



President's Message - February 2015

I am writing this month's newsletter from IPTI's head office in Toronto where the view from my office window is like a "winter wonderland" as there has been some snow this week; however, although it is very cold (well below zero) here, the sun is shining and the sky is blue. And, to add to the fun, Toronto has just been named by the Economist magazine as the "best city in the world" in which to live.

Looking back over January, we have been very busy preparing a number of reports and methodology guides in connection with various projects. Some of those projects reached the stage of making presentations to clients and holding a number of other meetings during January, which is why I am in Toronto.

We have been involved in an interesting project in Guam where a reassessment (revaluation) is coming to fruition. It has been over 20 years since the last reassessment took place on the island and there is a great deal of interest on the part of local property taxpayers over what the impact of the reassessment will be.

In terms of other activities, January started with "Rating Question Time" in London which, in my capacity as President of IPTI, I was invited to chair. RQT, as it is called, has become a regular feature in the property tax calendar in the UK and involves a panel of senior representatives of the various organizations involved in rating (property tax for non-residential properties) answering questions on topical aspects of the subject. The panel comprises a senior government official, the President of the Valuation Tribunal (an independent body which hears property tax appeals), senior representatives of the three main professional bodies (RICS, IRRV and RSA) and a senior professional from the VOA (the assessing agency in the UK). The event attracted a large audience of practitioners who came to see these experts being professionally "grilled" by yours truly. Many of the questions are submitted in advance of the event, but the panel may be asked supplementary questions and have to think on their feet. Following the question session, there was a very enjoyable social event which allows participants to interact in a less formal environment. Another RQT is due to be held in the UK in October and I have been invited to chair that event as well.

Following RQT, I flew to Dallas, Texas where, in conjunction with the Council on State Taxation (COST), we were involved in delivering a two-day property tax workshop. As usual, this event attracted a large number of large corporate entities who have properties around the world and come together at this annual workshop to discuss the latest issues. This year, in addition to a number of regular features, the workshop looked at some very topical issues, including the impact of the dramatic reduction in the global price of oil on valuations and property tax systems. In addition to welcoming delegates alongside my COST colleagues, I was involved in the "Audit" session, the "Ask the Experts" session and



I made a presentation on "Property Tax Issues Around the World". One of the features of this workshop that I always find interesting is the use of voting devices which enable delegates to participate in the various sessions by answering certain "polling questions" that all speakers are asked to include in their presentations. Some of the answers from the audience on topical questions are very interesting and it helps to keep the audience engaged in the sessions.

I then flew to Toronto for the start of a week of meetings all of which proved to be very productive and interesting. One of the main tasks we had was facilitating a series of consultation meetings involving the Municipal Property Assessment Corporation (MPAC) and the owners (taxpayers) of large, specialized industrial properties in Ontario. The meetings also involved other stakeholders in the property tax system, including municipalities, practitioners and the provincial government. This was the second round of these consultation meetings which are focused on the development of valuation methodology guides as part of a wider process of "disclosure" by MPAC in preparation for the 2016 reassessment (revaluation) of properties in Ontario. The methodology guides will be "Level 1" of the disclosure process; "Level 2" will comprise "market valuation reports" which will look at the market for different types of property as at the relevant valuation date (January 2016); these will be followed by "Level 3" disclosure which will be the production of individual property valuations. This three-level disclosure process is intended to provide not only improved transparency and awareness, but also to involve property taxpayers in the reassessment process so they can have greater confidence in the accuracy of the valuations that MPAC produce. I think this is a very good example of how property taxpayers and assessing agencies can, and should, work together to help in meeting each other's needs.

I will be staying in Toronto for a few more days as I have been asked to chair an event at the Munk Centre of Global Affairs on 2 February where we have experts speaking on the subject of "Land Value Capture". This is a sell-out event which promises to be a very interesting discussion with experts from around the world talking about various aspects of the subject. This is particularly topical in Toronto as land value capture is being considered in connection with a new transit system.

Looking ahead, I am pleased to say that all is going well in connection with our annual international conference in Brazil in March which will be a two-day event with a further day devoted to workshops. We are holding another Rating Seminar in London with Landmark Chambers in April. We are planning a number of workshops with the Institute of Municipal Assessors (IMA) in Canada over the coming months dealing with both the income and cost approach to valuation. I am pleased that we are getting very good support for our annual Mass Appraisal Valuation Symposium which is being held in Amsterdam in June. We have just finalized the plans for our annual Caribbean conference which will be held in Montego Bay, Jamaica in November in conjunction with



the RICS. We have also agreed dates for two more courses that we will be running with Osgoode Hall Law School in Toronto; these will be a report writing course for valuation experts in May and a course for expert witnesses in property tax valuation disputes in November. More information about these various events can be found on our website: www.ipti.org

Another interesting, and new, area of activity for us takes the form of delivering training on "eminent domain" via a series of courses in Saudi Arabia. For those who may not be familiar with the subject, eminent domain involves the compulsory taking of land, usually by government, and the payment of compensation to the landowner whose property is taken. The subject can be quite controversial, particularly when the land concerned is going to be used for a commercial purpose, for example, a pipeline. Although the dates for the three courses have not yet been finalized, it is anticipated that I will be delivering training in Riyadh for a total of six weeks during 2015. I will provide more detail on this when it is available.

Having mentioned Saudi Arabia, it is reported that the country may be introducing a tax on undeveloped land to provide the government with additional revenues and "push" owners into developing or selling such land. A Saudi government spokesman said, "*The housing ministry is pushing towards passing a law to tax undeveloped land. The ministry has submitted a detailed study in this regard, in which it supported fast approval of the decision, which will have a positive impact on land price hikes and the monopolization of land.*" I look forward to finding out more about this when I am in Saudi Arabia later this year.

There is an interesting, and controversial, development in the USA where Maine may become the first state to put colleges, hospitals and charities on property tax rolls. There is a proposal to cut taxes for Maine families and businesses and end one of the most widely accepted practices in the country - the property-tax exemption for non-profit organizations. Every state has laws that exempt churches and federally-designated non-profit groups from property taxes, although which holdings qualify can vary from place to place. Non-profits say the special status is needed because they provide vital programs that governments often don't. The administration in Maine argues that these groups rely on local services, and the practice unfairly drives up property taxes for others. The plan reflects a growing national debate over the non-profit exemption, especially in the North East of the USA. This region relies heavily on property taxes to fund government and has a particularly high concentration of tax-exempt academic and medical institutions. It will be interesting to see if this proposal becomes a reality, as there is widespread opposition.

In Canada, a federal panel has valued a well-known property in Nova Scotia - Halifax's Citadel Hill - at \$41.2 million ending a decades-long dispute between the city and the federal government. This is about \$37.6 million more than the federal government argued



the national historic site was worth. The two sides went before the “payment in lieu of taxes dispute advisory panel” in Halifax over seven days last June and July to determine how much the federal government owes the city in back taxes for Citadel Hill. The final amount has yet to be settled, about two and a half years after the Supreme Court of Canada ruled in favour of Halifax and more than 20 years after the disagreement began. In the panel's decision it said, based on evidence presented by appraisers and city planners from both sides, it has determined that the land's market value is about \$41.2 million for the 2013 assessment year. An appraiser for the federal government set its worth at about \$12.1 million, but the federal Public Works Department argued it should be valued at a 70 per cent discount because of the national historic site's land restrictions, bringing Citadel Hill's value down to about \$3.6 million. Experts for the city put forward two property assessments during the hearing saying the land was worth \$51 million and \$68 million, the panel said. The federal government had argued in Canada's top court that the roughly 16 hectares of land was only worth \$10 because it has no commercial value. The Supreme Court ruled in June 2012 that the federal government cannot set payments based on its own property value assessments that are far lower than provincial assessments. But the decision didn't include a value for the site in downtown Halifax, and the two sides were not able to come to an agreement on their own. The panel's decision said although the site will never be sold, public lands are still valuable and therefore have a market value. Its recommendation has been sent to the Public Works Minister who will make the final decision.

An interesting development in property taxation in the UK is that a council in London is due to become the first in the country to offer companies a discount on their non-residential property tax (business rates) if they pay their employees the “living wage”. Employers in Brent could save as much as £5,000 if they pay all their workers at least £9.15 an hour - the living wage rate for London - instead of just being bound by the national minimum wage, which is £6.50 an hour for adults. Brent will have to fund only 30% of the costs itself because, following changes giving councils more flexibility over business rates, central government will meet half the cost. The Greater London Authority will pay the remaining 20%. The largest firms, with more than 500 staff, would get £5,000, and the smallest, with fewer than 10, would get £250, with varying discounts for those in between.

Whilst on the subject of the UK, an interesting recent report states that the total value of homes in the UK now stands at £5.75 trillion. London and the South East account for a growing share of the total, with a combined value of over £2.5 trillion, with average values per property now at £428,988 and £282,168 respectively. Owner-occupied homes remain the dominant tenure, accounting for almost 15 million households, and the number of homes owned without a mortgage rose in the past five years to over 8.3 million, with values rising to almost £2 trillion. The total number of private-rented homes



has risen by almost 1.2 million since 2009, taking the total to over 5.4 million, compared to 4.7 million in the social-rented sector.

The government in Ukraine has imposed a new tax on property with effect from January 2015. The maximum property tax rate for residential and non-residential property is limited to an amount not exceeding 2% of the minimum wage per year. The powers to set the tax rate are delegated to the local authorities. Local authorities can increase the limit for residential properties as well as set property tax benefits for individuals depending on their income and property status. Non-residential property used by small and medium-size business entities operating in small properties and in markets will not be subject to property tax. Industry buildings, constructions of agricultural goods producers designed to be used directly in agricultural activities, and non-residential property owned by social organizations of disabled people and their enterprises, will also be exempt.

And finally, I am always interested to see the “innovative” way in which jurisdictions in India enforce property tax collection. We have seen examples of brass bands playing outside defaulters’ properties and, in one case, smelly garbage trucks parked outside such properties until the defaulter pays up. Quite often, properties are “sealed up” by the government body concerned until payment is made. I note that in a recent case, Nagpur Municipal Corporation sealed a police station situated in north Nagpur for default in payment of property tax. Apparently, property tax in respect of the police station has not been paid since 2006. I wonder whether there were any policemen inside the station, or criminals being held there, when the property was sealed up!

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