# President's Message – January 2016

May I take this opportunity of wishing you all a very Happy New Year and hope that 2016 is an enjoyable and interesting year whatever you may be doing. For those of you who have been celebrating Christmas, I hope you had a relaxing time with family and friends. 2016 is a special year for IPTI as we will be celebrating our 20th anniversary as an organization; more on that later in the year.

I must start by a quick look back at December which started with a meeting of IPTI's European Corporate Advisory Committee (ECAC) in London on 3 December. This meeting included an interesting update on the latest position concerning the UK property tax on non-domestic properties (business rates) and, in particular, the latest consultation on proposed changes to the system. Concern was expressed that there were around 300,000 business rates appeals outstanding and the organization responsible for dealing with them - the Valuation Office Agency (VOA) - was heavily engaged in preparing for the next revaluation of non-domestic properties due in April 2017; this meant that VOA resources were being taken from dealing with appeal work and moved to revaluation work. This was likely to result in further delays in clearing outstanding appeals. We also had a presentation on the serious issue of closure of steel manufacturing plants in the UK and the government's proposed support package for the industry which includes the business rates system.

IPTI's main Corporate Advisory Committee (CAC) held a meeting via teleconference on 10 December and, among other matters, confirmed that, going forward, Marc Sances from Prologis and Kevin Scott from Fiat Chrysler would act as Co-Chairs of the committee. The CAC also discussed a number of current issues and ideas for future events. The possibility of a meeting in Paris as well as another meeting in New York were considered along with a suggestion for regional information sessions throughout North America. More details of the CAC program for 2016 will be available soon.

I was involved in another two-week training course on eminent domain (compulsory purchase) in Saudi Arabia during December. This course, run in conjunction with the RICS and Taqeem, the Saudi Arabian valuers governing body, was held in Jeddah. It was regarded by attendees as both necessary and successful in achieving its objective of preparing Saudi valuers for dealing with some of the complex valuation and related issues. These include how to value land situated in close proximity to properties of special religious significance when it is acquired through the use of eminent domain powers. Saudi Arabia has also recently introduced a new tax on "white" land, that is land situated within the main urban areas of the country but which remains undeveloped. Although the details of the new land tax have not yet been finalized, it is already said to be having an impact on values in the affected areas. Looking ahead, we will be running the final eminent domain course of the three that have been planned during February 2016. IPTI is considering running shorter, possibly two-day, courses on eminent domain in other parts of the world.

I am pleased to say that, after submitting our response to a "request for proposals", IPTI was awarded another contract to undertake a property tax valuation audit in relation to a major jurisdiction. We are also currently finalizing an audit report relating to a revaluation that was recently completed in respect of another large jurisdiction. We have also submitted a proposal for another audit of a revaluation. It is clear that this area of work is not only important to the jurisdictions concerned, but is also of increasing importance to IPTI.

We are also working on another report at present which is a process review of the way in which a valuation agency currently undertakes both its revaluation responsibilities and the maintenance of the valuation lists/rolls it produces. This report will look at both the way in which resources are currently deployed in these processes and the increased use of modern technology to enhance the support available to the organization.

So we are ending 2015 with a lot of work in progress and it seems that 2016 is likely to be another busy year for IPTI.

Looking ahead, I will be going to Texas in early January where IPTI and the USA-based Council on State Taxation (COST) are running another of our joint annual property tax workshops. This workshop, which will be held in San Antonio on 13-15 January, is always very informative and enjoyable. Aimed primarily at corporate taxpayers, it provides a useful opportunity to discuss current issues, the latest case law and other property tax topics which are helpful to practitioners.

We then move on to Trinidad where IPTI is partnering with the Trinidad & Tobago Groups of Professional Associations (TTGPA) to deliver a seminar in Port-of-Spain on property tax policy in mid-January. The title of the event is "Property Taxation: Implementation, Policy and Financial Implications" and will cover all aspects of reintroducing a property tax system and carrying out a revaluation which is planned for the country.

We are planning to run more webinars during 2016 as these are popular with busy property tax practitioners who may not have time to attend conferences, seminars, workshops, etc., but need to keep themselves updated with what is going on. Some of these webinars will be run by IPTI, but we are also planning to do some with other organizations as well.

Our own webinars include one on 30 January 2016 entitled "Working with IPTIpedia". There will be another on 3 March 2016 dealing with "Corporate Challenges in Property Tax Management of Multi-Jurisdictional Portfolios: IPTI's Perspective". More IPTI webinars will be held during the year.

We have a series of joint webinars already planned with the Institute of Municipal Assessors (IMA) based in Canada. The next IMA-IPTI webinar will take place on 27 January 2016 and will focus on "Highest and Best Use for Assessors". After that, there will be one on 17 February 2016 dealing with "Depreciation Analysis in Property Tax Valuations". A further IMA-IPTI webinar will be held on 2 March 2016 entitled "Valuation of Multi-Residential Properties". Another joint webinar will be held on 22 March 2016 on the subject of "Identification and Separation of Intangibles in Property Tax Assessment Valuations".

More information about all the foregoing webinars can be found on our website (www.ipti.org) and more webinars will be added in due course.

Also looking ahead to 2016, we have an "Oil and Gas Workshop" being held in Houston, Texas on 11 February 2016. This event is aimed primarily at property tax practitioners involved in the oil and gas industry on behalf of large corporate entities.

Looking further ahead in 2016, we are holding two events in May at Niagara Falls, Ontario. The first of these will be another in the popular series of "Ontario Property Tax Summits" which will be held on 16 May 2016 and will look at what changes have been made to improve the property tax system in the province and what further improvements are required. Immediately following that event, on 17-18 May 2016 we will be holding our annual Mass Appraisal Valuation Symposium (MAVS) with the theme "Innovation, Transformation, Knowledge Enhancement and Improved Efficiencies in Mass Appraisal". The program for this MAVS contains a wide range of topics and speakers and I am sure it will prove to be not only a popular event, but also one which maintains the high standards we have built over recent years.

As I already mentioned, IPTI will be "officially" 20 years old in 2016 and this provides a suitable opportunity for us to look carefully at the organization and make any changes we consider necessary. As part of our ongoing review of IPTI, we will be changing the role and membership of our Board of Advisors; more information about that will be available in due course. We will also be introducing a new committee - a professional bodies' liaison group - which will include representatives from the many professional bodies we partner with in our various events. Again, more information will be available on this new group in due course.

We are working to update and improve the look of IPTIpedia - our database of property tax systems in selected countries. Another aspect of the "new look" IPTI for 2016 is IPTI Xtracts - our collection of articles concerning property tax systems in various countries - which will shortly appear in a new and improved format.

And talking of Xtracts, it is now time for a quick look around the world to see what is happening in connection with property taxes in various countries.

In China, an interesting headline caught my eye; it read "The Tax That Can Make China's Cities Safer". The article referred to recent problems in China concerning local authority funding to deal with natural and other disasters, e.g. the Shenzhen landslide, an explosion at a hazardous materials warehouse in Tianjin, and fatal floods that overwhelmed new sewer infrastructure in Beijing in 2012. The article pointed out that China's local governments have almost no authority to levy taxes. As a result, it said they depend upon the sale of land for as much as 35 percent of their operating revenues. This creates an incentive to allow rapid development which may not be safe or necessary; the article referred to China's estimated 50 million empty apartments as one obvious consequence of this "breakneck development". The article went on to say that China already taxes property transactions, but a recurrent property tax would accomplish goals that a one-time levy cannot. First, speculators who currently face no carrying costs for leaving apartments and whole buildings empty, would have much more incentive to rent them out. That, in turn, should help dissuade them from over-building. Second, being able to count on steady, long-term revenues would help wean local governments off their dependence on land sales. A well-designed tax could more than make up for the revenues from such transactions. Third, a property tax would ensure that property owners have a direct stake in the infrastructure and other development projects being built in their neighborhoods and cities. Presumably, those stakeholders would be more vocal and forceful in opposing unsafe projects.

Moving on to Australia, in a recent report, the Committee for Sydney called for residents who live within a 10-minute walk from new rail stations to pay a levy to fund the construction and ongoing maintenance of transport routes. It said that the annual "residential area levy" would allow the surge in land value which property owners experience when public transport is built nearby to be captured and reinvested into the project. Public transport is stated to be a perpetual drain on the state government's wallet. Ticket sales only cover 33 per cent of Sydney Train's operating costs which was compared to fare box revenue which covers 90 per cent of operating costs for the London Underground. As a result, the report said, governments were more tempted to fund motorways than railways because they could regain their costs through tolls. But well-planned public transport can increase land value by up to 50 per cent and the proposed levy is a form of "value capture" - a broad term for a finance mechanism that aims to seize this windfall gain. Under the committee's model, property owners within a five-minute walk, or 400 metres, would pay higher council rates, while those within a 10-minute walk, or 800 metres, would have a smaller rate rise. If residents who lived within walking distance of the light rail paid a "special rate" of $400 a year, more than $12 million in revenue could be raised each year to go towards the project.

Moving on to Canada, but on a similar topic, the Mayor of Toronto says he believes Torontonians will accept a "modest" tax increase as long as they're confident the money is going "exclusively to building a bigger and better city." He proposed an annual "city building" tax of 0.5 per cent added to property tax bills, dedicated to paying for transit and social housing infrastructure. He said it would be a clearly identified charge, start in 2017 and add about $13 to the average property tax bill of $2,654.50. The new fee would then compound for five years, growing to a minimum of $65 by 2021, when it is estimated to raise up to $70 million a year. It will stop growing that year, but council could vote to extend it indefinitely. The city council will have final say over whether there is a new levy, similar to - and on top of - the one added in 2014 to pay the city's share of Scarborough subway construction costs.

In Ukraine, the introduction of property tax in January 2015 was supposed to "fill the budgets" of local governments, but many have failed to introduce the tax and it doesn't seem to have affected many property owners. Local authorities only saw a 0.3 percent increase in their budgets from the measure by October, according to recent research. Apartment owners of more than 60 square meters, and houses of more than 120 square meters must pay the annual tax. Local authorities define the rate, which cannot exceed more than Hr 27.5 ($1.20) per square meter or 2 percent of the official minimum salary, and exemptions. In Lviv, for example, authorities exempted apartments of 80 square meters or less from taxation and 200 square meters for individual houses. It also doesn't affect the majority of apartment owners in

Ukraine, as a typical two-room apartment is less than 60 square meters. Reluctance on the part local authorities to use the tax for its intended purpose is reportedly due to its unpopularity. The Finance Ministry is also seeking to introduce a luxury property tax on properties larger than 300 square meters, requiring payments of roughly Hr 20,000 per year.

In Italy, the government has received parliamentary approval for the Stability (Budget) Law, which would eliminate the local property tax on primary residences in 2016. Following the cancellation of IMU (the local property tax) on primary residences in 2014, the removal of TASI (the tax on local general services) in 2016 at a cost of EUR3.5bn (USD3.8bn) will mean that TARI (the local tax on environmental and waste services) will be the only local tax remaining on primary residences. IMU imposed on agricultural land, and on factory fixtures and fittings, would be repealed under the law, and landlords of residential properties leased under controlled rents will pay IMU and TASI reduced by 25 percent.

Japan is considering a property-tax exemption for small- and medium-sized businesses that increase capital expenditure. In a separate move, the fixed asset tax rate on abandoned farmland will be doubled, according to a draft for tax reforms in 2016. The increase is aimed at encouraging consolidation of farmland by entities concerned, including farmers, and boost the international competitiveness of the farming sector, according to sources. A fixed asset tax of 1.4 percent of the assessed land price is imposed on both land for housing and farming. However, the assessed prices of farmland are quite low; they are believed to be about 1/500th of land for housing. As the tax burden is light, many farmland owners do not sell their land even after they have abandoned farming it. This situation has hindered consolidation of farmland. There are about 400,000 hectares of abandoned farmland nationwide, which account for about 10 percent of the nation's approximately 4.5 million hectares of farmland.

In the UK, a Scottish Government-ordered report says council tax (residential property tax) must be scrapped, but fails to identify an alternative system. The cross-party Commission on Local Tax Reform published its final report, "Just Change: A New Approach to Local Taxation" which says any replacement should be designed to be fairer, more progressive and locally empowering and that taxes on property, taxes on land and taxes on income are the three alternatives which could be applied at local level. The report concludes: "A well-designed local tax system drawing revenue from multiple sources would provide more options for local democracy, delivering greater financial accountability and autonomy to local government." Warm words but it is not clear what changes they may produce.

Staying in the UK, another recent report says that the business rates system (property tax for non-residential properties) is hindering development and reforming it could boost the economy by £1.75bn and create almost 4,000 jobs over the next five years. The report by the British Property Federation, conducted with the British Council of Shopping Centers and British Council for Offices, found approximately three quarters of any increase in business rates is transferred to landlords as occupiers push for lower rents. As a result, higher rates limit the rents landlord are able to charge, leading to less new real estate development.

In Thailand, a draft bill on land and buildings tax is expected to seek cabinet approval with rates that would be more acceptable to the public following opposition to previous proposals. Local media have reported that the Fiscal Policy Office has set the ceiling rates for the tax at 0.2% of appraisal value for land used for agriculture, 0.3% for residences and 1% for land for commercial use. Undeveloped land would be taxed at 1% for the first three years before doubling to 2% for the next three years and hitting the 3% ceiling in the seventh year. However, the actual tax rate would be levied at progressive rates. Agricultural land would be charged at 0.01% if the appraised price is no more than 2 million baht or up to 200 baht a year, while land worth more than 100 million would be taxed at 0.1%. Residences appraised at no more than 2 million baht would be taxed at 0.03% or up to 600 baht a year, while homes priced more than 100 million would be charged at 0.2%. Commercial land would be taxed at 0.1% or up to 2,000 baht a year if the appraisal value is less than 2 million baht and at 0.6% for land valued at more than 1 billion.

And finally, a recent article referred to the benefits of reintroducing the window tax in the UK. This tax was introduced in 1696 and lasted until 1851. As the name suggests, it was charged on the number of windows in a home, unlike the property taxes of today that are based on value of the property. The idea was that rich people had larger houses, and so paid more tax. Windows are easy to count from outside the premises, so the tax was easy to assess. Poor people didn't own large houses, so they weren't affected by the tax. And the number of windows in a house doesn't change, so the tax was impossible to avoid. However, when William Pitt tripled the tax in 1797, thousands of windows were bricked or boarded up almost overnight. The author argues that if the window tax was reintroduced, builders would build houses with fewer windows which would lead to a significant reduction in heating and cooling costs and a lower carbon footprint. I guess that at least a window tax would be transparent!

**Paul Sanderson**
**President**
**International Property Tax Institute**