President's Message – April 2016

For those of you who had a holiday over the Easter period, I hope you enjoyed the break and are now looking forward to the coming Spring or Autumn, depending upon which part of the world you are in.

As usual, I will start this month's newsletter with a brief look back over events in March and a look forward to what is happening in the coming period. I will them share a few topical items from recent articles concerning property taxes in selected countries. As regular readers of this newsletter will be aware, the topical items I include are drawn from the wide range of articles contained in IPTI Xtracts on our website. I am pleased to report that we now have over 5,000 articles in Xtracts which, I hope, help to give a flavour of some of the issues that affect property tax systems in various jurisdictions. Probably the key message from Xtracts is that many of the issues covered by these articles are very similar in nature and show that, no matter how developed a property tax system may be, all have room for improvement.

Looking back over March, we held a series of webinars. At the beginning of the month we delivered a webinar on the "Valuation of Multi-Residential Properties". This was a joint webinar with the Institute of Municipal Assessors (IMA) based in Canada. We received some very positive feedback with one participant emailing afterwards to say "These webinars are great; thank you for having them." Also in March we held two more joint IPTI-IMA webinars; one was on the "Identification and Separation of Intangibles in Property Tax Assessment Valuations" and the other was on the subject of "Mass Appraisal v Single Property Valuations". Both events were well supported and well received by participants. Based on the success of those that we have held so far, we have now developed a number of IMA-IPTI webinars and will be having one a month for the rest of the year. More information about the forthcoming webinars can be found on our website: www.ipti.org.

Along with other IPTI colleagues, I went to Prague in early March. Whilst we were there, we attended part of the UN European Habitat event which was held in preparation for Habitat III which will be a major UN conference to be held in Ecuador later this year. We were particularly interested in the issue of land value capture that was being considered at the Prague conference. Unfortunately, the topic was not considered in sufficient depth or detail and we were disappointed that there was no discussion of the practical application of land value capture. We may be holding an event of our own in due course where the issues associated with land value capture will be considered more carefully.

The main reason we were in Prague was to attend a meeting with a Member of IPTI's Board of Advisors, Alena Holmes, and some of her colleagues from the Czech Ministry of Finance. This meeting was concerned with planning a round-table discussion that will be taking place in Prague in June and hosted by the Ministry of Finance. This meeting will be looking at a variety of property tax issues concerning countries in central Europe and follows on from a similar meeting we held in Slovenia last year. Invitations to attend this meeting will be sent out soon.

A number of IPTI colleagues participated in the latest annual World Bank Land and Poverty Conference. This was held in Washington, DC on 14-18 March and was entitled "Scaling up responsible land governance". Sessions of particularly interest to those involved in property tax, many of which had IPTI members as speakers, included "Land Value Capture and Taxation", "Principles of Property Valuation and Taxation", "Strengthening Valuation Technology and Mass Valuation" and "Comparing Valuation and Taxation in Africa, Europe and Central Asia". The conference was also a useful meeting place for discussion with clients concerning progress in respect of several IPTI projects.

Another very interesting event we organised during March was a teleconference with members of our Corporate Advisory Committee (CAC) and others from the corporate sector. The main issue we discussed was how to deal with the situation where, in response to the outcome of litigation in which a taxpayer secures a large reduction in their property tax valuation through a court, board or tribunal decision, legislation is passed which seeks to overturn the decision. The particular issue we looked at is the so-called "dark stores" issue where appeals have been made by "big box" retailors in various parts of the USA against the value of their properties and large reductions have been achieved in some cases through the use of the sales comparison method rather than the assessor's use of the cost method. In many States, this has resulted in refunds amounting to millions of dollars which has given rise to adverse publicity, political concern, and the use of legislation to "prescribe" the use of the cost approach in such cases. Although the main focus of our discussion was on retail properties, we also considered examples of large, special use industrial properties where, both in the USA and elsewhere, legislation has been used to "interfere" with the normal approach to ascertaining market value for property tax purposes. It was a useful discussion which resulted in a helpful sharing of information and experience through the IPTI CAC network.

Another interesting event I attended during March was a seminar on business rates (the UK property tax system relating to commercial properties) organized by the British Retail Consortium (BRC). Experts spoke on various aspects of the UK system including the forthcoming revaluation (due to come into effect in 2017), the anticipated movements in values, the phasing in (transitional) arrangements, and proposed changes to the appeals system. I was asked by the BRC to speak about how the UK system compares with property tax systems in other countries. In simple terms, the UK system has the highest burden of property tax in the world (over 4% of GDP), it has the highest tax rate in the world, and suffers from having the highest appeal rate in the world. These factors are, of course, related as the appeal rate is, at least in part, influenced by the amount of property tax paid. One of the other key factors that "drives" appeal rates is the frequency of revaluations. Jurisdictions with the lowest appeal rates normally have the lowest tax rate/burden and the most frequent revaluations cycle; often annual revaluations. The UK should have 5-yearly revaluations but the last one due in 2015 was postponed until 2017 meaning that any reduction in the tax base (rateable value) would last for 7 years instead of 5, providing an additional incentive to appeal.

Interestingly, the UK government outlined its response to the existing high level of appeals by proposing a more convoluted and expensive system involving what they call "Check, Challenge and Appeal". Experts say this will not only make the system more complicated, but it will also take longer to deal with appeals. It will also involve the introduction of fees for making an appeal, although the fee will be reimbursed if the appeal is successful. Of course, that opens the door to some interesting arguments over what "successful" means and who will make that decision!

In his Budget speech on 16 March, the UK Chancellor of the Exchequer announced other "reforms" to the UK business rates system. They include cutting the burden on ratepayers in England by £6.7 billion over the next 5 years, cutting business rates for all properties and ensuring that the smallest businesses pay no rates at all, while, in their words, "modernising the tax to make it fit for the 21st century". The "modernisation" will include the introduction of more frequent revaluations (at least every 3 years) and a discussion paper has been issued outlining options on how to achieve this; also the government intend to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017.

Back to forthcoming IPTI events, we will be holding the annual IPTI-Landmark Chambers rating seminar in London during April. We are also holding two important events in Canada during May; one is the Ontario Property Tax Summit and the other is our annual Mass Appraisal Valuation Symposium. Both these events will be held in Niagara Falls and more details can be found on our website. We are also putting the finishing touches to our annual Caribbean Valuation and Construction Conference which will be held in St Lucia on 9-10 November. More details about this event, which is run in partnership with the RICS, will be available shortly.

Now for a quick look around the world to see what is happening in various countries in connection with property tax.

In Norway, the City of Oslo is in the process of sending out notices to 300,000 households that they're about to pay a new property tax. The bills are expected in June. The city's new government coalition pushed through the first property tax program in Oslo in 17 years after assuming office last year. Revenues from the tax are to be used primarily for additional funding for nursing homes. The notices explain who may be eligible for real estate tax, generally those with homes or other private property worth more than NOK 4.5 million. Those with property worth less than that are likely to be exempt. Around 20 percent of households in Oslo are expected to find themselves liable for the new property tax, which is expected to raise several hundred million kroner a year to improve elder care.

Albania has been urged to introduce property tax. Albania should focus on broadening the tax base and on strengthening compliance and revenue administration, the International Monetary Fund (IMF) has said. Measures to broaden the tax base should include the introduction of a value-based property tax by the end of 2017, it said. The IMF also urged authorities to refrain from granting any further tax exemptions or preferential tax incentives, and to look to rescind existing ones.

In the last decade, China has developed the world's largest high-speed rail network. The question now facing China Railways Corporation (CRC), is how to finance its continued development. A recent World Bank report, titled "Attracting Capital for Railway Development in China", provides some insight into this, with case studies about how companies in China and railways in seven other countries have attracted capital and made capital budgeting decisions to support their strategic development. Based on CRC's financial needs and opportunities, the report studies five categories of relevant cases about how to attract investments and diversify financing sources. The cases are from China, France, India, Japan, Poland, Russia, United Kingdom and United States and cover portfolio management, financial leasing, equity flotation, public-private partnership (PPP), and leveraging real estate and land assets. Among its suggestions, the report says that CRC can effectively apply PPP concepts through land value capture and integrated land development, and capture its right-of-way value through telecommunications services. As already indicated, IPTI is aware that land value capture is an increasingly important issue in many countries.

In Africa, outdated valuation data in Kenya is denying counties billions in property tax, according to a new World Bank report. The bank said former local authorities raised about 20-25 per cent of their revenue from property rates, although valuation rolls of some of the largest urban centres are outdated. "For example, Nairobi's property roll is estimated to cover less than one-quarter of the total properties, and values are now almost 35 years out of date. Realising the full potential of property rates will require complete reconstruction of the fiscal cadastre, which is likely to meet political resistance," the World Bank said. Nairobi, in a development plan that runs to 2017, had targeted pegging charges on both the plot value and developments on the property - meaning properties generating huge rental incomes or of high value would be required to pay higher land rates and ultimately increase county property tax revenue. The plan is yet to be implemented. Currently, property owners pay rates at 34 per cent of the unimproved site value based on the 1980 valuation roll, which apportions worth of land depending on its location with plots in the central business district and high-end locations attracting higher charges. The World Bank said despite missed opportunities such as property rates, counties were recording improved revenue collection in the second year of devolution.

In Finland, property taxes will bring an earning of almost euro 1.7 billion for municipalities this year, according to preliminary statistics from the Tax Administration. The amount is euro 42 million higher than the last year. The municipalities are yielding more revenue this year because taxes have risen in 41 municipalities. The permanent housing tax rate has risen in 32 municipalities, and other residential building taxes have risen in 54 municipalities. Most property tax revenue comes from buildings. Land accounts for about one-third of the revenue. Property tax is based on the value of the land and buildings, which the property owner must pay to the municipality where the property is located. About 43 percent of property owners pay less than euro 170 per year in taxes. Three percent do not pay anything because their taxes remain less than 17 euro.

In New Zealand, it is reported that many building owners may be considering demolishing or abandoning earthquake-prone buildings if an anomaly in tax treatment is not remedied. Under Building Act changes introduced following the Canterbury earthquakes, building owners must conduct a seismic assessment to establish whether their building meets new, more stringent strength standards. The Inland Revenue Department (IRD) is taking the view that neither the cost of the seismic assessment - nor bringing the building up to standard if it falls short - are tax-deductible. Experts say the IRD's stance creates a contradiction: "If remedial work is undertaken, the costs are non-deductible. But if such work is not undertaken and the building collapses, or is irreparably damaged as a result of an earthquake or other natural disaster, a tax deduction will be available for the loss." In other words, owners can claim a tax loss if a building collapses but no tax relief for trying to ensure it does not collapse in the first place.

In Australia, another report recommends the abolition of stamp duty and its replacement with land tax. The report states that homeowners who moved house every eight years, or more frequently would be better off under the deal. On a median priced Sydney home of $1,032,000, home buyers in NSW pay $42,250 in upfront stamp duty at present. Under the scheme proposed in a new McKell Institute paper "A plan to end stamp duty: Making property taxation fairer in NSW", buyers would pay no upfront tax but face an ongoing annual land tax bill of $5250, or 0.75 per cent of the value of their land. The new tax arrangement would only apply to new purchases, to protect those who had only recently paid stamp duty, and would have a deferral scheme for asset rich but cash poor retirees. The report says stamp duty is an inefficient, volatile and unfair tax that punishes first home buyers and inhibits mobility. "The extension of land tax would deliver a range of benefits in addition to the abolition of stamp duty, including improving housing affordability, and helping to provide transport infrastructure funding," the report states.

Staying in Australia, the High Court of Australia has reserved its decision on whether a Tasmanian council has the right to charge fish farms rates for the areas of water their pens occupy. The case, which focuses on businesses in Macquarie Harbour on the state's west coast, has been heard by five of the High Court's seven judges sitting at Tasmania's Supreme Court in Hobart. Prior to July 2013, Tasmania's Valuer-General (VG) included particulars of the ownership and values of marine farm leases in Macquarie Harbour in his valuation rolls. When he stopped, the West Coast Council went to the Supreme Court to get an order to have the water, and the seabed and waters above, again included on the valuation rolls, meaning they could charge rates for it. The Tasmanian Chief Justice dismissed their application ruling it was water not land and therefore not subject to rates. The council took its case to the Appeal Court which, in a majority ruling, found in September last year that the seabed and the waters of Macquarie Harbour were crown land and therefore liable to rates. The VG appealed against that ruling in the High Court. The West Coast Council declined to take part in the hearings but Tasmania's auditor-general argued their case. The outcome is awaited with interest.

In Canada, a recent report says Vancouver's non-occupancy rate was 4.9 per cent in 2002 compared with 4.8 per cent in 2014, which is line with other big Canadian cities. Increasing Vancouver's property tax by 1.5 per cent for vacant homes would create enough incentive for homeowners to rent out properties that are currently sitting empty, thereby increasing the city's housing stock says a group of UBC economic professors. Taxing those vacant units would bring in an additional $90 million and encourage more people to rent out secondary properties, say some economists. "That is key. We [would] provide an exemption for rentals," said an economics professor at UBC who came up with the proposal with colleagues. "If you're subject to this tax, all you have to do is rent out this property and you won't be subject to it anymore."

In the USA, residents in Maryland may have seen aircraft flying over their property taking photos. State tax assessors there have been using such flyovers on a trial basis to determine property taxes. And the state Senate is scheduled to vote soon on whether to keep drones out of the property assessment business. Advocates for the program say photos taken from the air can reach properties the human assessors don't have time for. The additional assessments are expected to generate $1.5 billion in new tax revenues. But some argue that's not a good enough reason. One opponent said "We kind of felt that flying drones over people's houses in order to raise their property tax assessments by $1.5 billion might not be the smartest thing to do" and said he is concerned for individuals' privacy. And he's worried about photos of high-security federal facilities getting into the wrong hands. A spokesman said the State Department of Assessments of Taxation has only used manned planes, not drones, for the program, and has no plans to use drones.

And finally, back to the UK where a "furious man" decided to pay his £1,851.94 council tax bill in pennies after devising a method to pay in the most inconvenient way possible. He apparently thought he did not have to pay council tax for two houses he bought next to his home in Eastwood. He said the houses were derelict and uninhabitable as they had not been lived in for two years and had no electricity, gas or running water. However, the local government inspected the buildings and claimed they were habitable. After being taken to court, the man reluctantly agreed to pay the bill. He went to the bank and asked for the full amount in pennies. There was so much change the bundles of coins - weighing three-quarters of a ton - had to be delivered to his house. To deliver them to the council office, he filled two shopping trollies and transported them in a lorry. He warned the council: "For as long as I have to pay council tax on these properties, I will keep coming down and paying in pennies." Property tax is clearly a "weighty" matter!

Paul Sanderson
President
International Property Tax Institute