President's Message – March 2016

Depending upon which part of the world you are in, I hope you are all looking forward to the change of seasons that will be arriving soon. I hope you are also looking forward to another year of IPTI events that will be interesting, informative and enjoyable. For a full list of our forthcoming events, please visit our website at www.ipti.org .

Starting with a brief look back at February, we were involved in a number of events with a wide variety of subject-matter.

We held a specialist workshop in Houston, Texas on the oil and gas industry which was well received by those attending. We had representatives from eight major oil and gas companies in attendance along with others who deal with property taxes for this industry. Colleagues from the Shell property tax team set the scene with a detailed overview of the recent history of the oil market and the impact of the current price slump. This was followed by very helpful legislative and litigation updates on property tax matters by a range of expert speakers from the US, Canada and Europe. IPTI colleagues led a session on multi-jurisdictional and global property tax management issues. Each of the main sessions was followed by round table break out discussions in which delegates actively participated. There was a lot of good experience and best practice sharing, together with discussions on the challenges and issues faced by the industry. It was also a good networking opportunity for those attending and demonstrated the benefits that IPTI provides.

We held two webinars during February. The first was held in partnership with the Institute of Municipal Assessors (IMA) and was concerned with "Depreciation Analysis in Property Tax Valuations". This was well-attended and our speakers provided participants with helpful insights into this specialist area. The second webinar was entitled "Working with IPTIpedia" and provided an opportunity for participants to understand more about our database of property tax systems around the world. We received very favourable feedback on these events and more are planned over the coming months.

Another event in which IPTI participated during February was a conference in St Lucia organised by the Caribbean Regional Technical Assistance Centre (CARTAC). This conference involved attendees from 20 Caribbean countries and considered, among other issues, why property tax contributes less in the Caribbean than in many other parts of the world (0.7% of GDP in comparison with the OECD average of 2.1%). Issues discussed included problems with legislation, administration, the tax base, tax rates, resource deficiencies, billing and collection problems, etc. IPTI's main contribution was to outline the need for a strategic approach to property tax reform and refer to the key components of successful property tax programs based on our experience from around the world. We will be returning to St Lucia later this year and look forward to providing further assistance to many Caribbean countries looking to enhance their property tax systems.

One of the main events we were involved in during February was the two-week course we delivered, in conjunction with the RICS and Taqeem (the valuer's organization in Saudi Arabia) on the issue of eminent domain or compulsory purchase as it is known in many countries around the world. This course, held in Riyadh, considered the law concerning eminent domain in Saudi Arabia and compared and contrasted it with similar legislation in other countries.

We also looked at international valuation standards and valuation methods and how they apply to the valuation of land acquired through the use of eminent domain. It is a very comprehensive course and is always well-received by participants as the issue is very topical, and often controversial, in Saudi Arabia. In addition to our inputs, we had some very informative presentations by various local speakers, one of the most interesting being a talk by the former Chairman of the Board of Grievances, His Excellency Sheik Ibrahim Al Hoqail, on different eminent domain issues that have been decided by the Board. This was the last of the three courses we were asked to run in Saudi Arabia, but we are looking at opportunities to deliver shorter courses on the same subject in other countries.

Interestingly, the International Monetary Fund (IMF) held a meeting in February in the Middle East at which it suggested the oil-rich Gulf Cooperation Council (GCC) nations should introduce property taxes among other fiscal measures designed to reduce their dependence on oil revenues. The IMF stated that the oil producing region, which lost $340 billion, or 20 per cent of gross domestic product, to the reduction in oil prices during 2015, should continue to invest in building tax administration capacity. The IMF also stressed that these economies need to strengthen their fiscal frameworks and re-engineer their tax systems by reducing their heavy reliance on oil revenues and by boosting non-hydrocarbon sources of revenues. Although not directly connected with this issue, Saudi Arabia is introducing a "white land tax" which is a property tax to be applied to undeveloped land in the main cities intended to stimulate development.

IPTI has been approached to participate in a project that the UN FAO has recently commissioned. In support of the Voluntary Guidelines of the Governance of Tenure, the UN FAO is publishing a series of technical guidelines, one of which will provide guidance on valuation. Broadly speaking, the aim is to identify valuation issues that are pertinent to tenure governance, and provide direction on developing and reforming valuation systems to enable appropriate valuations to be undertaken. The guide will have relevance to Governments, the private sector and civil society organisations representing those with legitimate tenure rights on valuation and compensation. We have confirmed that we are willing to participate in this project which has only just started. It is likely to involve a number of experts providing comment on the guidelines as they take shape and contribute country-specific examples to illustrate the valuation issues that typically arise. Later in the year it is planned to hold a two-day workshop in order to discuss some of the issues in depth and, hopefully, form a consensus as to how they might be presented in the valuation guidelines.

With regard to other IPTI projects, we have just sent off our report relating to an audit of a recent revaluation carried out by a major municipality. Although we made a series of recommendations to improve future revaluations, our audit found that the latest revaluation had been carried out to a good professional standard.

We are currently putting the finishing touches to a report we are preparing in respect of a revaluation and list revision process review that we are undertaking in partnership with the UK Institute of Revenues, Rating and Valuation (IRRV). We will be making a joint presentation to the client of our findings and recommendations early next month.

Looking ahead, I will be speaking at what promises to be an interesting meeting in London, UK. This is an event organised by the British Retail Consortium (BRC) and will be looking ahead to the impact of the forthcoming revaluation of non-residential properties in the UK event which is due to come into effect in 2017. In addition to the impact of the revaluation, the meeting will discuss a range of other current issues concerning business rates (the UK property tax relating to non-residential properties). The UK government is due to publish its response to recent consultation on some of the key issues in the Budget which will be unveiled by the UK's Chancellor of the Exchequer in March.

Business rates in the UK will also focus in the seminar we will be holding in conjunction with Landmark Chambers in London in April. This event is when the legal "glitterati" join us for an insight into recent litigation in the UK and this year promises to be very interesting as there have been a number of important decisions made by the courts and tribunals.

We have two interesting events coming up in May; both will be held at Niagara Falls in Ontario, Canada. The first is another in the series of Ontario Property Tax Summits that we have been running for several years. Immediately following the Summit will be our annual Mass Appraisal Valuation Symposium which is set to be a very interesting and informative event. Again, full details of these and other events are on our website.

Looking further ahead we have now confirmed that the next RICS-IPTI Annual Caribbean Valuation and Construction Conference will be held in St. Lucia, West Indies on November 9-10, 2016. The conference will be held at the Bay Garden Hotel, Rodney Bay Village, Gros Islet, St. Lucia. We have sent out an "expressions of interest" notice and anticipate a very good response.

Now it's time to take a quick look around the world at what is happening in connection with property taxes in selected countries.

In Egypt, it is reported that the Supreme Constitutional Court has accepted a petition to challenge the recent property tax law. The 2008 law allegedly violates five constitutional articles concerning the private property of Egyptian citizens, says the lawyer who filed the appeal. He said that the administrative court decision allows him to challenge the law before the Supreme Constitutional Court within three months of the date of their ruling. Meanwhile, the administrative court has scheduled a hearing for May to determine whether or not to suspend this law on the grounds that it is unconstitutional.

In Belarus, a unified real estate tax may replace the current land tax and real estate tax according to the Deputy Chairman of the State Property Committee of Belarus. It is reported that a pilot project is in progress to form and evaluate the cadastral value of real estate in Kobrin District, Brest Oblast and Sovetsky District in Minsk. The main purpose of the project is to evaluate the advisability of calculating the real estate tax on the basis of the cadastral value of real estate assets. The pilot project is supposed to produce cadastral values of land plots and their inseparably associated real estate assets. The Tax and Duties Ministry will use the data to offer rates of the real estate tax instead of the individual land tax and real estate tax that exist at present. As part of the pilot project the necessary aerial photos were taken in 2015. Unified real estate assets (land plots and capital structures on them) were formed. Information was collected about real estate assets that were involved in deals from 2010 through August 2015. Software for automating all the processes was developed. Experience of colleagues from Latvia and Lithuania was taken into account. The decision on the advisability, the timeframe, and the technology for doing the same operations nationwide for the sake of gradual reformation of the real estate system is supposed to be made in late 2016.

The Croatian Prime Minister has announced a new property tax for 2017, which will create bills for people with more than one home, or who do not use their real estate. "When one taxes a single property, it's a social category, but when a second, third or fifth property are taxed, then it is an economic category," he said. The government wants to get cash from people with more than one item of real estate in which they do not live or rent out for private enterprise. Many people in Croatia have holiday homes, mostly on the coast. A local economic expert said "What he has announced is unconstitutional - taxing unused real estate. There used to be a law that taxed unused real estate and agricultural land and it was annulled by the constitutional court," he concluded. But another economic expert said the court ruling was not an obstacle to such a tax being introduced. "We're talking about a type of tax that is standard in the EU and is recommended by the EU. If there are any legal obstacles to such a law, they should be removed," he said. The IMF supported introducing a real estate tax in Croatia back in November 2013. In the EU, only Croatia, Malta and Luxembourg have no real estate taxes, while only Croatia has no taxes that serve as a substitute for a real estate tax.

In South Africa, the City of Johannesburg has to consider the current economic conditions property owners are facing as it embarks on its property Rates Policy Review process for 2016/2017 period. The policy, which is reviewed annually, defines and categorises all properties within Joburg and allows the City to generate rates revenue by assigning a tariff to the property values obtained in the General Valuation Roll. A spokesman said the Rates Policy Review process is done with consideration to the following factors: recent interest rates hikes; the resultant reduction in disposable income; the current high cost of living; a slowdown in economic growth; an increase in property owners depending on social assistance; and businesses requesting more rates relief. He pointed out that they also needed to ensure that tariffs were equitable, affordable to residents and in the best interest of all property owners to get involved and help to craft City of Joburg's Rates Policy for the next coming financial year.

Staying in South Africa, Cape Town is a “trillion-rand city”, according to the latest municipal valuation of property in the city. The value of the city's 719,681 residential and 31,296 commercial properties increased by 27% between 2012 and last year, to R1.156-trillion, the City of Cape Town said. The deputy mayor said property owners would be able to see individual valuations online or at one of 17 venues across the city. Rates bills will be based on the new valuation from July 1. The proposed "rate in the rand" would be tabled at the end of next month.

In India, having reached the Rs 1,000-crore mark of revenue collection through property tax in 2015-16, the Pune Municipal Corporation (PMC) administration is trying to increase its revenue further, by once again attempting geo-enabled property tax assessment survey of properties within its jurisdiction. A spokesman said that the PMC wants to bring in transparency in tax collection and reduce leakages in revenue by using modern computer technology. In line with this, it would soon undertake the ambitious project of GIS-based property tax survey in the city. “It will be a door-to-door property assessment survey and GIS-based property mapping, which would ultimately improve revenue collection,” he said. The PMC had launched an amnesty scheme for defaulters with 75 per cent discount in penalties if they pay up by February 11, and 50 per cent discount in the penalties if the payment is made by March 11. The PMC had 2.52 lakh defaulters before the amnesty scheme was launched, he said, adding that the scheme would continue for a month and the civic administration is hoping that maximum defaulters take advantage of it.

Staying in India, the Greater Chennai Corporation has suspended the system of allowing residents to assess their own property tax, claiming that many residents have failed to provide the right dimensions of their properties for assessment of tax.

Residents who tried to carry out a self-assessment of property tax online have not received the services for the past few days. Due to the suspension, tax assessment orders are likely to be issued only after field inspection of the property is completed.

The Council passed a resolution last year and started self-assessment of property tax, facilitating tax payment within a few minutes of submitting the request. More than 8,000 buildings have been included in the property tax net through self-assessment so far. Residents of all the zones were able to calculate on their own the property tax they need to pay to the Chennai Corporation, without meeting government officials. The data collected by residents, with the help from licensed surveyors to measure their homes and commercial buildings, was fed online for self-assessment. But Corporation officials claimed that much of the data was wrong so the system has been suspended.

In Australia, a leading property academic believes housing affordability in Australia could be improved by the government moving to tax owner occupiers in a similar manner to property investors. The latest Housing Affordability Report from the Housing Industry Association claimed that affordability in Australia reached a three-year low over the December 2015 quarter. The academic stated “Contrary to popular belief, income tax doesn’t tax wealth, it taxes aspirations. Whereas property is wealth, so property taxes are actually taxes on wealth rather than aspirations… My suggestion is to move right away from taxing income – and the expensive administration of taxing income and policing it – and moving to a much more simplistic and egalitarian taxation on property." He went on to say "The OECD put out a report a few years ago where they empirically explored the link between different classes of tax – property taxes, consumption taxes and income taxes – and GDP growth and they found that property taxes were the most GDP growth friendly of the lot and income taxes were the least GDP friendly of the lot," he said. He is pressing for land tax to be payable in respect of owner-occupied houses which are currently exempt.

In Argentina, the national government is considering to raise the threshold to pay property tax, a levy that hasn't been updated over the last nine years. The President said "We are working to increase the property tax floor. People who only have a home for their family are affected by it and that's wrong," he said. The property tax was created in 1991 as part of the Economic Emergency Law and has been extended every year since then. People who have more than 305,000 pesos in cash or properties are affected by the tax and as the figure was never increased, the number of people who have to pay it has continually increased. While in 2010 a total 606,000 affidavits were filed to pay the tax, the amount reached 907,000 last year, according to AFIP tax bureau. The assets affected by the tax include art, vehicles, real estate, cash, foreign currency and bonds, among others.

In Russia, the 32nd provision of the Tax Code of the Russian Federation came into force on January 1st. It introduces a new method of individual property tax assessment. Citizens must pay taxes on land and apartments according to their cadastral value. The tax is assessed with interest of less than 0.3% of the cadastral value of an apartment, garage or car parking place, and will grow by 20% annually. Thus, by 2019, it will grow by up to 2000 roubles. The Chairwoman of the Federation Council of the Federal Assembly of Russia, explained that the system that was implemented for many years was a system in which the location and quality of the housing were not taken into account, and was clearly outdated. Today the transition of calculating the tax on the property of individuals on the basis of the cadastral value is proceeding quite fast. Since last year the new system was introduced in 28 constituent parts of the Federation, this year another 21 regions joined. She said that a property tax on the basis of the cadastral value of property started to work even earlier, in 2014. But she added, it should be clearly understood that the transition taking place today bears not only a fiscal, but also, first and foremost, a social function. At the legislative level the federation establishes the right to vary the rate of the property tax for legal entities and individuals within the specified values.

A recent report states that Singapore has one of the world's steepest property taxes with tax costs making up over 20% of property prices. The report showed that tax costs equate to roughly 19% to 20.5% of a property's sale price assuming the asset is held for a five-year period. The largest tax costs are the stamp duties, namely the Buyer's Stamp Duty and the Additional Buyer's Stamp Duty, which are payable upon purchase of the property. This analysis excludes the Seller's Stamp Duty, since the property holding period in Singapore is over four years. Taxes on unfurnished residential properties will also be lower as these assets are not subject to Goods and Services Tax (GST). In Asia, only neighbouring Hong Kong has higher taxes than Singapore. Property tax costs in the territory equate to 23.2% to 22.4% of property prices, mainly because of steep stamp duties imposed on foreigners.

In the UK, a new study claims more than £86m a year could be spent on social and affordable housing if a new 10 per cent tax levy was imposed on luxury London homes. Carrying out the study, a group of researchers looked at the elite enclaves in London where the global super-rich are investing in property. Research suggests overseas buyers dominated the London property market in recent years - and academics say imposing a higher band of council tax claim for the wealthy global elite could be redirected to help those who need social housing. Leading academics calculated properties in London worth £5million and over sold for some £5.2billion between 2011 and 2013, with overseas buyers accounting for more than half of those sales. The professor leading the study said the country needed a 'billionaire bonus fund' with money from this pot being poured back into social housing.

In the USA, there are calls to abolish property taxes in Texas. "Texas' harsh property tax climate is creating serious financial hardship for homeowners and businesses all across this great State," said the Texas Public Policy Foundation (TPPF). "And without reasonable limits on how fast property taxes can grow, the problem only gets worse by the day. Local property tax bills continue to soar past sound economics. From 2000 to 2013, research shows that local property taxes rose by 101 percent, yet population and inflation grew just 70 percent." According to the TPPF there are some solid arguments for abolishing the property tax and replacing it with a modified consumption (sales) tax. First, they say, the property tax undermines fundamental property rights. The power to tax is the power to take. It's common for taxing entities to seize property for unpaid taxes, then sell that property. Government shouldn't have that power. "Property taxes do not allow flexibility in the face of financial hardship," the TPPF pointed out. "Individuals are required to pay tax based on a prior purchase and the existence of an illiquid fixed asset, regardless of their current income or cash holdings. Property taxes are based on the value of land, which can fluctuate independent of a person's actions. A spike in property value can quickly outstrip the owner's ability to pay, pricing family out of land even if they've owned it for generations." Next, the property tax system lacks transparency. More than 4,000 localities levy property taxes, obscuring from taxpayers exactly who is responsible for raising them, how that money is spent, and whether any increase was necessary," the TPPF contended. Finally, they say property taxes are a cumbersome, wasteful way to pay for government services.

And finally, staying in the USA, the famous Madison Square Garden (MSG) in New York hasn't paid property taxes in over 30 years. Built in 1968, MSG is now the oldest arena in both the NBA and NHL, but it almost didn't make it to its twentieth birthday. In 1982, noting the flurry of sports teams then moving to New Jersey, the then owners threatened to have the Knicks and Rangers move across the Hudson if the city didn't chip in for a renovation. The mayor acquiesced, and soon enough MSG had a full property tax exemption providing about $5 million a year for the next ten years. Or at least that's what the mayor said he thought he was approving. "I went to bed that night believing it was a ten-year abatement," the mayor said in 2002. In his recounting, after the bill made it through the state legislature, he discovered that no one had bothered to insert a sunset date for the tax exemption. There's some evidence that the mayor may have been confusing a clause requiring the teams to stay put for ten years with the length of the abatement; whatever the reason, 34 years later, MSG Garden remains 100 percent tax-free. The MSG tax break has become "the gift that keeps on giving", having now saved the owners some $391 million in city taxes over those 34 years; it is set to provide another $48.5 million (and rising) per year forever, according to the city Independent Budget Office (IBO). In the IBO's annual Budget Options document, which lays out ways the city could save money if it put its mind to it, the MSG tax break always has a place of honour. This year's edition notes, "The Knicks market value is $2.5 billion, nearly five times its 2000 value (in 2015 dollars), while the Rangers value has tripled over the same period, indicating the teams are no longer economically disadvantaged." Ability to pay? Hmmm!

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