President's Message – June 2016

I am pleased to start this month's message by letting you know that we have just celebrated IPTI's 20th "birthday". The organisation was set up by our CEO, Jerry Grad, back in 1996 and readers will be aware that it has gone from strength to strength ever since. You will also be aware that IPTI provides a unique service in that, as an independent, not-for-profit international organisation, it is impartial and seeks to use its expertise and network to meet the needs of all stakeholders in property tax systems, i.e. taxpayers, governments, practitioners and academics. I think that unique position is why there is a continuing demand for the services that IPTI provides and we manage to fill the "gap" without being seen as a threat by other organisations. Indeed, we work collaboratively with many other organisations and I think that is another reason for IPTI's success. We celebrated our anniversary with a very enjoyable brunch in Toronto in May at which I am pleased to report that many of those who have supported IPTI over the years were able to join us and a good time was had by one and all.

Moving on to more serious matters, May also saw us hold two very interesting events in Niagara Falls, Ontario. The first was the latest in the series of Ontario Property Tax Summits (OPTS) that we have held in recent years. We had presentations from key players including taxpayers, the Ministry of Finance, municipalities, the assessing agency - the Municipal Property Assessment Corporation (MPAC) - and professional property tax practitioners responsible for advising taxpayers in the province. Although there were presentations made by participants in each of the main panel sessions at the OPTS that looked at the current state and the desired state, the real value of the summit was the discussion that took place around the changes that have been made, the challenges that remain, and the way in which outstanding issues might be addressed. IPTI will be providing a report summarising the main issues discussed and the way forward outlined by the stakeholders.

The second event we held at Niagara Falls was our latest Mass Appraisal Valuation Symposium (MAVS). This event attracted a large number of international participants and involved a great variety of subject-matter, including not only valuation issues but also some broader considerations concerning innovation, leadership, standards, and dealing with increasing expectations from all stakeholders in property tax systems. We had some very interesting global perspectives from Africa, Asia, Australia, Europe, South America, the USA and, of course, different parts of Canada. We also had a number of sponsor's booths at the MAVS which provided additional interest for participants. As usual, although the many different presentations were informative and helpful, the real value of this type of event is the networking opportunities it provides and we ensured that there was plenty of time for participants to mix with each other and with our speakers and sponsors.

Another interesting aspect of our MAVS was that IPTI used the occasion to present a certificate to the Property Valuation Services Corporation (PVSC) of Nova Scotia. PVSC had invited IPTI to carry out an independent review of its policies, processes, procedures and performance. This involves a rigorous review undertaken by IPTI experts using international standards and I am pleased to say that PVSC achieved a good score and became the first assessing jurisdiction in North America to receive IPTI's certificate. I was very pleased to present both the certificate and commemorative plaque to Kathy Gillis, the CEO of PVSC. The IPTI certification process is a specialised form of external audit and it was clear that other organisations represented at the MAVS were interested in putting themselves forward for this type of expert review.

Our next MAVS will be in Sydney, Australia on 9-10 May 2017. More details about that event will be available in due course.

Still looking back to what we did during May, I was invited to speak at an interesting specialist study course run by the RICS Rating Diploma Holders Section in London. This study course is part of the training for those who want to be awarded the diploma which is a specialist qualification relating to the property tax system (business rates) that applies to non-residential properties in the UK. In Module 9 of the course, participants study other property tax systems around the world and that is what I was there to provide. There were other speakers on the course talking about their experience of other countries and we had some very interesting discussions.

During May we also ran another in our series of webinars we provide in partnership with the Institute of Municipal Assessors (IMA). The IMA is a Canadian-based organisation and we are pleased to work with them in providing a regular series of webinars. The latest joint webinar was titled "Building Consensus to Avoid Assessment Appeals & Litigation". I was joined for this webinar with my co-presenter, Elliott Pollack, an attorney from the USA.

Back in the UK, a very pleasant event I attended in London during May was the IRRV President's Lunch which involves the leaders of many professional bodies coming together to have an informal networking session. We have been working closely with the IRRV on a recent project, so this was also a useful opportunity to discuss progress with that project and look ahead to the IRRV events that will surround the forthcoming Commonwealth Heads of Valuation Agencies (CHOVA) conference in Scotland in September. IPTI will be participating in both CHOVA and the surrounding events; more details of this event can be found on the CHOVA 2016 website.

I also attended the National Rating Day in London during May. This is a large event at which various speakers focus on the issues and challenges concerning the UK property tax system for non-residential properties. There is currently no shortage of controversial topics concerning business rates and that, alongside the new revaluation of non-domestic properties due to come into effect in 2017, meant that there was some lively discussions during the event.

During May IPTI was invited to facilitate a number of meetings between taxpayers and MPAC, the assessing agency for Ontario, at which information is being provided in line with MPAC's new three levels of disclosure designed to introduce greater transparency which will, in turn, lead to improved understanding and awareness. In my view, this type of process should be used by all assessing agencies not only in the interests of openness, but also to try and work with taxpayers to improve accuracy in valuation and create greater certainty for both taxpayers and taxing authorities.

In June we will be running a specialist training course for an assessing agency which wants to ensure that its valuations for large, special purpose, industrial properties are based on sound methodology and credible inputs.

We also have an interesting round table event in Prague on 23-24 June at which invited representatives from the countries concerned will discuss the challenges in modernising property tax systems in CEE countries.

We will be holding another land value capture event at the University of Toronto in August. The last one we ran was well-attended and we anticipate another interested and informed audience for the next one.

Full details of our future events both in 2016 and 2017 are on the website (www.ipti.org) and I look forward to seeing as many of you as possible at one or more of them.

Now for a quick look at what is making the news around the world in terms of property tax systems.

In Australia, debate continues about scrapping stamp duty in favour of a universal land tax. It is reported that, in the 2014-15 financial year, while state and local government taxation revenue was recorded at $89.278 billion, more than half of that was made up of property taxes. It is also reported that the money made from property tax is on the rise. Total tax revenue that made its way into government coffers during the last financial year increased by 7 per cent, but property tax earnings specifically rose by 10.5 per cent. One commentator said "Property taxes are the most important sources of revenue for state and local governments; however, the reliance on volatile stamp duty revenue provides challenges for these governments. This is a good reason to advocate for the replacement of stamp duty with universal land taxes. Although no one likes a new tax, it provides more revenue certainty to local and state government and it doesn't deter the buying and selling of properties like stamp duty's impost can." The two largest sources of tax for the government are stamp duties on conveyances and council rates which account for 40.8 per cent and 35.4 per cent of total revenue respectively. The only other significant source of tax revenue is land tax accounting for 14.8 per cent of revenue. Over the most recent financial year, stamp duty has been the largest source of tax revenue in NSW, Victoria and the Northern Territory while in all other states council rates have been the largest source of tax.

In New Zealand, it is reported that with rates rising in Auckland, Wellington and Christchurch, older homeowners relying on pensions are under pressure. The three city councils are working together on a scheme to let older people defer rates payments and secure the debt against the equity they have in their homes. There's a growing belief among the big councils that older homeowners with sufficient equity in their homes should be able to defer their rates without having to demonstrate they are in financial dire straits. All three councils already have rates postponement schemes that allow elderly homeowners with sufficient equity to defer rates, with the debts secured against their homes. But, unlike the new plans, they are little known, little-used, and have rules which mean many older homeowners do not qualify. For example, Christchurch City Council's rates postponement policy says owner-occupiers can only use it when "they do not have the financial capacity to pay their rates or where the payment of rates would create financial hardship". With that and low interest rates on savings, it is said that councils should be looking at providing older ratepayers with affordable and easy-to-access rates deferment schemes.

In Spain, the Treasury Department is clamping down on property owners in the Balearic Islands who haven't declared building work using aerial photographs. This is part of a 4-year project covering the whole of Spain. Authorities announced that they had used a light aircraft to fly low over the islands and photograph properties to look out for unregistered extensions and swimming pools that would increase the value of the property. So far in the Balearic Islands alone some 21,652 properties have been discovered to owe taxes including 2,382 swimming pools that had been built without being taken into consideration on the valuation of the property. Spanish property owners must pay the annual IBI tax to the town hall, a payment that is calculated on the perceived value of the property. Many property owners had in fact updated their homes, adding outbuildings, swimming pools or renovations that would increase the value of their properties and yet had not declared the improvements to the authorities.

The Egyptian government has reopened the issue of the property tax law and announced that it seeks to amend it. The processes of implementing the tax law and its progress have, however, remained problematic. Arguments over the law's efficacy have become more frequent, as the majority of Egyptian homes are not registered in the Egyptian Real Estate Registration Office. The estimated value of property taxes is EGP 2.4bn, according to the minister of finance's adviser for taxes. However, this figure is still under study and must be approved by parliament before becoming effective. The ministry expects to collect EGP 1.1bn of the aforementioned figure, the minister's aide said. Efforts to impose the property tax law have been recurrent but the actual ability to enforce it has proved challenging. The first attempt to apply the property tax law, or the real estate tax law, was in 2008 but the legislation's implementation has been delayed several times since it was issued. In July 2014, the Egyptian cabinet announced that it passed the new tax law. The former minister of finance's advisor for property tax explained that the current law applies to all but "those with properties valued at EGP 2m or less". "If an owner has one private residential unit that is used for him/her or his/her family, worth over EGP 2m, he/she will pay the taxes," he continued, explaining that if the annual rental value of a property is less than EGP 24,000, there will be an exemption. By January 2016, the Finance Ministry had received about 120,000 appeals from taxpayers, challenging the property tax reports they received. Up to January 2016, around 15m taxpayers were notified of their due property taxes. By April 2016, the number of appeals surged to 127,000.

In the USA, the New Jersey Division of Taxation has notified five additional towns that it will conduct investigations to determine if they should be ordered to initiate property revaluations which have not been performed in those municipalities for more than a quarter century. The towns are South River in Middlesex County, Harrison and East Newark in Hudson County and Westfield and Winfield in Union County. The new investigations are part of a broader effort to ensure that all in New Jersey pay their fair share of the property tax burden. Last month, the Division ordered revaluations in Jersey City, Elizabeth and Dunellen after concluding investigations in those municipalities. All five towns have a Director's Ratio that is among the lowest in New Jersey. That ratio represents the relationship between the assessed value and the true value of all property. A ratio that is lower than 85 percent is considered not in compliance with the State Constitution, which requires uniform taxation. Every town except Winfield also has a Coefficient of Deviation greater than 15 percent, which is another indicator of a lack of compliance with State law. The Coefficient of Deviation is a way to analyze the relationship between assessments and sales. A high Coefficient of Deviation indicates a lack of uniformity in assessments in a taxing district and a likely need for revaluation.

Still in the USA, it has been held that it is legal under Kentucky law for county property appraisers to use digital imaging technology to examine property to help set appraisals, according to an opinion released by the attorney general's office. The use of the technology meets the law's stipulation that each parcel of taxable real property be physically examined at least once every four years, "so long as such use fairly and equitably assesses property, based on its individual physical characteristics," the opinion said. Although the exact method or usage apparently varies among some of the counties, each of them has been using digital imaging technology to supplement the staff's physical examination of property. Several use pixel resolution images capable of measuring structures from all angles and directions, the opinion said. It also said that the statutes do not define the phrase "physically examined." Therefore, they do "not require that the PVA perform an on-site examination of each parcel."

In Saudi Arabia, the Council of Ministers is expected to approve the draft executive bylaw of the law to impose tax on undeveloped plots of land in urban areas within the coming weeks. The Ministry of Housing will announce the names of the cities where the law will be implemented in the first phase during July. The weekly session of the Cabinet endorsed the law, which stipulates that 2.5 percent of the value of land will be levied as tax annually. The Cabinet had instructed the Ministry of Housing to prepare the executive bylaw in coordination with the concerned agencies. The bylaw specifies the criteria to estimate the value of a property, the time-bound program to levy tax in a phased manner, and the required regulations to ensure fair implementation of the tax system in a way preventing tax evasion. According to article 9 of the executive bylaw, taxes will be imposed on unused urban land on areas covering 500,000 square meters or more in the first phase. In the second and third phases, land covering the areas of 250,000 sq. m and more, and then the areas covering 100,000 sq. m will be taxed. Tax will be imposed on all undeveloped land with an area of 40,000 sq. m in the fourth phase while land with an area of 100,000 sq. m or more will be taxed in the fifth and final phase. Analysts estimate that 40 to 50 percent of the land inside major cities remains vacant, much of it owned by wealthy individuals or companies that have tended to hold or trade it for speculative profits rather than developing it for housing.

In France, the government has issued a strong denial after thousands of social media users circulated rumours of plans for a new tax on property owners. A post from December 2015, shared almost 150,000 times, claimed that a tax on the theoretical rental value of each person's primary residence could be implemented this year - potentially adding hundreds of euros to individuals' tax bills. The post prompted 15,000 people to sign an online petition against the idea. But the proposal was never being considered in the first place the budget minister told parliament. The Conseil d'Analyse Economique made the suggestion in a September 2013 report, noting that the way different capital gains are taxed was inconsistent and suggesting that property owners should pay more. The government hope they have now dealt with the issue.

And finally, back to the USA for what is reported to be a first-of-its-kind case where a disgruntled citizen has a hearing scheduled on the first of two property tax appeal petitions not to lower his own taxes, but to raise the property taxes on the tax assessor's home and on the home of the township attorney who he says fought him last year over what amounted to a $16 tax difference on a vacant parcel he owns. It seems that there is a little-known provision in the state law which allows any property owner in the county to file a tax appeal petition regarding any other property within the same county, whether it's their own or someone else's. The man suggested that, by filing the two cases, he is taking a stand against the establishment and a system where the deck is stacked in favor of the attorneys and public officials and against the common man or woman; an impression he says was left on him after he showed up for his first tax appeal hearing a few years ago. It will be interesting to see the outcome of this case in which "the taxpayer fights back".

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