



President's Message - June 2015

I am pleased to start this newsletter with news of a new appointment for IPTI. Colleen Vercooteren has joined IPTI as our new Director of Training and will focus on further developing our educational activities, in particular, "e-Learning by IPTI". Colleen has an extensive background in property valuation and served as the Ontario Municipal Property Assessment Corporation's (MPAC) Chief Learning Officer for two and a half years. Colleen will use her knowledge and experience in property valuation to enhance our training programs. Colleen has been involved in IPTI activities for a long time and will be well known to many colleagues. You will be seeing and hearing more from Colleen over the coming months.

I am also pleased to announce another new appointment for IPTI. David Wilkes will be our new Director of Corporate Services and, as his title makes clear, he will focus on developing IPTI's range of corporate services. David will be providing advice and assistance to the corporate sector in IPTI's usual unbiased and objective manner. The corporate sector is a very important part of IPTI's stakeholder group and we feel it is right to devote more resource to meeting their needs. David is a lawyer based in New York and has considerable experience of advising private sector corporate clients about property tax matters. You will be hearing more from David soon.

Just looking back over May, we held another of our three-day training courses on writing expert reports in property valuation disputes. This course is run in partnership with the prestigious Osgoode Hall Law School in Toronto and is very popular. It is a "hands on" course with a mix of experienced presenters who give those attending very useful advice on all aspects of what is required in an expert report and then provide an opportunity for them to practice their writing skills. The feedback sessions on the individual documents that have been produced by attendees are probably the most valuable part of the course. Successful completion of the course, and passing the test, leads to the award of an Osgoode-IPTI Certificate.

We will be having another training course run in conjunction with Osgoode Hall Law School in November. This one is the "follow on" course from expert report writing and deals with giving expert evidence in property valuation disputes. This will be a four-day, two-module course details of which will be on our website soon.

In May we also held another in our series of property tax workshops run in partnership with the Institute of Municipal Assessors (IMA). The main subject of this IMA-IPTI workshop was the use of the income approach in valuations for property tax purposes, but it also considered the issue of "highest and best use". The course was well received by those attending who appreciated the specialist expertise of our presenters.



Also in May, I delivered a two-hour webinar on "international issues in property tax" for members of the International Association of Assessing Officers (IAAO). This was an opportunity for me to update the mainly American audience with what is happening in connection with property tax systems around the world. It provoked some interesting questions and appears to have been well-received by the IAAO members who participated.

On the subject of webinars, I will also be involved in the next IPTI webinar that is being delivered on 4 June. This concerns "managing property taxes across different jurisdictions" and will include two very experienced presenters talking about both the general principles of managing property taxes globally and their practical experience in doing so. We have a large number of people signed up for the webinar so I am sure it will be an interesting and successful event.

Regular readers of this newsletter will be aware that IPTI has been involved in providing assistance and support to the Municipal Property Assessment Corporation (MPAC) in Ontario in connection with their pre-roll consultations with the owners of large, special-purpose business properties. In particular, IPTI facilitated a number of meetings with the various industries involved and this work is recorded in MPAC's latest annual report. The methodology guides that IPTI helped MPAC to produce have now been published on MPAC's website. These methodology guides form part of what is referred to as "level 1" in MPAC's disclosure process and they are now moving on to "level 2" which involves the publication of market valuation reports relating to the various industries concerned. The final stage of this process, "level 3", will be the publication by MPAC of individual property valuations prior to the new assessment rolls coming into force. MPAC have also published their "advance disclosure protocol" which provides more detail about this process.

Looking ahead to June, our main event will be IPTI's 10th annual mass appraisal valuation symposium which is being held in Amsterdam on 16-17 June. We have a great line up of speakers from around the globe and a record number of countries participating in what will be a very interesting and informative event. We also have a wide variety of subjects on the agenda so there should be lots of information and experience-sharing available and something for everyone. If you have not yet signed up, there is still time to do so, but please register quickly as space is limited.

In August we will be holding a meeting of our Corporate Advisory Committee (CAC), along with an event for the benefit of global corporations, in Detroit. This event, taking place on 6 August, is being held in partnership with the Council on State Taxation (COST) and will be open to corporate representatives.



Looking a little further ahead, we are holding a property tax event in New York on 10 September. This is titled "property taxes: a curse or a path to sustainable real estate growth and profitability" and will consider recent developments in property taxation in Europe and the USA. The event is being held in conjunction with the European American Chamber of Commerce (EACC) and the Council on State Taxation (COST). We have run a number of successful events with the EACC and COST and I am sure this one will also be well-received by those attending.

Looking even further ahead, we have two events planned for November which will be very interesting. The first is a workshop being held in Houston, Texas on 2 November. This workshop will be looking at property tax issues concerning the oil and gas industries in particular and will be open to corporate representatives. The other event will be our annual Caribbean conference held in partnership with RICS Americas. This will be the 4th valuation and construction conference and it will be held in Montego Bay, Jamaica on 18-19 November. We are in the process of finalising the agendas for both these events and more details will be available soon.

For those who already have a 2016 diary available, I should add that we will be holding the annual COST-IPTI property tax workshop on 20-22 January 2016; the venue is currently being finalised. Our 2016 mass appraisal valuation symposium will be held in Niagara Falls on 17-18 May next year. More information about these two events will be published on our website in due course.

We are making good progress in connection with the property tax benchmarking study we are undertaking for the Australasian Council of Valuers-General (VGs). We have some preliminary findings which will be set out in an interim report and discussed with the VGs attending our symposium in Amsterdam in June. The VGs are holding their annual conference in Australia in September and the final report of the benchmarking study will feature on their agenda.

We will be holding a meeting of IPTI's Board of Advisors at the conclusion of our symposium in Amsterdam. We want to revise the role of Board Members and this meeting will be an opportunity to discuss the proposed new role. We also need to revise the membership of our Board as this has not been reviewed for a while and we need to update the membership in line with changes in some people's work situation.

So it's now time to have a quick look around the world to see what is happening with property taxes in selected countries.

During May, a general election was held in the UK and property tax featured as one of the topics debated by the various political parties. The so-called "mansion tax" was one of the issues that featured in these debates and, after the election, an interesting paper was



published called "moving beyond mansion tax" which considered ways in which the existing residential property tax in the UK (council tax) might be "reformed" to improve it and, in particular, make it less regressive. The authors of this paper recommend the new government set up a Royal Commission with a wide remit to consider the role of property taxes. The authors say that property taxes should be "local, simple, transparent, fair and efficient"; I think most people would agree with those general principles - it is translating them into practice which is the tricky part!

Since the election in the UK, the government has announced its intention to introduce an "enterprise bill" which would, in addition to other measures, improve the business rates system (the property tax relating to non-residential properties in the UK) and, in particular, modernise the appeals system. It will be interesting to see the detail of these proposals in due course. The latest forecast of UK public sector receipts shows annual revenue of £56 billion from recurrent property taxes (£28 billion from council tax and £28 billion from business rates); this compares with £42 billion from corporation tax and £47 billion from excise duties, so property taxes continue to be an important source of funding in the UK.

In Canada, the Mayor of Vancouver has called on the provincial government in British Columbia to introduce a "speculation tax" on real estate to try and dampen down rising prices in the housing market. Similar action has been taken in Hong Kong and Australia recently so it will be interesting to see how the provincial government responds to this request. The provincial ministry of finance issued a statement saying that "governments need to be careful that any tax would have the desired effect, without undermining the equity that people may have built up in their homes."

Also in Canada, Mississauga council plans to charge residents for storm water management by introducing a new tax. Canada's largest suburb - and its sixth largest city - will soon charge home owners and businesses for storm water costs based on how much of their property is covered. A very small house that causes little run-off water will pay nothing. But if the home is in the highest of five size categories, it will cost \$170 in 2016 for its share of the city's storm-water management costs. It's an approach that Toronto is also looking at ahead of its 2016 budget process, according to a city spokesperson. The new approach will raise millions more each year, as flooding in the city from major rainstorms over the last decade provided proof that its storm water infrastructure can't handle all the increased run-off from so much covered land.

In the USA, a plan to replace nearly \$5 billion in the property taxes that are used to fund public education in Pennsylvania with higher sales and income taxes passed the state House recently. The House voted in favour of a plan that would raise the sales tax rate in most of the state from 6 percent to 7 percent and increase the personal income tax rate from 3.07 percent to 3.7 percent. The state Governor, who has been pushing for property



tax relief since taking office earlier this year, said House consideration of the plan was the start of a conversation, not a final product.

In New Zealand, the Auckland Council budget committee voted for an additional targeted rate of 4.4 per cent to top up spending on transport, leading to an overall rate (property tax) increase of 9.9 per cent. This increase is proving controversial as inflation in New Zealand was 0.1% in the past year. The 9.9 per cent household annual increase works out at \$205 for a \$750,000 house, \$230 for a \$1 million house and \$280 for a \$1.5 million house. The lack of a transitional period for the move to set rates on a standard region-wide property value basis is causing concern to many ratepayers, with rate rises of over 20% for about 30,000 ratepayers. There have been calls for these changes to be phased in. The final transition to a single rates system for the "super city" will result in some previously highly rated areas, such as Great Barrier and Waiheke Islands and Rodney, getting a rates decrease.

In the Philippines, owners of residential, commercial or industrial buildings in Quezon City can get up to 20-percent discount in real property taxes if they allot the building's roof or walls as spaces for plants, according to a recently signed ordinance. This is in line with the policy of the city government to reduce pollution and protect the environment. The discount on real property tax is available for five years starting from the initial assessment. A 100-percent green coverage of either the rooftop or the exterior wall area will entitle the building owner to a 20-percent discount. A 15-percent discount will be granted to three-quarters green coverage, 10 percent for half, and 5 percent for one-quarter coverage.

In Pakistan, the office of the Pakistan Cricket Board (PCB) was sealed by the Excise Department for non-payment of property tax. The PCB had submitted an application in the Lahore High Court against the dues totalling 52.3 million rupees, but this was rejected. Following this decision, the Excise Department sealed the office. The tax-collecting department in a statement said that the PCB has had control of the Qaddafi Stadium since 2002. Since then, the PCB has been getting rents worth millions from all the shops attached with the stadium. "The board owes a lot of tax to the government," it said. IPTI's advisory professional in Pakistan explained that the issue arose over the meaning and liability of the taxable owner; the PCB does not own the property but, as the occupier, is considered liable for property tax. It seems that the property was unsealed after promises were made to pay the tax.

In India, Mumbai will soon impose harsher tax penalties in cases of unauthorised construction or unauthorised extensions to existing structures. The move, coming after a delay of five years, will be implemented by the year-end. The provision to levy property tax on twice the built area that is illegal was made in 2010, but is only now being introduced. The amendment was made when the civic body shifted to the capital-value



based system of property tax assessment. Based on this amendment, property tax is charged based on the market value of the area of the property, as opposed to the previous system of assessing tax on a property's rateable value, or its notional rent-earning capacity. According to civic officials, if a construction measuring 1,000 square ft is found to be illegal, property tax will be charged on 2,000 square ft. "The respective ward offices will be in charge of determining the illegality of a construction," the official added. Simultaneously, officials confirmed, the levy and collection of property tax, including the penalty, would not be construed as authorising the illegal construction.

The Cyprus government has plans to submit a bill to parliament that will integrate Immovable Property Tax (IPT) and municipal taxes. The minister said that property values have also been reassessed. "We will be ready in the first week of June to give the entire base of reassessed values to the finance ministry," he said. The minister said the €100m the government wanted to collect and the €13m from the municipalities would be merged into one integrated tax. As part of Cyprus' bailout agreement with international lenders, authorities had to update the values of some half a million properties. The state is currently using 1980s values to calculate IPT.

Belgium's Finance Minister has ordered a report into the feasibility of rebasing the Government's estimates of properties' rental values, to boost the property tax take. The taxable basis for Belgium's property tax, which does not cover private homes, is based on notional rental value. There has not been a review of these rental values since 1975, and they have simply tracked inflation. The minister said the review will take considerable resources and may meet resistance, as it may result in an increase in property owners' tax liabilities; he has therefore requested an in-depth study of the possible costs and ramifications of such a move.

Commercial and residential property investors in Western Australia will be faced with an extra \$826 million over the next four years. This year's move follows a 10 per cent increase in land tax rates in last year's budget. The land tax applies only to commercial property and residential investment properties, not a homeowner's primary residential property. The State Government expects to raise an extra \$184 million next year by introducing a \$300 flat tax for land with an unimproved value of between \$300,000 and \$420,000, and lifting land tax rates on most properties valued above those levels. Currently, investment property is taxed at a rate of 0.11 per cent of its value above \$300,000, at 0.58 per cent above \$1 million and at 1.51 per cent above \$2.2 million. An official said that, despite the additional charges to investors, WA's land tax regime remained "competitive" with those in other states. He said a landholding with an unimproved value of \$1 million would be levied \$1,750 in land tax next year, up from \$770 currently. That compares to \$9,188 in NSW, \$2,975 in Victoria and \$4,500 in Queensland, he said.



In Jamaica, it was stated that some \$10 billion in property taxes per year is needed to sufficiently address the needs of parish councils across the island. A spokesman said that, although the collections exceeded the target set last year, it is still far from the amount needed to provide the necessary services to the citizens of Jamaica. He said, "We collected almost \$7.45 billion in property taxes last year...our actual need per annum is in the range of \$10 billion, and given inflation, it might reach about \$11 or \$12 billion," he pointed out. He also said that local authorities continue to face challenges with meeting the needs of the citizens, due to the level of compliance for property taxes. "Unlike most of the First World countries, which basically have a compliance rate of almost 100 per cent, we are still struggling at the low- to mid-50 per cent range," he stated. "Property tax is the main source of funding for the councils; it translates to in excess of 55 per cent of their annual revenues, and if the revenues are not coming in, the services can't be provided," he emphasised. He said the authorities will continue to appeal to citizens to honour their property tax obligations, so they can benefit from the full services provided through the parish councils.

As we all know, everyone hates taxes, but property tax is said to be the tax people hate most. So I was reassured to read an article recently in Forbes magazine that said we should "learn to love the property tax; it's not so bad". The article stated, "Despite its bad reputation, the property tax has numerous benefits. For local governments, the tax provides a relatively stable source of revenue. Local governments also have a fairly high collection success rate. Many property owners have escrow accounts through their mortgage companies, which collect tax monthly and remit it at the appropriate time. Because of that, and the fact that the property tax is attached to something physical, it is hard to avoid or evade. For taxpayers, revenue from property taxes pays for such things as local protection and maintenance services, as well as education. Those are benefits that property owners and the community can directly see. The property tax is also relatively transparent in that property records are publicly accessible." Good to see someone standing up for property tax!

And finally, property tax officials in Chicago have begun researching whether additional property taxes should be levied against the owner of a treehouse who rents it out as a romantic getaway. The tree house has a full-size bed, WiFi, cable TV, mini fridge, bar, coffee maker, microwave, fireplace, deck, and air conditioning. Now, the assessor's office is reportedly exploring the question of whether the treehouse should be considered a second residence, subject to a second property tax bill for the owner. The owner no doubt thinks the assessor is "barking up the wrong tree".

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