



## President's Message – July 2016

Although it may appear to be unrelated to property taxes, I think I must mention the outcome of the recent UK referendum on whether or not to leave the European Union (EU) as it is having a significant impact on economies around the world. As readers will be aware, the so-called "Brexit" referendum resulted in a relatively small majority (52%) voting in favour of leaving the EU. As IPTI is entirely neutral in such matters, I make no comment about whether or not that was the "right" decision, but it has already had serious impacts economically and politically both in the UK and throughout Europe. Stock markets around the world have also been reflecting the uncertainty that now exists following the referendum and the subsequent decision of the UK Prime Minister to resign. It is by no means clear at this stage what the medium to long term impacts will be of this decision, but it seems likely to continue to cause repercussions for some time to come.

There may be some impacts on both the UK and European property tax systems in at least three different ways. First of all, property values may be affected in which case these changes will eventually feed through to property tax systems. Next, there are indications that property taxes may have to be raised if other revenues fall as a consequence of the decision. And finally, the hopes of those who argued that the high level of property taxes in the UK should be reduced to bring them into line with other EU countries in the interests of "harmonisation" may be significantly diminished. However, the UK government has shown no signs of being influenced by the latter point, so it was always unlikely that it would result in a lowering of the property tax rate for non-domestic properties in the UK.

Looking back over June, it was another busy month for IPTI. We delivered another in our series of webinars which we run jointly with the Institute of Municipal Assessors (IMA) based in Canada. This webinar was entitled "Principles and Concepts of Municipal Assessment and Taxation". Two very experienced presenters provided a very helpful guide to the subject and covered a wide range of material. The feedback from participants was very positive with one stating "I find the webinars consistently informative with very good speakers selected. Many thanks to the IMA and IPTI."

I should add that I was involved in a recent IMA/IPTI webinar entitled "Building Consensus to Avoid Assessment Appeals and Litigation" during which my co-presenter used a phrase that I wanted to share with you. He said "You can disagree without being disagreeable" which I thought encapsulated the importance of all parties maintaining a professional approach throughout the appeal process and seeking consensus wherever possible.

Talking of the IMA, IPTI was represented at its recent 60th annual conference in Niagara Falls, Canada where nearly 500 attendees participated. In addition to bringing greetings as part of the opening ceremony, IPTI also made a presentation on property taxes around the world.

During June we also ran a specialist training course in Canada for those involved in the valuation of large, special purpose industrial properties using the cost approach. As usual, much of the course was devoted to a consideration of how to adjust reproduction or replacement cost new for depreciation in a valuation using the cost approach and how to determine market value for the land with so little available evidence.



Another event we ran last month was a "round table" discussion held in Prague in conjunction with the Czech Republic Ministry of Finance. Attendance at this event was by invitation only and there were ten countries represented. Enid Slack facilitated the discussion with input and assistance from Jan Brzeski and Riel Franzsen. Jerry Grad was our lead representative at the event which also included the Lincoln Institute of Land Policy.

An interesting event I attended during June was a talk in Belfast, Northern Ireland at the offices of Land and Property Services (LPS) which is part of the Department of Finance. This talk was organised by the UK Rating Diploma Holders Section of the RICS and involved two main topics. The first was a demonstration of the new mapping and geographic services facilities that LPS has developed. This includes regular updates of aerial photography which is provided through flights organised by LPS themselves. Members of the public can access what is known as "Spatial NI WebMap Services" which, among other things, provides a central location for storing public sector location data sets. The second topic was a professional discussion about the problems of valuing a specialised property, in this case the Crumlin Road Gaol which is no longer an operational prison but is still used as a tourist attraction and as a venue for various events, including weddings! Following the talk, we were taken on a tour of "The Crum" as it is known locally which was very interesting and informative.

Readers may be interested to know that we have just concluded an agreement with an organisation in South Korea who want a license to translate and sell one of the textbooks we publish. The book was written by our colleague Rich Borst who will be well known to many IPTI members and is entitled "Improving Mass Appraisal Valuation Models Using Spatio-Temporal Methods". I hope the Korean version becomes a best seller!

Another interesting development last month was a report we were invited to prepare for the European American Chamber of Commerce (EACC) newsletter. The report provides information for EACC members about topical property tax issues in both the USA and Europe. I should add that we will be holding another joint "Information Session" with the EACC in New York City in September.

Now for a quick look ahead at what else is coming up in the months ahead. In August we are holding a workshop at the Munk School of Global Affairs which is part of the University of Toronto. The workshop will be considering the topical issue of "Land Value Capture" and will involve two experienced speakers who will be sharing their knowledge of the subject.

In September we are running a property tax workshop in Minneapolis in cooperation with the Council on State Taxation (COST). This is an additional workshop to the annual COST-IPTI property tax workshops we normally hold in the earlier part of the year; the last one we ran was in San Antonio, Texas in January this year. We are planning to move the 2017 workshop to a later part of the year and we did not want to have an 18 month gap between workshops so we are having the event in Minneapolis. We also plan to finalise the next COST-IPTI Property Tax International Scorecard at this event.



Also in September I will be attending the Commonwealth Heads of Valuation Agencies (CHOVA) meeting which is being held in Scotland in conjunction with the Scottish Assessors Association (SAA) and the Institute for Revenues, Rating and Valuation (IRRV). We ran an event in conjunction with the SAA and IRRV in Scotland in 2013 which was very interesting and enjoyable and I am sure the CHOVA event will also be a success.

In November we will be holding our annual Caribbean Valuation and Construction Conference in St Lucia. This event is held in partnership with the RICS and is always a very popular conference.

More details of these and other forthcoming events can be found on our website:  
[www.ipti.org](http://www.ipti.org)

I will now refer to a number of property tax related matters in selected countries around the world.

In the USA, it is reported that more than \$550 million has been recovered from property tax fraud in Orange County, Florida. The money comes from property owners who wrongfully applied for property tax exemptions when they did not qualify; this was primarily Florida's Homestead Tax exemption. Former law enforcement professionals were recruited to investigate property owners trying to beat the system. There was also a tax fraud hotline for citizens to report their suspicions resulting in the recovery of the hundreds of millions of dollars. "Counties everywhere should invest in diligent investigative work and make it a top priority to catch those that cheat the system," a spokesman said. "That way our communities receive the funding they need to provide vital services to their citizens, like law enforcement, fire, and schools, and honest tax payers don't pick up the burden left by individuals or businesses that break the rules."

In Brazil it is reported that a company is carrying out a trial with drones to reduce property tax evasion. The equipment is being used by a tax collection agency which works on behalf of the local government to measure properties in the city and get information needed to calculate the tax amount for that particular unit. A director of the company said "Properties, particularly in more affluent areas, often get extended without an official permit and increase in value, but the amount of tax they have to pay also increases and people are not paying that extra amount, so the government is losing out on revenue." He went on to say "The drone technology will allow us to get more accurate data on these properties in a cost-effective way, speed up the process of updating property information records and ultimately reduce tax avoidance." A trial covering an area with high levels of tax evasion and some 20,000 houses will commence shortly and is expected to last three months. According to the company - which expects a "significant" increase in tax revenues as more accurate property information is obtained through the new technology - the privacy implications have been considered. It said "We don't have any interest in filming anyone. The only thing we are interested in is the aerial imagery which will give us the correct measurements of properties and will blur any images of individuals that may appear in the material."



In the UK, a committee has issued a report stating that the Government must address issues with its business rates retention plan. The Communities and Local Government Committee said "The Government must address a range of issues, including problems with appeals and withdrawing Revenue Support Grant (RSG), before bringing in 100 per cent business rates retention for councils. The Committee found the impact of appeals by ratepayers is dwarfing increases in business rates revenue and affecting growth incentives, with local authorities setting aside substantial sums of money, often for long periods of time, in case an appeal is successful. The interim report – focusing on plans to bring in the reformed scheme in 2020 – also states that without RSG it will prove difficult to provide a system which gives incentives to growth and looks after those authorities with particular need. It calls on the Government to specify how it will protect councils which rely on redistributed business rates and are worried that they will lose out under the new system.

Also in the UK, a parliamentary committee has recommended a levy on internet-only retailers in order to "level the playing field" against high street shops who have to pay business rates (property tax) on their shops. This is a very topical issue with global implications.

In Canada, there is a new push underway in Ontario for a hotel tax, the latest call coming from the mayor of Niagara Falls. Any such tax would need the approval of the provincial government. Toronto's mayor has already had talks with the province and it is said that a hotel tax could be just months away. The mayor has confirmed that he is considering a hotel tax as a source of revenue. He and other leaders of large urban centres in the province say it's a method of paying for tourism initiatives that would take some of the burden from taxpayers. It is noted that New York City has a hotel tax of nearly 6 percent, Winnipeg has a 5 percent hotel tax and Montreal 3.5 percent. Ontario's hotel industry is concerned about the prospect. A spokesman for the Greater Toronto Hotel Association said "We're an expensive destination and you also have to remember we're an expensive destination for the hotel community to operate in. We pay the third highest property taxes in North America, just less than New York City and Boston. So it's those types of things when you pay somewhere between \$2,500 and \$11,000 per hotel room for property tax, it's a lot of money." It is estimated that a hotel tax could bring Toronto between \$7 million and \$21 million a year. The hotel tax will be on the table for debate at Toronto City Council later this year. If it passes and gets provincial approval, other tourist centres such as Ottawa and Niagara Falls are likely to quickly follow suit.

In Greece, the change in the way property values are calculated for tax purposes – known as "objective values" – is to be postponed until the second half of next year. The government had promised that objective values would be replaced by a new system that would be based on the market value of properties as of January 2017, when the Single Property Tax (ENFIA) was to be abolished. However, it is reported that the government's inability to create an automatic system for the adjustment of the values, combined with the difficulty in creating a new tax that would yield some 3.5 billion euros per year, has forced the government to ask its creditors for more time before it can fulfil that commitment stemming from the bailout agreement.



Moving on to China, a recent report has expressed an opinion that the planned introduction of property taxes by Chinese regional and local governments to provide them with more revenue stability "is unlikely to achieve such an aim over at least the next 2-3 years." China's State Council, in its fiscal policy plans announced earlier this year, included the introduction of a new real estate tax structure, the framework for which is expected to be different in various cities and towns, as appropriate to their local conditions. This announcement followed a prolonged delay for plans to extend the pilot property tax schemes operating in Shanghai and Chongqing, which were first set up in 2011. The original reason for setting up those schemes was to bring Chinese property price increases under control. While that the country's real estate market has since weakened, the Government still appears to believe that property tax changes could bolster local government revenues. However, the recent report states that, in China, "The benefits of property taxes will take time to materialize because one of the obstacles to the roll-out of such taxes is that the country is still in the process of developing a property registration system to support tax assessments and collections." It noted that "The lack of an accurate registration system led to the failure of pilot property tax programs launched in Shanghai and Chongqing, and that the failures have mainly been the result of the uneven enforcement and collection of such taxes."

In Australia, council rate rises in Queensland are outstripping increases in land values by almost double, with the latter showing the lowest growth in the country, a report has found. The sharp rises have been partly blamed on Commonwealth grant funding cuts. A "State of the Regions" report found Queensland's local council rate revenue grew by 7.6 per cent last year. It was the fourth-highest growth in the country, trailing behind the ACT at 11.5 per cent, Western Australia at 8.9 per cent, and Victoria at 7.7 per cent. The average growth of rate revenue across Australia was 6.9 per cent. The report said the increases were necessary to meet funding gaps after the federal government reduced local council grants over the past 20 years. The report found Queensland's unimproved land values, which help local councils determine how much rates should rise or fall, had the lowest national average annual increase at 4.4 per cent. Meanwhile, the state's local governments raised an average of about \$680 per ratepayer last year. The figure was in line with the national average.

In New Zealand, the general revaluation of all Christchurch property that takes place every three years is now underway. Christchurch City Council has contracted an independent valuation service provider to revalue more than 160,000 Christchurch properties and send letters with the new rateable valuation to owners in early December. The contractor will follow the standard rating revaluation legislation in Christchurch for the 2016 revaluation, which means unrepaired earthquake damage will be considered when a property is valued. The company's National Revaluation Manager said they would like property owners to report unrepaired damage to buildings that would be significant enough to affect the property's market value. By law, the Council must undertake a general revaluation of all properties every three years so rates are spread fairly across the city. Rating Values (sometimes called Capital Values) are used to work out each ratepayer's portion of the city's total rates. Early indications suggest property values in Christchurch have risen by around 7 to 8 per cent in the three years since the last revaluation was done in 2013. Then, the average house price was around \$450,000. Now it is around \$490,000.



In Italy, the International Monetary Fund (IMF) has suggested that the Government should look for additional revenue from property taxation. In particular, the IMF recommends that a "modern real estate tax," together with a broadening of the tax base by rationalizing tax expenditures, "would be a move in the right direction." The IMF's conclusion concurred with recent comments from the European Commission (EC) on the removal of property taxation from primary residences. The EC has previously stated that "recent decisions on housing taxation do not appear in line with achieving a more efficient tax structure by shifting the tax burden away from productive factors onto other revenue bases."

In Saudi Arabia the cabinet has approved a number of details regarding the so-called 'white land' tax which aims to discourage owners of urban land from keeping it empty. Under the approved regulations, owners of empty plots of urban land designated for housing or offices in towns and cities will have to pay a tax of 2.5 per cent of the value of the land each year. The taxes will apply to urban undeveloped land plots of 10,000 square metres or more in 'certified master planned' developments, though no list of these has yet been announced. Following this, single land owners of smaller plots of developed land (exceeding 5,000 sq m) in the certified master planned developments will be subject to the tax. At the final stage single land owners of plots exceeding 10,000 sq m in one city will be subject to the tax.

And finally, back to the USA where, in Chicago, a man walked into the county treasurer's office with a large black suitcase. It was stuffed with 5,734 dollar bills - the first portion of his property taxes. "I will do this every year until my last breath," he said, "Raising property taxes is wrong, it's evil, and it's got to stop." The man is protesting his increasing property tax bill and plans to do this again when the next instalment is due in September taking the total bill to \$11,468.36 this year. He complained that his children will not be able to live in the house because they can't afford to. He said "I am either going to be forced to sell it and move out of the state or stay and lose it because of the taxes." This is not the first time this type of "protest" has been made and I suspect it will not be the last. It just goes to show how property taxes can generate strong feelings.

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