# President's Message – August, 2016

I hope that those of you who are taking holidays at this time of year have an enjoyable break and return refreshed and ready to participate in some of the many events IPTI has planned over the coming months.

In August we have a very interesting event arranged on the subject of tax increment financing and how it can be used as a form of land value capture to pay for infrastructure investment. This is a particularly topical issue attracting considerable debate in various countries including Australia, Canada and the USA, and we have a number of experts who will lead the discussion. The event is being organised by IPTI in partnership with the Institute on Municipal Finance and Governance and will be held at the Munk School of Global Affairs at the University of Toronto.

Along with other IPTI colleagues, I will be making a presentation at the annual conference of the International Association of Assessing Officers (IAAO) which is being held in Tampa, Florida during August. I will be speaking on the use of experts in property tax appeal hearings. One of my IPTI colleagues will be speaking about the problems encountered when there is a long gap between property tax revaluations in any jurisdiction.

In September we have two webinars; one will be looking at using IPTIpedia, our online property database of property tax systems in various countries around the world. The other will be another in the series of webinars we provide in partnership with the Institute of Municipal Assessors (IMA); this one is on the topic of valuing office buildings.

On 19-20 September we have another two-day property tax workshop being provided in cooperation with the Council on State Taxation (COST). This workshop is being held in Minneapolis, USA and will cover a range of interesting issues concerning property tax. We are also working with COST on finalising the survey relating to the next joint COST/IPTI Property Tax International Scorecard which we plan to invite jurisdictions to participate in later this year.

Also in late September we will be partnering with the European American Chamber of Commerce (EACC) for an information session on property tax issues in both North America and Europe. This meeting is being held in New York, USA.

We will also be participating in the forthcoming Commonwealth Heads of Valuation Agencies (CHOVA) event which is being held at the Crieff Hydro which is near Stirling in Scotland during September. This will involve related events in both London and Edinburgh for delegates who wish to extend their stay in the UK.

In October I will be chairing the annual "Rating Question Time" in London, UK. This event is a popular opportunity for those in the audience to "grill" experts from various organisations involved in business rates (the UK property tax for non-domestic properties) including government agencies, the independent appeal tribunal and relevant professional bodies.

Also in October I will be attending the Australasian Valuers-General Conference in Perth, Australia where I have been invited to speak about modernising property tax systems and the way in which technology can support such reforms.

In October we will be delivering another IMA/IPTI webinar; this time it will be on the topic of property tax policy. We have two very experienced speakers who will be talking about all aspects of property tax policy; we ran a similar webinar earlier this year which proved very popular with those participating.

In November we will be partnering with the Royal Institution of Chartered Surveyors (RICS) in what will be the 5th Annual Caribbean Valuation and Construction Conference. This two-day conference will be held in St Lucia on 9-10 November and we have a great line up of topics and speakers so come and join us if you can.

Later in November we have another joint IMA/IPTI webinar on the ever-topical issue of identifying and quantifying functional and external depreciation. This subject will be considered by experts who, in addition to their presentations, will be pleased to answer questions from participants.

Moving into December, we have another meeting of IPTI's European Corporate Advisory Committee in London, UK. The subject of the UK's business rates system is always topical, particularly as the outcome of the latest revaluation will be published shortly, and there are issues concerning property tax in a number of other European countries.

Also in December we have another IMA/IPTI webinar; this time it is on the subject of preparing for litigation and will cover the "do's and don'ts" for both expert witnesses and lawyers involved in property tax disputes.

Looking slightly further ahead, we also have a number of events planned for 2017. These include more IMA/IPTI webinars; a workshop on oil and gas which is for the corporate sector; and our 2017 annual mass appraisal symposium which will be held in Sydney, Australia on 9-10 May 2017.

So, there is a great deal to look forward to over the coming months and, as usual, you can find out more by visiting our website: www.ipti.org.

Now for a quick look at what has been happening with regard to property tax in selected countries around the world.

In China the Finance Minister says property tax is the "next task" and pledged to go to great lengths to introduce the property tax. The government's determination to launch the long-awaited property tax would help cool down the real estate market in the long term, industry analysts said. The property tax is predicted to take effect by the end of 2017 at the earliest a professor at Peking University Law School was quoted as saying. Experts said the policy could help reduce demand and stabilize prices to some extent. But it may take some time before the long-awaited property tax can be implemented. “Information collection, taxation capacity building and vested interests are the major challenges” the minister pointed out.

In Canada proposals for a “vacancy tax” in Vancouver, British Columbia are “unnecessary and won’t work” according to a senior commentator. The provincial government is considering changes to the Vancouver Charter intended to allow the city to impose a special “empty housing” tax. The commentator said that the proposed tax on vacant houses is partly about the apparent growth in non-resident investor-owners, and also about the shortage of rental property in the city. However, in his view, rarely, in the long history of housing policy, has a tool been conceived that is more poorly designed to increase the stock of rental accommodation than the vacancy tax. He went on to say there are at least two fundamental problems with it. One, the definition of vacancy, whatever it is, will be arbitrary. How long does a property have to be uninhabited to be “vacant”? A week, a month, a year? No matter where you draw the line, it will be arbitrary. He also pointed out that there are lots of reasons why a house might be empty for many months, and many of them will have nothing to do with investors sitting on capital assets. The second problem he said is that it will be an exercise in “impossible magicianship” to determine the right amount of the extra tax; if it’s not high enough, it won’t deter vacancy or produce any significant revenue and if it’s too high, it will give an incentive for avoidance. The debate continues.

In the USA Commercial Property Assessed Clean Energy (PACE) financing is an innovative program designed to incentivize commercial businesses to undertake green efforts. By utilizing PACE financing, governmental bodies encourage commercial entities to invest in improvements or technologies that will save energy, produce renewable energy, and/or, in some states, conserve water. This concept is growing in popularity because it is a creative method to efficiently and effectively provide capital for sustainability projects. While there are variations in program design, PACE financing normally allows a local government’s property taxing office to act as a loan servicer by adding the PACE assessment as a line item on the owner’s property tax bill, collecting the special assessment, remitting it to the entity that funded the PACE project, and enforcing remedies in the event of a delinquency or default. Amounts financed through a commercial PACE program are repaid over a set period of time, generally 10 to 20 years. In a successful commercial PACE financing program, a property owner should expect to achieve cost savings that exceed the assessment payment, thus creating a net positive cash flow and increasing the value of its property.

Also in the USA the California Court of Appeal held that, following the sale of real property in California, a county assessor was not required to adopt the purchase price as the property’s base year value for property tax purposes where the assessor rebutted the presumption that the purchase price represented the true taxable value of the property. Following the taxpayer’s purchase of the property, the assessor revalued the property for tax purposes in an amount significantly higher than the purchase price. The taxpayer claimed that the assessor was required to accept the purchase price of the property as its full cash value for purposes of reassessment. Specifically, he argued that when property is purchased in an open market transaction, the purchase price must be adopted as the property's fair market value absent evidence of specific variables or factors that skewed the sale. However, in the court's view, California law makes it clear that, while the purchase price is an important factor in determining the full cash value of property upon a change in ownership, it is never the absolute arbiter of value. Rather, if an assessor establishes that the transaction at issue was not an open market transaction, then the purchase price does not determine value at all, and the assessor must establish the full cash value of the property through other means.

In India the Kolkata Municipal Corporation (KMC) is reported to have adopted a new method for determining property tax in respect of flats. At present, owners are given an option to choose between the current method (Reasonable Rent) and a Unit Area Assessment for calculation of property tax. However, the KMC assessment department has decided to distinguish between the super built up area and carpet area in determination of property tax. Under current method of calculating property tax, a KMC assessment department inspector takes into consideration the super built up area to calculate the Annual Valuation. In the case of flats, this includes the mandatory open space and other amenities such as swimming pools, gardens, elevators, auditoriums or banquets or even the stairs. Based on the calculation and after determination of the AV of a particular flat, the owner has to pay 40 per cent tax on the AV. Now, as part of a property tax reform, the civic body will separate these amenities from the covered space of a flat. A spokesman said, "The exercise is aimed at simplifying the property tax rates for the citizens. A flat owner now pays tax on the super built up area. We will make sure that he pays tax for the covered area at the current rate and for the rest the rate will be much lesser."

In Thailand the government is studying the possibility of generating revenue from developed land near big-ticket infrastructure projects through a so-called betterment tax. The tax would be levied on the increased value of land prices spurred by government investment. That revenue could then be used to finance future infrastructure projects. Several countries have embarked on infrastructure development because they considered such projects worthwhile in terms of economic returns, said the Finance Minister. He said electric trains and rail projects foster urbanisation, the government should take advantage of the developments taking place around the projects. Those developments, in turn, would also attract more passengers, raising revenue from fares in the long run. The idea of the government developing such land or impose a so-called betterment tax - or what the Finance Ministry calls a land development tax - to generate income was floated by Prime Minister who said he wanted infrastructure projects to not just generate revenue from fares, but add value to the country.

In Africa the Tanzania Revenue Authority (TRA) plans to deploy staff in the local government to collect property tax on its behalf in an effort to have an adequate work force to undertake the task that the government has assigned the taxman this fiscal year. Unveiling the national budget proposal for the 2016/17 financial year, the Finance and Planning Minister said in the National Assembly recently that TRA was going to take over the duty of collecting property tax from the local government. He noted that the move was aimed at maximising revenue collection from the current booming housing sector. He said that in the first few months of 2016/7, they would use the tax collection system applicable in the local government authorities before introducing the TRA systems. Thereafter, we will establish our systems, which are more efficient he said. Some argued that property tax was among the major sources of revenue for the local councils and that the decision to leave the task to TRA will negatively impact on the authorities. However, the minister said that the decision was based on TRA's experience in revenue collection, existing tax collection systems and coverage across the country as well as lessons learnt from other countries like Ethiopia and Rwanda.

Also in Africa, the Governor of Oyo State, Nigeria and members of the state executive council have been given a deadline to pay property tax on their private buildings as the state kick-starts aggressive revenue generation to shore up its dwindling Internally Generated Revenue, IGR. The Commissioner for Information, Culture and Tourism emphasized that the evaluation and collection of property tax would begin from the private residence of the governor. He said the government had commenced the process for an aggressive revenue drive that would witness the collection of land use charge, revenue and taxes on properties and businesses located within the state. The commissioner assured residents that the ministry would embark on door-to-door advocacy and enlightenment campaign to sensitize members of the public about the new tax and payment regime before hitting the roads. He added that any member of the state executive council whose tax had not been paid up to date would have such money deducted from source before other members of the public were dragged into the tax net.

In the UK it is said that the forthcoming revaluation is "casting a cloud over the solar boom" and businesses may have to take down their rooftop panels if the anticipated increase in property tax (business rates) goes ahead. A green energy push that spurred businesses to turn their roofs into mini solar power stations faces what experts say is a tax "bombshell" that will stop it in its tracks. Thousands of rooftop solar panels have been installed on supermarkets, car parks and other business properties since the former coalition government launched measures to boost green power in out-of-sight, unused spaces. The reassessment of solar panel values would lead to a six fold to eightfold rise in business rates that would make it "completely uneconomic" for companies to install such systems, said the chief executive of the Solar Trade Association. The association has calculated that a factory with a 100 kilowatt solar system that now pays about £350 a year in business rates faces a bill of up to £2,600 from next year. At the time of the last revaluation in 2010, ministers launched generous subsidies to help encourage companies to install solar panels. Since then, subsidies have been cut and the price of solar panel systems has dropped dramatically, leading some in the industry to expect business rates to go down. Discussions continue.

A question often asked, particularly during challenging economic times, is why some relatively affluent bodies should receive property tax exemptions? Some recent research has highlighted this issue in connection with "rich" American universities. It is reported that 56 private universities in the United States have endowments of more than $1 billion. Recently the Senate Committee on Finance and the House Committee on Ways and Means and its Oversight Subcommittee sent a joint letter to the 56 billionaire campuses asking for detailed information on the size and use of their endowments. The universities were asked about the size of their tax-exempt property holdings and the extent to which they were making payments in lieu of taxes ("PILOTs") to their local communities to help meet the public cost of supplying police, fire and other municipal services to these institutions. For example, Harvard University in Cambridge, Massachusetts has the largest endowment in higher education at $37.6 billion (as of 2015) and makes an annual payment in lieu of taxes of $5.9 million which is said to be well below what it would have to pay if its 650 buildings (totalling 25 million square feet in size) were not exempt. Food for thought.

And finally, it is reported that New York City lost $59 million by giving tax exemptions to dead people! Auditors analysed a program called the Senior Citizen Homeowners' Exemption (SCHE) which reduces property taxes for homeowners over 65 who earn $37,400 or less a year. Seniors who qualify for that program also qualify for the Enhanced School Tax Relief (STAR) Exemption which exempts the first $62,200 of the value of a home from school taxes. The city's Department of Finance is supposed to check every two years whether homeowners are still eligible, but went 10 years without requesting owners to certify they were alive and qualified. This may be in some way related to the old adage "that there are only two certainties in life – death and taxes"; in this case, death seems to have created the tax problem!

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