President's Message - May 2015

I am writing this month's newsletter from the UK where the general election is now only a few days away; it will be held on 7 May. Inevitably, the various political parties are setting out their policies outlining what they will do if they are elected, and property tax issues continue to be high on the political agenda. If the opinion polls are to be believed, it seems that no one party will gain a majority so it may be that one or other of the main parties will be forced to "do a deal" with one of the other parties in order to form a coalition government. As all the parties are making different promises on property taxes, it will be interesting to see what happens.

Anyway, back to IPTI matters. April was another busy and interesting month for us with a number of events, meetings and further work on various projects. At the start of the month we held what has now become the annual Landmark Chambers-IPTI Rating Seminar in London which involves the main barristers who provide the advocacy in most property tax (non-domestic rates) litigation in the UK talking about some of the more important cases that have been decided by the courts and tribunals. Of the many interesting presentations, one entitled "A Short History of Rates from 1601 to 2015" was particularly entertaining, but underlined the fact that, even after 400 years, the property tax system in the UK continues to create new issues and evolve through a combination of legislation and case law.

My main involvement in the seminar was to talk about "International Issues" which, I hope, helped to give the audience an insight into the way in which property tax issues that are currently of concern in the UK are dealt with in other countries. This included such matters as relative tax burdens, tax rates, exemptions, the frequency of revaluations, and dealing with appeals. I also referred to our International Scorecard and showed how the administration of the UK system shapes up in comparison with the other countries included in the survey.

The Rating Seminar was held at the Royal College of Surgeons which is located in Lincoln's Inn near to the Royal Courts of Justice in London. It is a magnificent building and we attended a dinner there in the evening following the seminar which was hosted by the Rating Surveyors' Association (RSA). The RSA had kindly organised their committee meeting and dinner to coincide with the seminar which encouraged their members to attend both the seminar and the dinner. One of the highlights of the dinner was that Mr Justice Holgate, who as David Holgate QC chaired the Rating Seminar last year, attended and was made an honorary member of the RSA. I should add that Mr Justice Holgate, now a High Court judge, recently handed down his first decision on a case concerning non-domestic rates; the first of many I suspect!

Another interesting aspect of the Rating Seminar was the fact that the man responsible for property tax assessments in Palestine attended and, during the day, I had a meeting with him and his colleague from Japan who represented the sponsors of a property tax project which is currently being implemented in Palestine. They wanted to discuss how IPTI may be able to help them in the provision of professional advice and training to improve their implementation of a revaluation that is a key part of the property tax updating project.

Another interesting meeting I attended in London was with the British Retail Consortium (BRC) who were interested in obtaining details of international comparisons of the relative burden of property taxes in Europe and other OECD countries. The BRC have been very active in calling for reform of the business rates system in the UK and one of their concerns is the high burden of property tax paid by businesses in the UK in comparison with businesses based in other countries. This is a major issue which will have to be faced by the incoming government following the general election.

We spent quite a bit of time during April completing work on the valuation methodology guides we are assisting the Municipal Property Assessment Corporation (MPAC) in Ontario, Canada, to complete as part of their preparation for the forthcoming reassessment (revaluation) in the Province. This work is now in the public domain following the recent publication of the Ontario Budget and announcements in the Ontario Gazette. The Gazette announced that "The Corporation shall prepare an Assessment Methodology Guide for the 2016 general reassessment for each of the following property types: paper mill, pulp mill, sawmill, value-added wood products manufacturing plant, steel manufacturing plant, automotive assembly plant, and automotive parts manufacturing plant." These guides form part of a wider "advance disclosure" process that MPAC will be undertaking in connection with the forthcoming reassessment.

At the end of April we also delivered another workshop in conjunction with the Institute of Municipal Assessors (IMA) in Canada. This 3-day workshop was concerned with issues concerning the principles of "highest and best use" and the application of the income approach to valuation. It looked in detail at the valuation of different types of properties including shopping centres, office buildings and hotels; it also dealt with the issue of excluding the value of intangible assets from property tax valuations.

I am pleased to report that we are getting a good response to the international benchmarking study we are undertaking on behalf of the Australasian Council of Valuers General. We have already started work on analyzing the data being provided, but it is not too late to include additional jurisdictions so if anyone reading this note would like to participate, please let us know.

Looking ahead, we will have a "full house" for our forthcoming course on expert report writing that we will be holding in conjunction with Osgoode Hall Law School in May. This course, held in Toronto, has proved very popular and we have an impressive list of eminent speakers who will share their knowledge and experience of this increasingly important area of professional life.

I will be presenting a webinar in May for the International Association of Assessing Officers (IAAO) on international issues in property tax. This is intended to provide an insight into key global property tax issues and compare the position in the USA with the rest of the world. I will also be chairing an IPTI webinar in June which will be looking at "Managing Property Taxes Across Different Jurisdictions" where we will have two experienced experts sharing their views on effective global management of property taxes paid by international corporate entities.

Later in June we have our annual Mass Appraisal Valuation Symposium (MAVS) which is being held in Amsterdam, Holland. We have a great line up of speakers from around the world who will be covering a wide range of topics. If you have not already registered for the MAVS, I urge you to do so as soon as possible as it promises to be a really interesting and informative event. I should add that we will be holding a meeting of IPTI's Board of Advisors during the MAVS.

Looking a little further ahead, we have confirmed details of a joint event concerning property taxes we will be holding in partnership with the European American Chamber of Commerce (EACC) in New York in September. We are very pleased to be working with the EACC who are very active in providing their members with services and events on both sides of the Atlantic.

November is looking like a busy month as we will be holding a workshop in Houston, Texas on property taxes relating to oil and gas properties. We will also be delivering another expert witness course in conjunction with Osgoode Hall Law School in Canada and last, but by no means least, our annual Caribbean conference in Montego Bay, Jamaica.

So, lots to look forward to and, as usual, more information can be found on our website: www.ipti.org

Now for a quick look at property tax stories from around the world.

Azerbaijan will start a new project on mass valuation of real estate which will continue until the end of 2015 said a spokesman for the State Committee for Property Affairs. He said "The purpose of this project is to conduct a centralized mass and accurate assessment of the real estate sector from a single centre." A pilot project has already been implemented in Sumgait. The project should contribute to the control of the real estate assessment in the country, the spokesman said. A special database of evaluated objects will be set up as part of it. This base will be used by banks in mortgage lending, insurance companies for insuring properties, as well as determining sale prices. It was said that 170,000 objects have been estimated over the past five years in Azerbaijan and that the database is extended by 5,000 objects every month. The Azerbaijani government and the World Bank have signed an agreement aiming to create a single real estate cadastre system. The project consists of four components - registration of real estate, management and register of state property, base cartography and land cadastre, training, policy development and project management.

In Cyprus, it has been announced that, in the wake of a large number of people who filed objections to the Land Registry's valuation of their property, the government has extended the deadline for receiving objections until the end of the year. It is the second extension given since November last year for filing objections. Thousands of owners have complained of errors made by the land registry in valuing real estate based on the new, 2013 prices. Owners can file an appeal by paying a fee that depends on the value of their property. It was initially planned that the property tax (IPT) for 2014 would be levied based on the up-to-date values, but the new rates will now apply for IPT payable in 2015. The fees for making an appeal range from €37.50 (euros) for properties valued up to €100,000 up to €357.00 for properties valued in excess of €1 million.

In Greece, property tax issues continue to create tensions. A conflict within the Greek government was reportedly generated over the potential continuation of the single property tax (ENFIA). According to the creditors, the continuation of the ENFIA tax is included in the list of proposed reforms, while the government denies it. A government spokesman stated that the ENFIA tax is "unfair" and will be abolished, so it will not be collected in 2015. It will be replaced by a large property tax, he said. Finance Ministry officials say that it is impossible to implement a new property tax within 2015. Analysts say it might be necessary to collect the ENFIA tax for another year in order to balance this year's budget.

In the USA, the Bureau of Economic Analysis has calculated that all the land in the United States is worth some $23 trillion. It is an estimate for the value of the 1.89 billion acres of land that accounts for the 48 contiguous states and the District of Columbia. The dollar figure, equal to about 1.4 times last year's gross domestic product, represents only the value of the land, and not buildings, roads or other improvements, and excludes bodies of water. Leaving aside whether or not the figure is correct, critics have said that what it shows is the "pure value" of the land (plus the permits granted to do whatever with that land) only for each piece of it, but calculated as if all of the buildings and properties on all of the other land still exist. In other words, it estimates the value of the land without buildings, but that value of that land depends very heavily upon the surrounding development. The critics go on to say that this is one of the problems with land value tax (LVT) where, in the valuation of the land, whatever buildings are on the land itself are ignored, but the influence upon that value of what else has built around it is reflected. This, it is said, creates a conceptual problem. So it seems that the USA will not be introducing LVT by simply using the $23 trillion valuation and applying a single tax rate to it anytime soon!

In Australia, consideration is being given to introducing an empty building tax to promote development and discourage 'eyesores'. The idea was put forward by the South Australian Council of Social Services (SACOSS) in its submission to the Government, which is currently considering a range of tax reforms. A SACOSS spokesman said while the state has many homeless people and a housing affordability crisis, too many properties were sitting vacant. He said all the details have not yet been worked out, but the proposed tax could extend to vacant shops and other commercial buildings. "The idea of a disused building tax was an attempt to invite people ... who own properties not to simply sit on them for years and years and years without doing anything active about their development," he said. "Those properties ... they're an eyesore for those of us that live in those communities." The State Government flagged changes to the tax system back in February, including a possible broad-based land tax of about $1,200 a year.

Also in Australia, land tax, broadened to include a far wider range of owners, and without the plethora of current exemptions, is a possible outcome of national tax reform. The Australian government's Tax Discussion Paper, released recently, found that taxes on property - stamp duty and land tax - contribute 9 per cent net of the total tax base which is said to be far more than the OECD average of around 5 per cent. At the same time, property owners benefit because the family home, whilst subject to stamp duty and council rates, is exempt from capital gains tax or a tax on imputed rent. The paper showed a clear preference for removing stamp duty, which creates, for the tax experts, a "high marginal excess burden". By comparison, land tax, has a "negative marginal excess burden". The Treasury argued that broad-based land taxes, such as municipal rates, have a low economic cost because they are immobile and cannot be moved or varied to avoid tax. The tax paper noted that more than half of the land tax base was exempted from the current regimes which resulted in "lost revenue and distorted investment." However, observers indicate that the most "sacred" issue, the taxation of the family home through capital gains tax or the taxation of imputed rent, appears to be "untouchable". It will be interesting to see what happens to this idea.

In Arizona, it seems that some concerns have been raised about the use of photographs on an assessor's website. When the assessor released new tax valuations last month, a local architect decided to visit the website and check his own property. He was said to be "stunned" when he saw several photos of his property, some with the photographer seemingly peering in through the windows. "You can see the Christmas presents in my living room," he said. "It was shocking." The assessor explained that he has an obligation to annually value all the properties in the county for taxation purposes, but only a small percentage of those are photographed. He went on to say that photos can be taken for a number of reasons: to verify whether renovations or additions have been made to a home, for example, or if a homeowner is contesting a valuation. However, the assessor said he wasn't sure why the interior of the house was photographed in this case. The architect asked the assessor to remove the photos of his home's interior from the website and the office complied. The story shows the need to ensure a "balance" between the helpful use of photos in connection with property taxes and concerns over privacy.

And finally, it is a well-known fact that the only two certainties in life are death and taxes. In Indonesia, these two aspects are being brought together as the Agrarian and Spatial Planning Ministry is considering expanding property tax (PBB) to plots of land developed into commercial cemeteries. A ministry spokesman said they were planning to discuss the idea with the Finance Ministry in the near future, including the tax percentage to be imposed. The existing law stipulates that plots of land designed for graves are exempted from property tax. However, it is argued that the existing law has become irrelevant due to the fact that a lot of public land for graves is being converted into commercial spaces, which later have been sold at high prices by several developers. Apparently, luxury cemeteries have become a growing trend surrounding Indonesia's urban areas, especially in Jakarta and West Java, as the country has seen rising middle-class and high-end populations in the past few years. So, if the law is changed in this way, it seems that the authorities will be able to tax those who thought that, after death, they would finally be free of taxes!

Paul Sanderson
President
International Property Tax Institute