President's Message – July 2015

I must start this month's message by saying how pleased I was with the outcome of our 10th Mass Appraisal Valuation Symposium (MAVS) in Amsterdam last month. Not only did we have participants from 23 countries, we also had a great range of speakers from around the globe delivering interesting and varied presentations on topics that proved to be well-received by all those attending. For those who may be interested, we had representatives from the following countries in attendance: Australia, Barbados, Belarus, Canada, China, Croatia, Cyprus, Czech Republic, Estonia, France, Hong Kong, Iceland, Japan, Malaysia, Netherlands, Northern Ireland, Poland, Singapore, Slovak Republic, South Africa, Spain, United Kingdom and the United States of America. That is a great cross-section of different jurisdictions and created a very useful network for participants to follow up after the event.

We also had very good cooperation and support from the Dutch Council for Real Estate Assessment (Waarderingskamer) and the Municipal Taxes and Basic Information (Gemeenteblastingen en Basisinformatie), Drechtsteden. I would also like to thank our sponsors who helped to make the MAVS a success: Tyler Technologies, Devnet Incorporated, LVLB and our colleagues from Drechtsteden.

It was clear from a number of presentations that the property tax system in the Netherlands is both effective and sophisticated and we were pleased to have chosen Amsterdam as the venue for the MAVS as it enabled participants from other jurisdictions to gain a better understanding of the local system.

Following the MAVS, our Dutch colleagues organised a tour of windmills, canals and other water-related activities (ports, etc.) which was greatly appreciated by those who went on the trip. There are photos both of the MAVS and the post-MAVS tour on our website. I would particularly like to thank Arri Hartog for all his help in ensuring that the MAVS was a success.

In and around the MAVS we held a series of meetings with various groups which enabled us to make progress with a number of IPTI projects and other activities. At the conclusion of the MAVS we held a meeting of IPTI's Board of Advisors which, among other matters, discussed and agreed a revision to the responsibilities of Board Members.

I am pleased to announce that our next MAVS will be held at Niagara Falls, Canada on 17-18 May 2016. We are looking forward to holding this event in such a popular location and hope that many of you will be able to join us. Please put the date in your diary now.

Looking back to other events in June, we held a well-attended IPTI webinar on "Managing Property Taxes Across Different Jurisdictions" which involved two very experienced speakers talking about their involvement in working for large multi-national corporations and the practical issues they faced in managing property taxes in many different countries around the world.

We also made good progress with the international benchmarking study we are conducting on behalf of the Australasian Council of Valuers-General. One of the meetings we had in Amsterdam was with the Valuers-General from Australia who attended the event. This enabled us to provide them with a progress report and seek their guidance on how best to deal with some outstanding issues. Our final report will be issued shortly and will be the subject of discussion at the Valuers-General conference to be held in Adelaide in early October.

IPTI was represented at the annual conference of the Institute of Municipal Assessors (IMA) held at Ottawa, Canada in June. Unfortunately, the date of the IMA conference clashed with our MAVS in Amsterdam so I was unable to attend myself, but our new Director of Training attended on our behalf and spoke to participants about IPTI's recently launched e-Learning platform which generated a great deal of interest. More information about "e-Learning by IPTI" can be found on our website (www.ipti.org).

IPTI was also represented at a recent conference held in Vilnius, Lithuania on 3-5 June. The conference was titled "Property Valuation and Taxation for Fiscal Sustainability and Improved Local Governance in Europe and Central Asia" and was organised by the World Bank. Our Director of Research attended the event and spoke of the need to ensure that jurisdictions remain focussed on the requirement for property tax systems to be efficient and effective in generating sufficient revenue to provide good quality local services. Some interesting new contacts were made at this event which we will be following up during the coming weeks. In particular, we now have contacts in countries that are not yet in our IPTIpedia database, so we hope to extend the information we are able to provide through these new contacts.

I must mention a very important event which is happening right now - the retirement of Larry Hummel, MPAC's Chief Assessor, who many readers of this newsletter will know. Larry has not only been a leading light within the property tax community in Ontario, Canada and the world, he has also been a great supporter of IPTI for many years and has spoken at many of our events. I'm sure all IPTI members will be pleased to join me in wishing Larry a long, happy and healthy retirement. However, I know Larry will not be putting his feet up just yet as he will be working with IPTI in connection with a number of projects and events over the coming months and years.

Looking ahead, we will be spending time in July finalising a number of reports relating to various IPTI projects. We will also be working on a number of other projects, including one in Nairobi, Kenya which will involve spending some time in that country. We will be visiting Jamaica in July, partly to make a presentation on property tax related issues, but also to finalise plans for our forthcoming conference in Montego Bay which will be taking place on 2-3 November.

On 6 August, we will be involved with the Council on State Taxation (COST) in holding a joint property tax seminar for representatives of the corporate sector in Detroit, USA. This event will be looking at the challenges facing global corporate entities in handling property tax issues. I am pleased to say that, following recent discussions with colleagues from COST, we have confirmed the date and location for our next joint property tax workshop in 2016. This will now take place on 13-15 January, 2016 in San Antonio, Texas, USA. More information on this event will be available in due course.

In September, we will be running a joint event in New York with COST and the European American Chamber of Commerce (EACC). This will be looking at recent developments in property taxes both in Europe and the USA. The meeting is due to take place on 10 September and will be held at the EACC's offices in New York.

Now it's time to take a quick look at some property tax issues from around the world that have caught my eye from IPTI Xtracts.

In the UK the Government is conducting another review of the property tax system that applies to non-residential properties (business rates). The closing date for submissions responding to a consultation paper has just passed and many organisations have published their views. For example, the Confederation of Business Industry (CBI) states that "The antiquated business rates system is a major barrier to investment and must be reformed". The CBI has recommended that smaller properties should be exempt from business rates, revaluations should be more frequent, and future increases should be limited as a result of a switch of the inflation benchmark which they track. The industry body has recommended properties valued below £12,000 should be exempt from rates. The CBI has also called on the Government to reform its "decades-old" business rates model and shift towards raising the tax in line with the consumer prices index (CPI), as opposed to the retail prices index (RPI). The Government is not expected to announce the findings of its review until March 2016. Furthermore, the Government has said it is committed to any changes being fiscally neutral, which has raised concerns about how far-reaching changes can be.

In the USA, the trans-Alaska oil pipeline is worth nearly $2 billion more than state assessors said it was worth on Jan. 1, the State Assessment Review Board decided this week. The board ruled that the 800-mile pipeline, its pump stations and other facilities should be taxed by municipalities at $9.6 billion, not the $7.68 billion put forward by Department of Revenue assessors. The decision is the latest in a years-long battle between the pipeline's owners and the taxing municipalities along the route. This year, the municipalities and the pipeline owners - BP, ConocoPhillips, ExxonMobil and Unocal Pipeline Company - appealed the state assessor's figures to the State Assessment Review Board. The municipalities argued the pipeline system is worth $15.47 billion. The pipeline owners argued it is worth $2.61 billion. At issue are the different methodologies the state, the municipalities and the pipeline owners believe should be used to determine the nearly 40-year-old system's value. The core concerns centre on the cost to replace the pipeline and the expected life of the current pipeline. The Supreme Court last year upheld a ruling that the pipeline was worth nearly $10 billion, not the $850 million claimed by its owners or the $11.57 billion argued by the municipalities.

Staying in the USA, it seems that California's well-known Proposition 13 is the subject of much current debate. Approved by California voters in 1978, Prop 13 was intended to stabilize property taxes for property owners in the state. Passed during a period of time when the demand for housing was high and property values steadily increased year over year, Prop 13 eased tax levels by capping property tax rates at 1% of their assessed value and preventing a property's assessed value from growing more than 2% a year. Because many long-time homeowners could not keep pace with the increasingly high tax rates of the time, Prop 13 overwhelmingly passed with 64.8% of the vote. Prop 13 applies to both residential and commercial properties; however, since the passage of Prop 13, controversy has arisen over commercial property owners benefiting from the protections. A not insignificant portion of California's population advocate for a change to Prop 13's protections for commercial property owners by establishing a "split roll" tax that limits or removes Prop 13 protections for commercial property owners. Proponents of split roll believe commercial property owners should be paying more taxes and that capping tax rates for commercial properties produces an added burden on homeowners while negatively impacting local communities that receive tax revenue. Additionally, proponents argue that large corporations are taking advantage of a tax loophole inherent to the law's provision that a reassessment of property value must only occur at the time a "change of ownership" takes place. The argument claims large corporations are finding ways to evade tax increases by changing ownership in "discrete" ways that won't trigger a reassessment. Opponents of the proposal argue that the majority of commercial property owners are not "tax evading" corporations but are hard-working small business owners. They believe a significant increase in commercial property tax rates will cause many small businesses to cut jobs, benefits, or raise prices to keep pace with the added costs. For small businesses that do not own property, the increased rate is likely to be passed from owner to renter through higher rent costs. The debate continues.

In Australia, another debate continues over whether to abolish stamp duty in favour of additional sales tax (GST) and/or land tax. Recent articles refer back to the Henry report and state that there is close to universal agreement that stamp duty is a bad, inequitable, economically-damaging tax. Some argue for a broad, no-exemptions land tax which would include taxing the family home. This, of course, would be very unpopular with many voters, so politicians will no doubt be wary. But proponents say that land is quite easy and efficient to tax. They also say that moving from stamp duty to a comprehensive land tax encourages more efficient use of land. Among other things, it discourages land banking and makes greater mobility possible. It's more equitable as the cost of government services is born by the broader society rather than just the those who move house or business. It makes it easier for would-be downsizers to downsize and for workers to move in search of work. But a recent article states that no reform is painless. It states that only one government in Australia has made the move from stamp duty to land tax – the ACT. They say it's an easier process for the ACT as it is the local as well as territory government and avoided the word "tax" by calling it "rates". And the change is being phased in over 20 years so no single government has to bear the political price. As with so many other proposed property tax reforms, the debate continues.

Moving to Canada, Australia has been cited by those in Vancouver, British Columbia as an example of a country that is taking some tough measures on foreign ownership. The Australian state of Victoria will start charging an extra 3 per cent tax on the purchase price for foreign buyers, as well as an additional 0.5 per cent land tax. They estimate it will generate AU $279 million over the next four years. The Australian federal government is also considering an application tax of $5,000 on properties under a million, and an additional $5,000 per million above that. If someone tries to circumvent the rules, they could potentially be fined 25 per cent of the home's value and be forced to sell. Some in Vancouver would like to see similar measures introduced there to deal with foreign purchasers who, they say, are driving up house prices and leaving properties empty. Proponents of the so-called "speculation tax" say that a relatively simple way to address the issue would be to charge owners of homes and condos that are left vacant double property tax. However, the provincial Premier has issued a warning that demands for new taxes to rein in rising real estate prices could have serious undesired effects and are, in her words, "largely rooted in mistaken perceptions". She said that local buyers, not foreigners, are responsible for most real estate activity in the region. She suggested the City of Vancouver can do more itself to address affordability by reducing civic fees and levies that add up to more than $76,000 of the price of a new $450,000 condo. And the ministry warned foreign home buying restrictions could "send mixed messages" to potential business partners and compromise government efforts to welcome foreign investment in other industries.

In Ecuador there is a proposed new law to tax land speculators. The Ecuadorean President has submitted a bill to the National Assembly aimed at targeting what he describes as "illegitimate" capital gains from land speculation. "Any additional value that is not the result of direct action of the owners of that property is an illegitimate gain" said the President. The Ecuadorean government conducted a study and found that in the nine largest municipalities in the country, US$600 million was transferred into private hands as a result of land speculation surrounding public investments. The President said that the income generated from this new tax will go to local governments, not the federal government.

In New Zealand, a combination of both a property's land value and capital value will determine Horowhenua rates for the next 10 years. A rating review was one of the most debated key issues in the Horowhenua District Council's draft Long Term Plan 2015-2025. The council announced it would change to a combination of both rating systems starting this month. As part of the long-term plan consultation, the council had proposed that the way it rates be changed from a land value-based system to one based on capital value. The Mayor said a combination of land value and capital value would still address council objectives that include a fairer and more equitable rating system, but to a lesser degree. He said it introduced some capital value elements into the rating system now, while giving future councils time to address the rating system to further enhance equity and fairness.

In India, the Pune Municipal Corporation's property tax collection increased by over Rs 102 crore in the current financial year 2015-16, as compared to the previous year. The increase in income is being attributed to residents availing the facility of the 5 to 10 per cent discount offered if the payment of tax was done by May 31. The municipal corporation's property tax department had appealed to citizens through various advertisements, like billboards and radio jingles, to avail of the concession by paying the tax by May 31. The municipal commissioner said the corporation collected property tax of Rs 522 crore as compared to Rs 420 crore last year. The PMC also gives concessions to housing societies and individual property owners who have implemented any two eco-friendly techniques, such as rainwater harvesting, solar heating techniques or vermicomposting. A 5% rebate is granted if any one of the techniques is implemented and 10% if two techniques are implemented. The city has 7.8 lakh properties, including houses (self-occupied or rented), office buildings, factory buildings, open plots, flats and shops. Property tax is one of the main sources of revenue for the civic body. The property tax department handles the billing and collection of tax on plots, residential, commercial and other types of properties. The PMC has plans to undertake GIS mapping of properties which will enable the corporation to identify all properties in the city.

And finally, in the UK Ministers are being urged to exempt councils from paying business rates on public toilets, saying it is leading to the closure of facilities. Parish and town councils say keeping conveniences open is vital for public health, but business rates are adding thousands of pounds to the cost of running them. The number of public toilets has fallen markedly in recent years. The British Toilet Association has estimated that 40% of public conveniences have disappeared in the last decade. Although councils are not required by law to provide toilets, they have discretionary powers to do so and to charge for their upkeep. At present, councils no doubt feel "down the pan" on the issue, but if they can persuade the Government to grant them relief, they will no doubt feel "flushed with success".

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