traditional explanation of the cost approach, at least in the UK, is that, instead of acquiring the property being valued, the prospective user could build an "alternative" property and would therefore base his bid for the actual property on the cost of constructing the alternative. My contribution to this debate related to the extent to which the alternative property being costed is a "real" alternative, particularly in view of the fact that many properties valued on the cost approach are unique and cannot be replicated elsewhere. An interesting discussion, but with some unresolved issues for the purist valuation community!

We ran another in our series of IMA-IPTI workshops during September. This one was concerned with the valuation of land and looked at the issues from both single property and mass appraisal perspectives. Held in Sudbury, Ontario, this workshop was well received by those attending.

We held a meeting of IPTI's Corporate Advisory Committee (CAC) towards the end of September during which we discussed a number of issues of importance to our corporate



members. The former Chair of our CAC, Doug Turner, retired from General Electric earlier this year and stepped down from his role on our committee. He has been replaced as Chair of the CAC by Ruel Williamson, IPTI's Chief Operating Officer, who has an extensive background in the corporate sector.

We spent a lot of time during September working on various projects; these included research into the valuation of properties used by a number of specialist industries; the preparation of valuation methodology guides; comparisons of various international property tax appeal systems and best practice in the use of independent tribunals. We also spent some time preparing for two exciting new projects, one of which concerns the audit of a reassessment exercise carried out by a large valuation agency and the other concerns the certification of valuation work undertaken by another valuation agency.

Looking ahead, during October we are involved in a two-day workshop being held in Chicago by the Council on State Taxation (COST). We also have our annual two-day IPTI-RICS Caribbean conference in Barbados. We are also co-sponsors of a two-day conference in Providence, Rhode Island, USA being organised by the Society of Professional Assessors which is their 50th annual symposium. We are also going to be involved in providing independent facilitation of meetings between taxpayers who own large, specialised industrial properties and the valuation agency which is responsible for valuing their properties; this is part of a new consultation process intended to improve transparency, understanding and accuracy in the valuations.

Having referred to COST, I am pleased to confirm that the COST-IPTI Scorecard was published in early September and has attracted a great deal of interest from around the world. For anyone who has not yet seen it, please take a look at our website. You will find both the Scorecard which contains a commentary on the exercise along with the grading of the various jurisdictions involved, and a separate Addendum which contains more detail about the different property tax systems. I hope that publishing this information will encourage policy-makers to identify areas where their property tax system can be improved. Congratulations to Hong Kong which received the highest grade of all the jurisdictions concerned, but many others were not far behind and may catch up soon.

Looking a little further ahead, we have our local government conference in Sydney, New South Wales (NSW), Australia on 13-14 November. This is being run in conjunction with the Office of Local Government, Local Government NSW, and the Office of the NSW Valuer General and promises to be both interesting and very topical as there is a great deal going on in local government throughout Australia at the present time.

Details of all these events - and others that are coming up - are contained on the calendar on our website. Now it's time to take a look around the globe and provide you with some property tax stories I hope you will find interesting.



Sweden has been urged by the International Monetary Fund (IMF) to review its property tax system. In particular, the IMF has advised Sweden to phase out the tax deduction for mortgage interest payments to remove tax breaks for taxpayers who accumulate debt. The IMF said that, by allowing mortgage interest payments to be deducted for tax purposes, taxpayers are being encouraged to take on and maintain high levels of debt. The IMF has recommended the gradual repeal of the deduction, as is being undertaken in Finland. Currently, 30 percent of mortgage interest payments of up to SEK100,000 (USD14,280) can be deducted, and 21 percent of payments can be deducted above that threshold each year. Other proposals in the IMF's report include cutting the capital gains tax on property sales from the current 30 percent rate, and hiking the "very low" property tax rate, capped at 0.75 percent, which is levied at municipal level.

China has recently established a new Bureau of Real Estate Registration as part of its effort to enhance land management regulations. The bureau is charged with drafting and enforcing regulations on land management and property registration, resolving land disputes, and issuing certificates for forest land and island use. The creation of this institution complements draft legislation on real estate registration and a national property audit launched by the National Audit Office under the direction of the cabinet to enhance property rights and reduce corruption associated with land sales. The real estate registration system will allow government departments to share information on property ownership, and is thought to be a step toward setting up a property tax.

In Egypt, the Tax Authority has notified owners of residential and non-residential housing units of their real estate tax dues, according to the Finance Minister, who said that the new tax would be applied for the first time this year. He added, "I have instructed the heads of the Real Estate Tax Authority and its affiliate directorates to take all measures necessary to facilitate dealings with the public and resolve any problems that may occur by applying tax law and its amendments on newly-built real estate units." The finance ministry added in an official statement that properties valued at EGP 2m will be exempted. "The taxed value will be the value that surpasses EGP 2m," the ministry said. "Exactly 30% will also be deducted from the taxed amount as maintenance costs."

In India, owners of vacant lands in Chennai will have to pay property tax similar to the residents of municipalities in other parts of the State. To augment its revenue, the Chennai Corporation has planned to levy property tax on vacant lands on an area basis. The civic body's Town Planning Section will grant building approval only after the property tax assessment and payment for the vacant lands are made by the owner concerned.

In the USA, the Niagara County Legislature in New York State approved a local law that authorizes tax incentives for residents who make "green" improvements to their home or build a new home to meet Leadership in Energy Environmental Design certification. Local taxing jurisdictions are invited to authorize a partial assessment exemption for properties



that are constructed or reconstructed to meet certification standards for green buildings. The benefits are prescribed by the state and it's up to taxing jurisdictions - counties, cities, towns and school districts - whether to grant them. For homes already built, in order to receive assessment relief on green improvements, the value of the improvements must be greater than \$10,000. The exemption would apply to the increased property value.

Staying in the USA, it is reported that some California homeowners may receive a much larger property tax bill than they anticipated this year. Homeowners who saw lower tax bills during the recent decline in housing values may receive higher property tax bills as property values recover. When housing prices rise, Proposition 13 allows a maximum 2 percent annual increase in the property's taxable value for inflation. This value is known as the "factored Proposition 13 value." When housing prices decline, Proposition 8 allows a temporary reduction of the property's taxable value to reflect the current market value. Because a Proposition 8 reduction is only temporary, it requires the taxable value to be reviewed annually and increased, or decreased, to reflect that year's current market value (as of January 1 each year). So, when the housing market crashed, Proposition 8 enabled some homeowners to receive significant temporary assessment reductions resulting in lower tax bills. As housing prices increase, however, a home's taxable value that had been lowered by the assessor under Proposition 8 may increase more than 2 percent if its market value increased more than 2 percent. The increased value, however, may not exceed the factored Proposition 13 value.

In Tasmania, Australia, there are calls for reform of the land tax laws. About 64,000 properties are taxed, including business properties and rental properties, but almost 160,000 properties are exempt. Land tax applies to land values, not buildings, and exempts property with a value up to \$25,000. Exemptions include land used for the principal residence, primary production, religious purposes, medical establishment, Aboriginal activities, retirement villages, conservation areas and charitable institutions. Land tax is said to raise only \$89 million a year, less than 10 percent of the State budget. A commentator said "We tax the family car, the family holiday, the family bread winners, the family food, the family superannuation but, for some reason, the family's principal residence is exempt. It could be a mansion worth a cool \$10 million, but it is exempt." It will be interesting to see if anyone is willing to consider taxing the family home.

Unusually, this month I have two stories to include in my "and finally" section. The first comes from Australia where the Queensland government faces losing millions of dollars in land tax because property developers are installing beehives and claiming their (future) residential land is being used for primary production. Property owners pay less land tax on sites used for primary production because they are valued at a lower price than those categorised as future residential land. Bees are said to be cheaper than cattle or goats as a primary product because there are no fences, bores, or stock feeding requirements.



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However, I suspect there will be a "sting in the tail" here as pressure is mounting to change the law if the result of an outstanding appeal seeking to outlaw the practice is not successful.

My other "and finally" story shows how "dangerous" our beloved property tax can be. In Iowa, USA, a man angry about his property taxes was fatally shot during a public meeting after he pulled a gun from a briefcase and pointed it at the county assessor. As the meeting ended in the local courthouse, the man pulled a small gun and fired at the county assessor but missed. One of the county's three supervisors was nearby and stepped in. He struggled with the man and a second shot was fired. The man was hit and died at the scene. Let's hope we do not see any repeat of this level of "passion" generated by property taxes.

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