



President's Message - March 2015

I hope that those of you in the Northern hemisphere are beginning to see the signs of spring arriving and those in the Southern hemisphere are enjoying the changes as summer moves in autumn. I am writing this month's newsletter from the UK where, I am pleased to say, the sun is currently shining and the sky is blue, although temperatures are only just above freezing. Although the seasons are changing, the importance of property tax is not changing; it continues to be important and, if anything, is increasing in importance in many parts of the world.

I am pleased to say that the COST-IPTI International Scorecard provided the lead item in the latest edition of Global Tax News (GTN); not only did GTN refer to the Scorecard and comment on it, they used it as the lead in to their review of property tax issues around the world. Their analysis included the current political debate on the "mansion tax" in the UK; the new local property tax in Ireland; the problems with property taxes in Italy; concern over property taxes in France; the IMF's recommendations about improving property taxes in Slovenia; developments in property taxes in Hong Kong, Singapore and Taiwan; and the introduction of the property registration system in China which may be used to support property taxes in due course. I am beginning to suspect someone at GTN must be reading both my President's Message and checking IPTI Xtracts on our website as we have covered all these stories recently!

GTN concludes: *"So as we can see, governments have a variety of justifications for introducing or increasing taxes on property, but rarely do they see the need to reduce the tax burden on real estate. In an era when public finances are stretched in many countries and governments are seeking to maximize revenue, this is a situation that is unlikely to change anytime soon."*

Returning to IPTI's activities, our team has been very busy over the last month in preparing valuation methodology guides for various clients. Although this is time-consuming work, it is an important contribution to ensuring that property tax valuations are carried out in both an accurate and consistent manner. Those involved in this area of activity know only too well how difficult it can be to value some of the more unusual or complex properties that have to be valued for property tax purposes. I remember some of the interesting arguments that I was involved in when dealing with valuations of properties as diverse as amusement parks, nuclear bunkers, historic sites, floating casinos, castles, bird sanctuaries, power stations, cross-country pipelines, canals, universities, public toilets, and a host of other properties that never transact, so deriving a credible estimation of market value was always a challenge!



Back to what else we have been doing recently and I'm pleased to report that, at the beginning of February, IPTI co-organised a very interesting event on "land value capture" held at the Munk School of Global Affairs which is part of the University of Toronto.

We had two eminent speakers, one from the Lincoln Institute of Land Policy who spoke about the experience of land value capture schemes in both Latin America and South America, and the other from the School of Urban and Regional Planning at Ryerson University in Toronto who spoke primarily about schemes in North America. I was moderating the discussion and it was particularly topical to have this debate in Toronto as there is currently a proposed land value capture scheme being considered for funding the extension of the city's transit system. The audience were very engaged in the debate and discussion continued long after the formal close of the event. Land value capture is currently being undertaken in the UK where the Crossrail scheme - a new rail system running through central London, which is Europe's largest construction project costing some £15 billion - is being partly funded by a supplement on the property tax paid by businesses in London.

IPTI also participated in the Property Tax Open Forum organised by the Ontario Chapter of the Canadian Property Tax Association (CPTA) held in early February. Our presentation was entitled "Professionalism in the Property Tax Industry" and covered the role of the property tax profession and organisations, ethics, standards, and the need for differentiation in the roles of an advocate and expert witness. The event was well-attended with delegates from large corporate entities, property tax agents, appraisers, lawyers and other stakeholders. The Forum also had an update on the Special Purpose Business Properties Assessment Review in which IPTI has been participating.

Last month also saw an interesting property tax case being heard by the Supreme Court in the UK. There are very few property tax cases that reach the Supreme Court - the highest court in the UK - so I went along to the hearing which concerned issues over the "unit of assessment". Property tax concerning business premises in the UK is a tax on the occupier of property, not the owner, so it is important to establish the extent of "occupation". In this case, the taxpayers occupied two separate floors in an office building. The issue was whether they should be two separate assessments for property tax, or one. Although in this particular case, the financial consequences for the taxpayer were not particularly significant, it was considered an important point of principle by the Valuation Office Agency (VOA) as it may have implications for many other properties which may be occupied by one taxpayer (ratepayer) but constitute separate properties ("hereditaments" as they are called in the UK). There are many examples of industrial properties occupied by one company but split by public highways; two shops occupied by one retailer, but with another shop between them; and offices occupied by the same company in one tall building but separated by anything up to 80 floors occupied by others. The VOA argued that as the two floors of offices concerned were not "contiguous" (i.e. touching), they should be separately assessed. Prior to the VOA's appeal to the



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Supreme Court, the Court of Appeal and the Upper Tribunal of the Lands Chamber had both decided that the two floors should be assessed as one. Although the decision of the Supreme Court is not yet available, it was very interesting to see the two barristers concerned, both QCs, being questioned by their Lordships (the judges in the Supreme Court) over their legal submissions and arguments. Barristers are normally asking the questions, so it was enjoyable to see them being "grilled" for a change!

There have been a number of important property tax (rating) cases heard before the courts and tribunals in the UK recently; this may be a sign of the continuing attempts by taxpayers to reduce their liability in a jurisdiction which has the highest burden of property taxes in the world.

Talking of the world, it is now time to take a look around and see what is happening in various countries.

The issue of exemptions, or "favourable" treatment of certain types of property taxpayer, continues to attract attention. In the USA, the Governor of Maine's proposal to withdraw exemption from property taxes for some of the larger "non-profits" continues to attract comment and controversy. In Pennsylvania, some jurisdictions are reviewing the "legitimacy" of charitable exemptions and finding many that are no longer entitled to them. For example, Allegheny County reviewed 2,800 properties that claimed charitable tax exemptions, thereby avoiding liability for property taxes, and found many were not entitled to the exemption; this resulted in a substantial increase in revenues. Non-profits throughout the state are also being asked to negotiate PILOTs (voluntary payments in lieu of taxes) to avoid legal challenges to their exemptions. It is interesting to note that an estimate based on last year's "Actual Value Initiative" in Philadelphia said that the non-profit sector held 10% of the total real estate market with a value of about \$13 billion.

The arguments over exemptions for non-profits are, essentially, straightforward. One side argues that non-profits use local government services; for example, they enjoy the protection of the police and fire departments; they use the roads and transportation systems; they benefit from local schools; therefore they should pay for those services. The other side argues that non-profits provide services to society that, in their absence, would have to be provided by the government, so they reduce costs and the exemption is justified. Another issue is that in many places, there are a very large number of non-profits so, if they are exempt, this places a disproportionate burden on other property taxpayers. And, of course, it is argued that by no means all non-profits are financially constrained and therefore would not find it difficult to make a contribution. The arguments continue!



In New Zealand, motorway tolls are gaining far more support from Aucklanders than lifting property taxes (rates) and fuel taxes to fill a \$12 billion transport funding gap. Public feedback over the council's 10-year budget shows more than twice as much support for a \$10.3 billion enhanced transport programme than for a stripped-down \$6.9 billion version. Toll have been backed by 51 per cent of those who responded compared with 31 per cent who supported raising extra property taxes and fuel taxes for transport projects. About 70 per cent of submissions supported the enhanced plan, which includes a fully integrated fare system, railway station and ferry terminal upgrades, more bus lanes and park and ride areas, and road bridges or underpasses to replace rail level-crossings.

Staying in New Zealand, it is reported that the Prime Minister has dismissed a push for councils to be able to broaden the way they raise money, saying major changes are not on the government's agenda. Local Government New Zealand (LGNZ) recently released a funding review paper claiming a need to address the gap between spending and revenue. Pointing to pressures from an ageing population, as well as local pressures created by tourism and nationally significant projects, the paper mooted revenue gathering including from local taxes and cost sharing with central government. *"The goal is not to increase the overall tax burden for New Zealand, but rather to determine whether a different mix of funding options for local government might deliver better outcomes for the country,"* the LGNZ president said. According to LGNZ, councils spent about 10.5 per cent of all public expenditure, but raised only 8.3 per cent of the revenue. *"As a result, a growing number of councils face financial challenges at a time when demand for infrastructure and services is greater than ever. Local government is also an important contributor to economic growth but the right incentives and resources must be in place to drive this growth,"* he said. The Prime Minister responded: *"Rates are an impost on ratepayers; we've just got to be cautious about how much we put on ratepayers because in the end, there's a lot of costs coming at them and we want to make sure money isn't wasted. If we opened the floodgates to a whole range of other taxes and ways of funding local government, then the costs could dramatically go up, the services wouldn't necessarily actually improve and you could see consumers paying a lot more."* This type of debate is, of course, going on in many countries around the world.

Moving on to Africa, in Uganda, there has been a suggestion made by the Chairman of the Uganda Revenue Authority Board of Directors that a *"concerted and deliberate effort is made towards widening the tax base"*. This includes *"introducing a tax on land (idle or productive) since land was the biggest asset and yet it is not taxed"*. He said that the largest share of Uganda's GDP, 27.21%, is generated by the agriculture sector and agriculture is carried out on land; however, this sector contributes very little to tax, only 0.81%. The country must take measures to ensure that there is increased revenue from agriculture and taxing land (after consideration of the varying production levels) is one such measure. He went on to say that countries like Denmark, Estonia, Chile and South Africa have implemented land value tax to raise public finances. Taxing land would



stimulate economic development by obliging landowners to develop vacant and under-used land properly or make it available for development purposes. Different countries have used varying methods of taxing land ranging from relying on the annual rental value to determine the base of their property tax to applying a flat rate tax to the land. However, he said these are secondary issues which can be considered in detail at a later stage once the taxation principle is agreed upon by all the relevant stakeholders.

In Greece, the government is preparing a taxation overhaul that will provide for one set of brackets for all taxable incomes regardless of source. It is also planning to implement a large property tax (LPT) that will concern not only real estate but also big bank deposits, works of art and other investment tools, with a tax-free threshold of 300,000 euros. There is also a plan for a consumption tax on luxury goods, such as spending on very powerful or expensive vehicles, yachts, aircraft, helicopters, swimming pools etc. The sum of each taxpayer's assets will be used for the calculation of the LPT, which will replace the single property tax (or ENFIA, which is only for real estate). The tax will be levied regardless of the taxpayer's income, which means that it will also concern the unemployed who may have inherited a large property or valuable artwork. Taxpayers will have to pay the LPT for the sum of apartments, buildings, land, artworks, bank deposits, investment products, stocks, etc., in Greece, according to the Property Register ("Periousiologio"), as well as for any assets abroad. There will be progressive tax brackets for the LPT and the target for annual revenues will amount to at least the European Union average in property taxation takings. For the calculation of real estate values, the tax authorities will use updated objective rates that will be annually adjusted to market prices.

Back to one of my favourite stories, property tax enforcement in India. Regular readers of my newsletter will be aware that, in some parts of the country, people who do not pay their property taxes may find a band playing loud music outside their houses until they pay up. In some cases, the musicians are either transsexuals or eunuchs who, apparently, derive much of their income from these activities. However, in Chennai, the city council has told taxmen enforcing property tax to stop using transsexuals and eunuchs to collect unpaid debts after residents staged a mass protest. It seems that council officials decided to hire the "unusual" tax collectors believing that it would shame people into coughing up the money they owed. Indeed, after expanding the network of eunuch and transsexual tax collectors, the council were predicting a 25 percent increase in tax income this year. One of the protestors said: *"It is outrageous because some people have not paid simply because they have a legitimate dispute over the amount and using these individuals to terrorise them into paying up is just bullying."* It looks as if the council will have to return to more traditional methods of enforcement!

And finally, the story of a man in Texas who tried to pay his property taxes in single \$1 bills, but ended up in jail. It seems that the man was accused of disrupting the operation and efficiency of the tax office by attempting to pay \$600-worth of property taxes with



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\$1 bills. The bills were said to be folded so tightly it *"required tax office personnel approximately six minutes to unfold each bill."* It is said that the notes were not just folded, they were *"origami folded"* - whatever that means! When he refused to leave the tax office, he was arrested and charged with criminal trespass. As a deputy grabbed his arm to place him in handcuffs, he pulled away causing the deputy to wrestle him to the ground to detain him, bringing an additional charge of resisting arrest. It seems that the man was released from jail shortly after the incident and has become something of a local hero!

I hope that as many of you as possible will be able to join us for our annual conference in Brasilia next month (25-26 March) at which many topical issues concerning property tax will be considered and debated.

Paul Sanderson
President
International Property Tax Institute