President's Message – February 2016

I am pleased to start this month's newsletter by announcing that Uche Obi has joined IPTI as a Senior Consultant for the Caribbean Region. Uche, who is based in the Caribbean (Grand Cayman), has worked with us for several years and has appeared as a speaker at many of our events. His main role will be to assist IPTI with the development and provision of services in the Caribbean Region. We are pleased to welcome him to our team.

Looking back over January, one of our main events was the annual Property Tax Workshop that we run in conjunction with the Council on State Taxation (COST). The workshop started with a property tax committee meeting which reviewed the COST-IPTI International Scorecard published in 2014. Participants were asked for their views on the issues covered in the scorecard so that COST and IPTI could take their comments into account when preparing the new scorecard questionnaire planned for later this year. Among the many interesting presentations was one on addressing the challenges of multi-jurisdictional portfolios in the digital world. This session focused on the need for large corporate entities to effectively manage their property taxes centrally and the extent to which current software packages assisted this process. IPTI's main contribution was a session in which we spoke about property tax issues around the world. We were also involved in a presentation which looked at equalization and uniformity both in North America and elsewhere.

Another significant event in January was the property tax seminar we ran in Port-of Spain, Trinidad in conjunction with a local body known as the Trinidad & Tobago Professional Associations Ltd (TTGPA). The government in T&T passed legislation – the Property Tax Act 2009 – which was never implemented. The property tax that was payable prior to the new legislation, which was intended to be replaced by the new system, was abolished and no property tax has been payable since that time. Now the government is looking to reintroduce property tax and the TTGPA organised the seminar as a timely event to raise awareness of the proposals. We (IPTI) made several presentations during the seminar on experience from around the world in introducing and/or reforming property tax. We also dealt with the implementation of a property tax revaluation and covered a number of specialised valuation issues.

Both prior to the seminar and afterwards we had meetings with T&T government officials to find out more about their proposals and the challenges they face. We provided them with some information about other property tax systems around the world which, I hope, they found helpful. The Property Tax Act 2009 in T&T provides for a "net annual value" basis of valuation and we were able to discuss other similar systems, for example, in the UK and Hong Kong. One of the main issues faced by the assessing agency in T&T is the need to update their records to ensure that all properties are included and their data about those properties is up to date. This will be a major undertaking, particularly in view of the "gap" in their activities since the previous property tax was abolished.

TTGPA arranged for me to appear live on a breakfast news TV show (C-TV) along with one of their senior officials. That was an interesting experience and led to me being interviewed live the next day on a local radio station (Sky 99.5) where a panel of reporters asked me questions about various aspects of property tax systems. We also had media representatives at the seminar and there was coverage of the event in a number of local newspapers and on local media websites.

In the early part of January, IPTI was asked to facilitate a meeting of stakeholders with an interest in the valuation of large, special purpose industrial properties in Ontario. Held in Toronto, this meeting focussed on the costs which had been used by the Municipal Property Assessment Corporation (MPAC) for their current reassessment program which comes into effect next year. This was one of a series of consultation meetings that MPAC is holding with stakeholders in order to improve transparency and awareness in the property tax system as part of the reassessment process.

Towards the end of January we held a webinar on the issue of "Highest and Best Use" in connection with property tax valuations. The webinar was well attended and our experienced and able speakers covered some interesting material which was of considerable value to those who participated. This webinar was one of a series that we are either running ourselves or holding in conjunction with the Institute of Municipal Assessors (IMA) based in Canada. We are running more webinars on a variety of topics during February and March; details of forthcoming IPTI and IPTI-IMA webinars are available on our website (www.ipti.org).

During January we also made progress with the process review we are undertaking for a European assessing agency. This is an interesting exercise which, among other things, involves providing recommendations for how best to make use of modern technology in data collection, data analysis and valuation. We also reached draft report stage for a revaluation audit we are undertaking for another assessing jurisdiction, this time one in Africa. We also initiated another audit we are carrying out for a major North American assessing agency. I am pleased to say that, after submitting a response to a request for proposals, we have now been awarded another property tax valuation audit contract, this time focussing on the valuation of commercial properties in a Canadian jurisdiction.

Looking ahead, in February we are running a workshop looking at the oil and gas industry and, in particular, the property tax implications of the recent fall in energy prices. This workshop, which is being run in conjunction with Shell, will be held in Houston, Texas on 11 February. Later in this newsletter I have included a separate note about the position with regard to oil and gas properties in the USA.

I will be returning to Saudi Arabia in February to deliver another training course on the subject of eminent domain. This will be the third and final course in the series which is being run by the RICS and the Saudi valuer's association called Taqeem. Eminent domain, or compulsory purchase, continues to be a controversial subject around the world; it has even featured as an issue between some of the candidates in the current US Presidential nomination campaign.

In Saudi, eminent domain is a significant issue, particularly in the two holy cities of Makkah (Mecca) and Medina where land values are at a premium.

Looking a little further ahead, we will be holding our annual UK Rating Seminar with lawyers from Landmark Chambers in London on 27 April. In May we have two important events taking place in Niagara Falls, Ontario. The first is another in our series of events entitled the "Ontario Property Tax Summit" which will be looking at what has been achieved, and what remains to be done, in connection with improvements in the province's property tax system. The other is our annual Mass Appraisal Valuation Symposium (MAVS) which has a great line up of both topics and speakers. Again, more information is available on our website.

Looking even further ahead, I am pleased to announce that we will be holding our next RICS-IPTI Caribbean Conference in St Lucia later this year; I will provide more information about that event in due course.

Now it's time to look at what is happening with regard to property taxes in selected countries around the world.

In Greece, the Single Property Tax (ENFIA) has been abolished and is to be replaced by a new tax to be based on the sum of each owner's properties and not the individual assets. "This new tax, which we are currently working on, will deliver the same amount of revenues, but in a fairer and more democratic way," the Finance Minister stated. He added that the collection target will remain at 2.65 billion euros and the new tax will be more proportionate than the ENFIA which taxpayers paid for the last time in 2015. He also stated that the new objective property values used for tax purposes, which now apply retroactively from 21 May 2015, will remain in use until the new system recording properties' commercial rates is able to replace them. He also reiterated that the tax-free threshold as of this year will be linked to the use of credit and debit cards.

The International Monetary Fund (IMF) has recommended that authorities in the Slovak Republic introduce a market-value-based property tax as part of a package of measures to improve its financial position. The IMF said that the introduction of a market-value-based property tax could yield about one percent of GDP in revenue and would be more equitable and less harmful to growth than other taxes. It noted that the country currently collects little from a relatively regressive property tax based on square meters.

In the Ukraine property taxes are set to increase this year after lawmakers raised the maximum amount that local authorities can collect. Early in 2015, all city councils in oblast centers adopted a property tax rate of between 0.4 and 2 percent of the minimum wage per square meter. With the new ruling, they will be allowed to raise the rate to 3 percent (Hr 41.4) per square meter. The tax applies to the owners of apartments over 60 square meters or with houses over 120 square meters and will be paid annually. Only the square meters above the limits are taxable. Property taxes are intended to become the main source of income for local budgets. However, critics say that it is not very well executed because the tax is calculated from square meters and not from the market value of a property. Some also say that the law has not gone far enough; the 3 percent rate is too low, they say, and the tax affects few people, because the majority of apartments in Ukraine are smaller than 60 square meters. Very large properties face additional tax rates; apartments of more than 300 square meters and houses with floor space of more than 500 square meters will cost their owners Hr 25,000 per year.

In Australia, the government in Victoria faces a multimillion-dollar payout to the Port of Melbourne after a Supreme Court decision reduced the taxable value of the port's land. The ruling could mean a reduction of up to $9 million a year by cutting land tax revenue from the site by almost 80 per cent. The state Valuer-General assessed the value of the port's site as of 2012 at $665 million, yet the Port of Melbourne Corporation argued it should be taxed according to the likely current value of the virgin swampland that existed in 1876 - $150 million. The Supreme Court agreed ruling that reclaiming hundreds of hectares of swamp and changing the course of the Yarra River to create the 530-hectare port should be considered as improvements to be disregarded when assessing site value. The port must also be considered as one large land parcel, forcing the state government to end the more lucrative practice of collecting tax based on the individual values of land occupied by tenants. The test case will guide the outcome of at least six other cases before the court, and threatens to open the floodgates to similar claims across Victoria. Initial fears the challenge could expose the City of Melbourne to potential rates losses of up to $20 million a year were averted via an agreement reached before the court hearing that measures the port's annual value at $70 million. The state government, however, is likely to be hit with a multimillion-dollar refund to the port of almost $40 million paid in land taxes since the start of 2012.

The Government of Uzbekistan has set new rates of tax for property of individuals from 1 January 2016. The new rate of the tax was set in line with resolution of the President of Uzbekistan "On the forecast of main macroeconomic figures and parameters of State Budget of Uzbekistan for 2016". The rate of property tax for individuals rose from 1.3% from inventory cost of the property to 1.5%, excluding property located in cities with total area of over 200 square meters, cottages, garages, other buildings, premises and establishments. The rate of tax for houses and flats, located in cities, with total area of over 200 and up to 500 square meters, grew from 1.6% to 1.8% and over 500 square meters – from 2.2% to 2.5%. The rate for other settlements with total area of over 200 square meters will make up 1.8% (earlier 1.3% independently from its area).

In the USA, the current price of oil is continuing to have an impact on property tax systems. In Kern County, California, one of the nation's biggest oil producers, falling energy prices have wiped more than $8 billion from its property-tax base, forcing officials to tap into reserves and cut every department's budget. The county in the arid Central Valley north of Los Angeles may face another blow this month when it reassess the oil-rich fields that line the landscape. Last year's tax bills were based on crude selling for $54 a barrel; this month it is down to around $30. As the price of crude falls for a second year, marking the steepest decline since the recession, the impact is cascading through the finances of states, cities and counties, in ways big and small. Once flush when production boomed, some governments in major energy producing regions are facing a new era of unwelcome austerity as wells are shut along with the tax-revenue gushers they spouted. Alaska, Louisiana and Oklahoma have seen tax collections diminished, which has put pressure on credit ratings and led investors to demand higher yields on some securities. In Texas, the largest producer, the state's sales-tax revenue dropped 3 percent in November from a year earlier as the energy industry exerted a drag on the economy. The pressure contrasts with what's happening in most of the country, where states and cities are enjoying a break from the fiscal strains that lingered for years after the recession ended in 2009. In the three months through June 30, a period when income-tax payments are due, states' collections jumped by 6.8 percent from a year earlier, the biggest increase in two years.

In India, the Brihanmumbai Municipal Corporation (BMC), which is preparing to levy property tax on slum properties in the city for the first time ever from April this year, has decided not to tax such settlements under the capital value-based assessment system. Instead, a lump sum amount will be charged annually. According to the civic body's plan, slum owners will have to pay between Rs 2,400 and Rs 18,000 as property tax annually, depending on the size and type of huts. At present, the civic body does not levy property tax on slums. Until 2006-07, the civic body used to collect a 'service charge' of Rs 100 for residential and Rs 250 for non-residential structures. Officials from the BMC's assessor and collector department said the civic body would now levy property tax on slums built both on government and private lands. "It doesn't mean the slums will be regularised. We are taxing them for whatever civic amenities they are getting. It doesn't matter whether they are on government land or private land. We will tax all protected and unprotected slum properties," said a senior civic official. In 2010, the BMC switched from the rateable value-based system (which operated on a notional rent-earning capacity of a structure) to the capital value-based system of assessing property tax.

Overseas home owners and investors are likely to face new property taxes if a new bill is approved by the New Zealand parliament. Residential Land Withholding Tax (RLWT) applies to anyone living overseas who sells a home in the country within two years of purchase. The law is aimed at discouraging speculative investors from overseas buying affordable homes ahead of New Zealand nationals. The bill before MPs is expected to come into force from July 1, 2016 and will apply to all homes bought on or after October 1, 2015 which are sold within 24 months of purchase. The law calls for the owner's lawyer or agent in New Zealand to withhold any taxes due before disbursing the sale proceeds.

In Canada, a property tax deferral program is reported to be the latest way Vancouver homeowners are taking advantage of their high-value homes to make financial gains. The British Columbia program allows residents aged 55 and older, widows, and people with disabilities to defer paying their property taxes until the sale of their home, while only paying a 0.85% interest rate. When implemented in the 1970s, it suited both the common retiring age and the stagnant real estate market at the time, but is now being taken advantage of by wealthy homeowners. According to the Canadian Mortgage and Housing Commission, adults aged 55 to 64 made the highest average personal income of all age categories in 2011. More than half of this group own their homes mortgage-free, and there's no shortage of them in Canada: what are called "pre-seniors" make up 13.1% of the country's total population. With the aging population, the amount of money lost each year due to the property tax deferral program will only continue to grow. A spokesperson for the Ministry of Finance says there are currently 38,000 homeowners using the property tax deferral program and the average amount of deferred taxes per household is $3,000 a year. Critics say the program is clearly subsidizing people who don't deserve it or need it.

The Egyptian Hotels Association sent a memo about the way in which the real estate tax is calculated on hotels in Egypt to the Minister of Tourism to submit it to the Ministry of Finance. An official in the Egyptian Hotels Association said the Ministry of Tourism is still negotiating with the Ministry of Finance about using the "Substitution Way" upon which the tax is calculated. The Substitution Way stipulates calculating the tax in accordance with the ratio of the buildings to lands they are established on, excluding the entertainment facilities out of the calculation and taking into consideration the spaces between the buildings, not on the entire space of the project. The Market Value Way of calculation stipulates calculating the value of land and all of its facilities. Tourism workers in the field reject using the market value as a measure for calculating the tax but the Ministry of Finance is sticking to it. The official said it is necessary the Ministry of Finance takes into consideration the difficult circumstances the tourism sector goes through in the current period, not to add more burdens it.

In the UK, swaths of high street shops are likely to close their doors permanently, as shoppers continue to shun city centres, head online and spend more on experiences rather than products, according to the head of the retail industry's trade body. The director general of the British Retail Consortium also warned that the Government must address the "unfair burden" on retailers through business rates (property tax). Also in the UK, a government consultation exercise relating to a new system for property tax appeals has just closed. It involves a new system with three stages – check, challenge and appeal. 'Check' involves a top-line look at how the rateable value is calculated and allows businesses to point out obvious errors. The 'challenge' stage involves a more detailed dialogue with the Valuation Office Agency (VOA) on contentious points, which then makes a judgment. The final stage allows a business to make an 'appeal' against this judgment to the Valuation Tribunal. Critics say that the VOA does not make enough information available to taxpayers about how they arrived at their valuation. It is also said that the proposed system is too complicated and could be time-consuming and benefit nobody if transparency is not guaranteed early in the process.

In Israel, the Jerusalem Municipality will double property taxes on the capital's 10,000 so-called "ghost apartments," generally inhabited by wealthy overseas homeowners who spend a fraction of their time in the city. The measure – which will charge absentee homeowners NIS 223.56 per square meter, instead of 111.50 – comes amid a fiscal crisis in the capital. The municipality's budget shortfall resulted in mounting piles of garbage in the capital's streets and other problems. A spokesman said "Doubling the municipal property tax for these vacant apartments is part of the model initiated by the Mayor with a view to encouraging absentee owners to rent out their property, and thus increase the supply of apartments for young people and families."

And finally, back to the USA. It is reported that assessors in 16 counties in Oklahoma failed to follow state rules on valuation. The state auditor and inspector said the goal is to make sure the property-tax system is fair to all taxpayers. Some county assessors in Oklahoma could find themselves without a pay-check if they continue to fail to follow state property valuation protocols said the state Auditor and Inspector. As a result, the state Tax Commission has placed the 16 county assessor offices, many of which are in south-eastern Oklahoma, in the first of a three-level, non-compliant status. A spokesman said "We will review it in June, and if they are not making progress and making the efforts to get it corrected, then they could possibly go into level 2 and could go into level 3 as quick as December". County assessors who reach a category 3 non-compliance status are apparently subject to having their pay-check suspended and their offices taken over by the state until compliance is achieved. I imagine that threat will sharpen their focus on compliance!

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