President's Message – August 2015

I am pleased to announce that Mike Blaschuk is joining IPTI in August as our new "Director, Strategic Initiatives". Mike has been involved with IPTI, both as a client and as a speaker at many of our conferences and other events, for over 15 years. Mike will be retiring from public service in British Columbia where he is currently an Assistant Deputy Minister in the Ministry of Technology, Innovation and Citizen Services. In his new role with IPTI, Mike will be focusing initially on expanding opportunities and networks in the Caribbean as well as adding experience to IPTI in the areas of Asset and Portfolio Management, Project Management and Construction Leadership. We are very pleased to welcome Mike and look forward to working with him over the coming years.

Just looking back briefly over July, I had a very interesting and enjoyable meeting in Las Vegas, Nevada with the Clark County Assessor and her senior staff. I gave them a presentation about current global property tax issues and they updated me on the operation of their property tax system in Nevada. Their property tax system is an interesting one as, by law, properties are required to be valued by the cost approach which involves combining market value for the land with the current replacement cost of improvements on the land (i.e. buildings, structures, etc.), less statutory depreciation. The Nevada Administrative Code requires the assessors to use the Marshall & Swift Building Cost Service to determine improvement replacement costs and apply a depreciation factor of 1½ per cent for each year since the property was built, up to a maximum of 50 years (i.e. a maximum of 75% depreciation). All property values are updated (revalued) every year.

Back in the UK, I was invited to a meeting with the Scottish Minister for Local Government who is the co-chair of the Commission on Local Tax Reform which is due to report in the autumn. One of the main issues that the Commission is considering is the current council tax (residential property tax) system in Scotland which is widely criticised as being unfair and regressive. A council tax freeze was introduced in 2007 as a "short-term measure" but is still in place. This has cost £2.5 billion so far, with the bill to rise to more than £6bn if it continues for another five years. My discussion with the Minister was very interesting and it was clear that he had a very good understanding of the issues. It was equally clear that there is no simple solution to the problems, but we did look at how other countries deal with similar issues and I hope he found our discussion informative.

Also in July, IPTI made a presentation at the annual meeting of the Canadian Director's Association (CDA) held in Newfoundland. The CDA includes the heads of the various provincial valuation agencies across Canada and was a good opportunity for IPTI to explain more about what we do and how we do it and, in particular, our eLearning platform.

At the beginning of July, we had quite a few IPTI colleagues in London as they had been at our MAVS in Amsterdam. I took a group of them to the UK Rating Surveyors' Association Annual Reception held at the House of Lords which is part of the Houses of Parliament. There they got to meet some "real life" Lords of the Realm and chatted about the similarities and differences between the UK property tax system and those in other countries.

Back to IPTI work and we spent quite a bit of time in July working on a number of projects that we are undertaking. We were involved in meetings in Nairobi, Kenya organised by the World Bank. We have a number of projects and other events going on in Eastern Europe which are very interesting. We also made progress with projects that are going on in Canada. We had meetings in Jamaica with colleagues from the National Land Agency and we gave a CPD talk to a group of local surveyors.

Looking ahead, we have a meeting in Detroit, Michigan on 6 August which we are holding jointly with the Council on State Taxation (COST). This property tax seminar is to enable COST's property tax members and IPTI's corporate members to discuss property tax challenges facing corporate taxpayers. The seminar will provide an open forum for all participants to share their experiences and best practices in addressing property tax issues. The meeting will also include a discussion on future programming by IPTI and COST relating to issues of concern to the corporate sector.

Later in August we are involved in two training events in Canada. One is in Ontario and involves the valuation of large, special-purpose industrial properties. The other is in Nova Scotia and will be considering the role of the expert witness in property valuation disputes.

Beyond that we are holding a property tax event in New York in September titled "Property Taxes: a Curse or a Path to Sustainable Real Estate Growth and Profitability". This event is being held in conjunction with the European American Chamber of Commerce (EACC) and COST and will consider recent developments in property taxation in both Europe and the USA.

Later in September I have been invited to attend the annual conference of the Australasian Valuers-General which is being held in Adelaide. I then travel directly to Saudi Arabia where we are involved in delivering training on eminent domain in conjunction with the RICS for two weeks in October.

Looking further ahead, IPTI have a number of events planned for November which will be of particular interest. The first is the two-module training course we run with Osgoode Hall Law School on the role of the expert witness in property valuation disputes. Held in Toronto, this course has always been very popular and complements our other training course on preparing expert reports in connection with litigation of property valuation disputes.

We are also holding a one-day workshop in Houston, Texas which will be looking at property tax issues concerning the oil and gas industries in particular. This event is for corporate entities involved in the industry and there will be lots of interesting valuation issues discussed.

The other November event will be our annual Caribbean conference which will be held in Montego Bay, Jamaica and run in partnership with RICS Americas. As usual, the conference will cover both construction and valuation issues and I am looking forward to what I am sure will be another successful event.

More information on these and other events is available on our website: www.ipti.org.

I should mention that, starting this year, the Journal of Property Tax Assessment and Administration - our joint publication with the IAAO - will be published in two volumes per year instead of the previous four volumes. Volume 12.1 has just been mailed out and we anticipate Volume 12.2 will be finalised and mailed in October-November 2015. Although the number of issues has been reduced each issue will be larger, approximately 120 pages per issue, covering the same timely and informative topics readers have come to expect.

Now it's time to have a quick look at what is happening in relation to property taxes in different countries around the world.

In Italy, property tax is back in the news with the Italian Prime Minister stating that he intends to abolish the property levy next year. Speaking at a party assembly outside Milan, he said he would eliminate a tax on primary residences from 2016. He did not say how much that would cost, but past estimates put annual revenue from the levy at 4 billion euros ($4.33 billion). It may be recalled that this property tax was abolished before by a previous Italian Prime Minister, but it was restored by the next government as it shored up the public accounts during the 2011 euro zone debt crisis. It will be interesting to see how this latest announcement about scrapping the property tax plays out.

In Cyprus, revised Immovable Property Tax rates for 2015 are contained in one of a series of bills submitted by the government to parliament which are aimed at modernising the island's taxation system. Assuming parliament approves a series of bills aimed at modernising and reforming Cyprus' tax framework, those who own or who have purchased and taken delivery of property will be asked to pay Immovable Property Tax at the rate of 0.1% on the property's 2013 taxable value. Those whose IPT liability is €25 or less will be exempted and those paying early will receive a discount of 10 per cent. At the same time the municipal property tax will be abolished and the government will compensate local authorities for the loss in revenue. As the basis on which IPT is calculated has not been revised for 35 years, it is said that some people will receive IPT demands much higher than in previous years.

In the UK, it is reported that seven out of ten business ratepayers in London have challenged their property tax valuations since April 2010, with more than a third of these challenges still to be dealt with by the Valuation Office Agency (VOA). In the capital, there have been over 188,000 business rate appeals over the past five years, with over 900,000 businesses challenging their assessments across England and Wales as a whole. Over 30 per cent of these appeals are said to be still outstanding. At the same time as trying to deal with around 300,000 outstanding appeals, the VOA is now preparing for the next revaluation of business properties which is due to come into effect in 2017; this is going to be quite a challenge. The UK government is committed to looking at ways to improve the non-domestic rates system and is due to publish its proposals in due course.

In the USA, the Ohio Supreme Court ruled recently that grain bins are fixtures that are not real property and are therefore not subject to real estate taxes. The question has been whether grain bins should be taxed as a part of real estate or as "fixtures" which are not taxed. Grain bins can be disassembled and reassembled, but are attached to real estate when they are used, so have been treated as real property. Several years ago, a grain elevator in Fulton County contested the classification of grain bins as real property, subject to real estate taxes. The grain elevator appealed to the Fulton County Board of Revision, which ruled in favour of the county auditor. On a second appeal by the grain elevator, the Ohio Board of Tax Appeals decided that grain bins were personal property. The Ohio Supreme Court has now affirmed the most recent decision. The Supreme Court's decision provides a final word on the issue and concludes that grain storage bins are fixtures that are not real property and are therefore not subject to real estate taxes.

I read an interesting article recently entitled "Should America Tax Churches?" which raises an obviously controversial issue. The author recognised that it is a sensitive topic for Americans but said the question should be addressed. The article referred to Zimbabwe where, according to the author, the same question is currently being asked. The author states that, for generations, churches in the USA have been exempt from income taxes and that all 50 states and the District of Columbia also exempt them from property taxes. The author concludes that churches should start paying property taxes, even though they are likely to continue to be exempt from income tax.

In Australia, the debate about extending the role of property taxes has been "reignited" by a new study which has found that the implementation of a low-rate standard property tax could be a highly preferable alternative for both governments and taxpayers to the existing stamp duty system. The study, released by the Grattan Institute, found that a broad-based property tax of $2 charged on an annual basis for every $1,000 in land that remains unimproved could generate as much as $7 billion per year for the state and territory governments. The comparatively modest property tax would be levied on a recurring, annual basis, unlike a stamp duty, which is far higher, yet paid only once. The Institute found that switching from the stamp duty to a broad-based property tax could have a beneficial effect on both local government budgets as well as the health of the broader economy. Out of all the real estate levees examined by the Institute, a broad-based property tax would provide the most steady and consistent revenue stream for state governments, given its recurrent nature. The report states that "While property taxes can be unpopular because they are highly visible and hard to avoid, they are also efficient and fair, and don't change incentives to work, save and invest." However, others in Australia advocate for an extension of sales tax (GST) so the debate continues.

In New Zealand, Auckland ratepayers continue to express their anger at huge rates increases, but it is suggested by some commentators that they need to look deeper than simply blaming council spending and waste, although both impact on the level of rates. It is reported that ratepayers can exact some "vengeance" every three years at election time, but that will not prevent another major shift in rates bills in 2018 following a general property revaluation in 2017. The "killer" in this year's wide variation in rates bills is said to be largely attributable to the general property revaluation which took effect on July 1st. Added to that is the impact of the final year of converting to a single rating system across the whole of the new Super-City, plus the new Transport Levy and the decision to impose the levy as a fixed charge rather than a percentage based on value. One suggestion to change the existing system is to introduce a Property Value Tax (PVT) in place of rates, which would be based on a new system of valuation in which increases in property values for local tax would be limited to 2% per annum. Annual charges would be by way of a transparent percentage based on the new PTV. Changes in value would only occur on sale of the property or additional building which adds to value. It will be interesting to see if this suggestion - which sounds similar to Prop 13 which was introduced in California in 1978 - gets support.

In Thailand, the Finance Ministry is set to impose a progressive tax on land and buildings instead of the flat tax system proposed earlier. A bill on the controversial land and buildings tax, which is being amended, will stipulate progressive rates that will mean bigger tax bills for people with expensive properties. The tax is expected to be enforced in 2017 after the Treasury Department has completed appraisals of 30 million land plots. It has completed assessments of only 7-8 million plots so far. The new tax will replace the local development tax and house and land tax, which have been criticised as regressive because they are based on outdated appraisal prices and have many waivers. According to the previous proposal, homeowners would be charged 0.1% of the appraised value of their homes. Land for agricultural and commercial use would be taxed at 0.05% and 0.2% respectively under that system. Under the proposed system, houses with an appraised value of up to 2 million baht would receive a 75% tax allowance, translating into a 250-baht tax payment for every 1 million in value. Residences with an appraised value of 2-4 million baht would receive a 50% tax allowance, with owners liable to pay 500 baht for every 1 million in value from 2-4 million. For houses appraised at more than 4 million baht, owners must pay the full tax of 1,000 baht for every 1 million in value for amounts exceeding 4 million.

As regular readers will be aware, property tax usually gets a bad press so I was pleased to see two recent articles advocating its merits. One was titled "The Inevitable, Indispensable Property Tax" and referred to an OECD study which looked at a number of countries and found that taxes on real property caused the least drag on gross domestic product per dollar of revenue raised. Next came sales taxes, personal income taxes and corporate income taxes. In other words, property taxes were the best way to collect revenue without hurting the economy too much. The article went on to say that, from an economist's perspective, it's a bit of a problem that Americans have fought so strongly against property taxes for the last 40 years. Since the 1970s, most states have significantly restricted how high local property taxes can go. The main effect has been not to restrict the growth of government but to push government to rely on less economically efficient taxes. Property taxes declined to 24 percent in 2007 from 31 percent of local government revenues in 1977. Even as property taxes were restricted, local government grew as a share of the economy, driven by a combination of higher sales and income taxes and greater aid from state governments. But, it states, increased reliance on these taxes has brought problems, and property tax was the only major state and local government tax that held up well in the recent recession. Indeed, property tax has grown as a share of total state and local government receipts since 2007. In 2012 it was 27 percent, up from 24 percent in 2007, not because governments have re-evaluated their choice to de-emphasize property tax, but because sales and income taxes have been so extraordinarily weak in the recession and its aftermath that property tax has grown by comparison. That growth, the article concludes, serves as a reminder of the virtue of property tax: in good times or bad, it provides a stable, efficient source of revenue. It noted that revenue from property taxes totalled $500 billion for the four quarters ending with the first quarter of 2015.

The other article was titled "The Tax We Should Like" and stated that taxes influence how hard we work, how much we save, and where we spend. The incentives that accompany individual and corporate income taxes can affect how much we want to work and where businesses locate their facilities. Sales taxes can constrain purchases and might send buyers online, away from local stores. By contrast, the property tax has the "least drag" on GDP and is tough to avoid. Several steps away from production, its incentives relate instead to where we live and the services our towns provide. So, it concludes, countries and taxpayers should "embrace" their property taxes.

And finally, I have reason to believe the UK Prime Minister must be reading my monthly President's Message. The "and finally" item in my July newsletter related to the fact that public toilets in the UK are liable for payment of property taxes (non-domestic rates) and this was said to be one of the factors causing the number of such facilities to be reduced. Although there was some "toilet humour" in my note, I was interested to see that the Prime Minister has now said that the government will look into the matter. Perhaps IPTI has more influence than I had realised! I just hope no-one tries to "poo-poo" the idea of an exemption from property taxes for public toilets!

Paul Sanderson
President
International Property Tax Institute