



## President's Message - December 2014

I imagine many of you are beginning to think about Christmas, although some may still be recovering from Thanksgiving! Wherever you are in the world, and whatever you are looking forward to celebrating, I would like to send you best wishes from IPTI.

Looking back over the last month, we were very busy during November with a significant number of events being held on different continents.

I will start with our two-day local government conference in Sydney, Australia. The conference title was "The Opportunities and Challenges for Local Government Funding - The Way Forward" and attracted interest from a wide cross-section of stakeholders. We were pleased to have an excellent line up of speakers who covered a wide range of topics including local government review, financial sustainability, alternative revenue sources, and the use of shared services for local government. We also covered some more specialised subjects including the fire levy in Victoria, the role of mining as a revenue source and looking at some localised schemes for revitalising run down areas and generating revenue.

One topic that I found not only very interesting, but also raised issues that are universal in the context of property taxes, was a presentation on exemptions. The speaker posed the following questions in connection with considering whether or not to grant an exemption:

- Does the property owner have capacity to pay?
- Do benefits generated accrue predominantly to local or to wider community?
- Does use of the property impose significant costs on local community or benefit from LG services?
- Is the activity arising from the property's use in competition with entities that don't enjoy concessions?

He pointed out that many bodies, e.g. charities, which currently receive the benefit of exemptions are undertaking activities that compete with the "for profit" sector which made it hard to see the justification for a concession. He also said that, in the interests of transparency, rebates were preferable to exemptions and that publicly available guidance should be available where there was a discretion to grant full or partial dispensations.

The speaker also raised the issue of whether or not government properties should be exempt and whether different levels of government should tax each other. Whilst local government levying a property tax charge on other government bodies in respect of properties they may own or use within the local government area may seem attractive, he counselled that there were risks associated with this practice and it was unclear whether there was a net overall benefit.



The evaluation sheets showed that the delegates found the conference interesting and informative with one commenting "One of the best conferences I have attended. Timely, specific and provided solutions to many problems that my council face." We at IPTI are very pleased if we can provide that level of satisfaction. I would particularly like to thank Phil Western, the former Valuer-General for New South Wales, for his work in connection with the conference to ensure it was a success.

On the day before the conference we held a meeting in Sydney with the Australasian Valuers-General to discuss a benchmarking exercise we will be undertaking on their behalf over the coming weeks. We discussed the general aims and objectives of the exercise and went through the draft questionnaire in detail. We are in the process of updating the questionnaire in the light of that discussion and plan to send it to assessing agencies around the world as soon as it is ready. This will provide some interesting information on performance, quality, customer service, costs, etc., and we hope as many agencies as possible will participate in the survey.

On my way to Australia, I stopped off in Singapore where I met with officials from the Property Tax Division of the Inland Revenue Authority of Singapore (IRAS). I made a presentation to their staff on global property tax issues and the recent COST-IPTI International Scorecard we published. Although Singapore was not included in the scorecard, IRAS asked to be included when we undertake the next survey and scorecard. It was very interesting to learn more about the Singapore property tax system and I hope we will be able to work more closely with IRAS over the coming years.

In November we ran two events in partnership with the Institute of Municipal Assessors (IMA) in Canada. The first of these was a workshop on the valuation of land for property tax purposes; this event was held in St John's, Newfoundland and considered the issues from both a single property and a mass appraisal perspective. We also ran a three day workshop arranged specifically for staff of the Municipal Property Assessment Corporation (MPAC); this covered a range of topics and was repeated in Ottawa for MPAC staff located in that part of the Province.

In partnership with the RICS, we also held a breakfast information session in Toronto in November. This was looking at "Recent Developments in Ontario Assessment and Tax" and provided the latest updates on topical issues. We are planning to run another Ontario Property Tax Summit in 2015 as they have proved very popular events in the past.

We held a meeting of our Corporate Advisory Committee (CAC) in New York during November. This was timed to coincide with our participation in a Commercial Real Estate Forum meeting of the European and American Chamber of Commerce (EACC) which included a session on property taxes. In December we are meeting with EACC colleagues at the European end of the EACC. This meeting will take place in Lyon, France and will



consider further cooperation between IPTI and the EACC in Europe. The CAC meeting in New York was chaired by Ruel Williamson, our Chief Operating Officer, and included an update on current issues and a discussion of events in 2015 likely to be of particular interest to the corporate sector. Our European Chapter of the CAC, the ECAC, is holding a meeting in London next month at which UK Government officials will brief members on the latest developments in commercial property taxes (business rates); more on that in due course.

Another interesting event that took place in November was a meeting in Calgary, Alberta for which we provided independent facilitation between officials of the Calgary Assessment Office and representatives of various stakeholders in the property tax system. This meeting was concerned primarily with changes that might be made to improve the effective operation of the system and its overall efficiency, particularly in the light of proposed new legislation. I think this type of impartial facilitation of meetings where our expertise can be used in a neutral way to assist communication between parties which might otherwise take entrenched positions is a valuable role for IPTI and I hope we will have the opportunity to do more of this work in future.

In late November I attended a meeting of the RICS Rating Diploma Holders Section (RDHS) in London. The RDHS kindly made me an Honorary Member of their organization some years ago and their meetings are always interesting and enjoyable. The main speaker at the event was Philip Glenwright, the Chairman of our ECAC, who was talking about the need for a review of the cost approach - known as the contractor's basis in the UK - which is often a challenging valuation method.

November also saw us doing more work on various IPTI projects which are progressing well; I will let you have more information about these in due course. Looking ahead, we are getting ready for the two-day property tax workshop that will be held in Dallas, Texas in January 2015; this event is being run in partnership with the Council on State Taxation (COST) the organization we partnered with in preparing the International Scorecard. We have also finalized the agenda for our Annual Conference to be held in Brasilia, Brazil in March 2015. I am pleased to say that we have had a tremendous response to our call for papers in relation to our 2015 Mass Appraisal Valuation Symposium to be held in Amsterdam in June next year. For more information about any of these events, please visit our website – [www.ipti.org](http://www.ipti.org).

It is now time for a quick look at what is happening in selected countries around the world. To prove that IPTI is an entirely objective organization prepared to consider and debate controversial issues concerning property tax, I refer you to an article from the Canadian press titled *"Time to scrap property taxes and give cities power to raise their own income or sales taxes"*. The author goes on to say: *"The property tax conforms to no known principle of sound taxation, being neither fair nor efficient nor simple. It attempts*



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*to measure both ability to pay and resource use at the same time, and fails at both: there's no simple correlation between the value of the house you own and your income, and scarcely more of one with services consumed. On top of which, it discourages density, which is what most North American cities are desperately in need of. Far better would be to allow cities to raise their own income or sales taxes - as a replacement for property tax, not in addition - for services, like fire and police that can only be financed through taxes, while financing other services, wherever possible, with user fees. First among these, I need hardly add, is to price roads, which will do far more for congestion than any grandiose subsidized transit plans.*"Some interesting views - with which I disagree - but I would be very happy to include this topic in a future IPTI event so we can debate it in more detail.

Moving on to the USA, an interesting recent report states that mergers of municipalities aren't the widespread cure for New Jersey's property tax problem. This is according to a Rutgers University study that finds little difference in per capita spending by small towns and bigger cities. The report says that municipal consolidation shouldn't be off the table, but it ought not to be the centre of the debate over strategies for reforming the nation's highest average property tax bill. The report says other strategies that should be considered include sharing services; addressing the decline in state aid to municipalities, which accounts for just 10.6 percent of municipal revenue statewide; modernizing the way property taxes are administered; and changing civil service.

It seems that China may not now roll out its long-awaited property tax until 2017 as more time is needed to draft legislation according to a senior researcher at the Ministry of Finance. The proposed tax, which would be based on the value of property rather than transaction values, could require drafting through next year and then might be implemented in 2017. Analysts and industry observers have said that a property tax is a more sustainable way to tax property, but recent market weakness makes implementation much less likely in the near term. The tax on property values has been used on a trial basis in Shanghai and Chongqing since 2011, but has yet to be rolled out to other parts of China.

In the UK, various lobby groups are publishing their views about the existing property tax system for commercial properties (business rates) and calling for major reform. The UK Chancellor of the Exchequer is due to make his "Autumn Statement" on 3 December and is under pressure to announce changes to the system as many businesses are very concerned about the high level of business rates they are paying which are based on pre-recession property values in 2008.

In Cyprus, in the wake of many complaints from those who believe their property has been incorrectly revalued, the government has extended the deadline for receiving objections to 25 April 2015. The three-month extension - the previous deadline was end



of January 2015 - was approved in a law passed by the House plenum. The new 2013 property values have been published on the land registry's website. These new values will be used for accessing and paying IPT from 2015. This year, IPT will be assessed using the old 1980 valuation. Owners can file an appeal by paying a fee that depends on the value of their property. The cost of submitting an appeal depends on the 2013 valuation of the property and ranges from €37.50 for a property valued up to €100,000 to €357.00 for a property valued in excess of €1 million. Interestingly, even if an objection is successful, the charge will not be refunded!

In New Zealand, the Auckland Council's website crashed when the results of a new revaluation were published with people eager to find out the new value of their home overloading the site. The average valuation increase for all properties in the city is 29 per cent, the council announced. Residential properties increased by an average of 34 per cent, commercial 16.4 per cent, industrial 15.7 per cent, lifestyle 17.7 per cent and rural 4.6 per cent. The last valuations were completed in 2011; they are redone every three years.

An interesting recent article from Africa suggests that *"Property tax is an unexplored gold mine in sub-Saharan Africa."* The author goes on to say: *"Kigali is believed to have one of the most effective tax systems in the region, but, sadly, property taxes in Rwanda are meagre. Some neighbouring countries collect 30-40 per cent while developed countries collect 80 per cent of their revenues from property tax. Property tax is believed to be the number one unexploited potential source of public revenue globally, leaving a largely untapped source of funding for regional governments. Countries in sub-Saharan Africa face enormous challenges in raising the revenues needed to build schools, hospitals and other institutions that can propel development. There also exist African states that are highly dependent on aid and that urgently need to find new revenue streams. Despite its viability, however, the collection of property taxes in many African countries has been hampered by huge technical challenges. In most countries, there barely exist street names and house numbers. This is often compounded by difficulties in keeping property registers updated and a lack of professional property valuers. Exploring these issues further and thereby highlighting the drawback of not having a decent property tax regime could help to reform tax systems in many African countries to raise the much-needed revenues for public services and development projects."*

A somewhat unusual story from Cook County, Illinois in the USA where, it seems "the dead get tax exemptions". It is reported that two investigators have learned that thousands of ghosts have been getting more than \$6 million in property tax exemptions in Cook County for decades. The Cook County Assessor's Office is said to be cracking down on this type of tax fraud by cross-matching lists of dead people with those getting senior exemptions and senior property tax freezes. So far, they've caught 3,809 erroneous



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exemptions relating to people that have died! This collectively gave property owners \$6.2 million in tax breaks they did not deserve.

And finally, it seems that even the rich and famous can get caught up in property tax issues from time to time. Actor Robert De Niro was criticised in the New York Times and other press for allegedly trying to reduce the property tax payable in respect of his very large property in a small town in the USA. It was portrayed as a "David and Goliath" encounter as the star was able to field considerable resources in pursuing his challenge that the town could not afford to match. However, it seems that De Niro may not have been aware of what was being done on his behalf and when he saw the bad publicity he reacted by withdrawing the challenge and reimbursing the town the \$129,000 in legal fees it had accrued in defending its assessment for 2010 through 2013 on his 78-acre estate. In addition, he's agreed to discontinue an appeal of that case which the town won. So, it seems he is not so much a "raging bull" but more of a "pussy cat" after all.

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