



President's Message – October 2015

I am very pleased to start this newsletter by announcing the appointment of Larry Hummel as our new Director, Assessment Services. For many years, Larry was the Chief Assessor for the Municipal Property Assessment Corporation (MPAC) in Ontario, Canada; MPAC is the largest assessing jurisdiction in North America. In his new role with IPTI, Larry will be directing and coordinating a broad range of assessment services to our key stakeholders - governments, taxpayers and professional organizations. Larry has worked with IPTI for many years and is well-known to many members and other colleagues. Larry will bring his considerable experience and expertise to the organization for the benefit of all who work with him.

Regular readers of my newsletter will be aware that we have appointed several new Directors over the last few months. IPTI now has the following new directors:

- Larry Hummel – Director, Assessment Services
- Phil Western – Director, Strategic Initiatives, Australasia
- David Wilkes – Director, Corporate Services
- Mike Blaschuk – Director, Strategic Initiatives
- Colleen Vercouteren – Director, Training
- Jan Brzeski – Director, Research

Each of our new Directors brings to the organization a wealth of knowledge and experience about different aspects of property tax which has increased IPTI's capacity and capability.

I am writing this month's newsletter from Adelaide, Australia, where I have been attending the annual conference of the Australasian Council of Valuers-General (VGs). I was invited to the conference partly to present IPTI's draft report on a benchmarking study that we were commissioned to undertake by the VGs, and partly to provide an update on property tax issues around the world. My IPTI colleague, Phil Western, also made a presentation to the conference on engaging with stakeholders.

Looking back over September, IPTI held a workshop in New York on 10 September entitled "Property Taxes: a Curse or a Path to Sustainable Real Estate Growth and Profitability". This workshop was a joint event held in conjunction with the European American Chamber of Commerce (EACC) and the Council on State Taxation (COST). The main focus was on issues that are topical in the USA and New York in particular, but I spoke about a number of issues concerning property tax in the main countries of Europe. It was a well-attended event and involved some lively dialogue between the presenters and the audience. We are planning further events with both COST and the EACC.

Immediately after the workshop, we held a meeting of IPTI's Corporate Advisory Committee (CAC) which looked at a number of issues of particular interest to our corporate members. We also considered a draft paper on IPTI's Corporate Services which CAC members were invited to comment on. This paper will be published on our website once it has been finalized.



I moved on from New York to Indianapolis where I attended the IAAO's Annual Conference which is a four-day event with a wide variety of educational sessions designed to meet the needs of the large number of attendees. I participated in a number of sessions relating to international issues and my IPTI colleague, Ruel Williamson, gave a presentation on the best use of modern technology in property tax systems; this was a very interesting panel session which attracted a large audience.

Ruel Williamson also presented a webinar for the IAAO on 23 September on the issue of the use of external auditors in municipal assessment. This covered the need for external audit of the reassessment process and outcomes; it also covered legal issues involved in external audits and looked at the detailed aspects of an external audit. IPTI has considerable experience of undertaking independent, external audits of revaluations and other aspects of property tax systems, and we have recently been engaged to perform another audit exercise which we will be initiating shortly.

On leaving Indianapolis, I went to Toronto where we had some important meetings with IPTI colleagues. One of those meetings considered a new service that IPTI intends to offer which relates to independent, expert mediation in connection with property tax disputes. This builds on the work we are already doing in connection with independent facilitation between assessing agencies, taxpayers and other stakeholders where IPTI has been able to create a neutral environment within which parties can come together to discuss their respective positions.

Extending this facilitation process, which normally applies prior to a revaluation or reassessment, to the appeal situation arising after the introduction of new valuations, to mediation is a natural progression. Our view is that many parties may prefer the option of the type of independent, expert mediation that IPTI can provide to explore the prospect of reaching agreement without the confrontation, cost and delay that often accompanies the traditional appeal/litigation process.

Looking ahead, I am due to leave Adelaide on 2 October for Saudi Arabia where I will be delivering a two-week training course starting on 4 October on the subject of eminent domain, or compulsory purchase as it is known in many countries. This course is being organized by the Royal Institution of Chartered Surveyors (RICS) in conjunction with a Saudi organization known as Taqueem and will be held at a training centre in Riyadh.

Also in October, we will be holding a two-day workshop in Ljubljana, Slovenia entitled "Modernizing Property Taxation in Transition (CEE) Countries". A particular problem has arisen in Slovenia where the Constitutional Court has held that the recent introduction of a new property tax system is unconstitutional. Other countries in Central and Eastern Europe (CEE) are concerned about similar issues and IPTI has been invited to hold this workshop to explore the issues. Attendance at the workshop, to be held on 8-9 October, is by invitation only and it promises to be a particularly interesting event.



Looking a little further ahead into November, IPTI will be facilitating a number of meetings being organized by MPAC in different parts of Ontario. This is part of MPAC's "advance disclosure" process where they invite representatives of the owners and operators of large, special-purpose, industrial properties (e.g. car manufacturing plants, oil refineries, pulp and paper mills, etc.) and other stakeholders (e.g. municipalities) to discuss the forthcoming reassessment. This will be the second round of such meetings and will focus on the draft "market valuation reports" prepared by MPAC and sent out to the industries involved.

I then fly to Montego Bay, Jamaica where IPTI and the RICS are holding a joint annual valuation and construction conference on 18-19 November. This conference, entitled "Challenges and Recent Developments in Valuation and Construction: Adaptation, Innovation and Best Practices", covers a wide range of issues of interest to property assessors, valuers and surveyors across the Caribbean and further afield.

I then fly back to Toronto for the training course IPTI is running jointly with the prestigious Osgoode Hall Law School on giving evidence as an expert witness in property valuation disputes. This course is always popular and this one is a sell-out which shows how much interest there is in this important topic.

I should add that the workshop on oil and gas we were planning to run in Houston, Texas in November has had to be moved to 11 February 2016. This workshop will be of particular interest to corporate organizations involved in the oil and gas industry; details are available on our website.

Now, it's time for a quick look around the world at what is happening in relation to property tax systems in selected countries.

I must start with the Netherlands where we held our very successful MAVS earlier this year. The Special Act for Real Estate Assessment regulates that all real estate property must be appraised on an annual basis. Municipalities determine the assessed property value. The property tax value is used for a variety of purposes. Banks and insurance companies, for example, are using assessed values as a reliable indication for providing mortgages. Likewise, the assessed value is becoming more and more of a benchmark when acquiring real estate property. Each year complaints and appeals can be made against the value but, until now, it was only possible to file a complaint against an over-estimated value. The idea behind this was that the owner would only be concerned if the value is set too high. However, for owners who are putting their house up for sale, it can also be disadvantageous if the assessed value is estimated too low. Therefore the Act has been changed and, from 1 October 2015, it will also be possible to file a complaint or appeal against an assessed value that is considered too low.



In the UK, business groups and rates experts are concerned about the Government's "tweaks" to business rates legislation proposed in the new Enterprise Bill. This, it has been said, will act as a "barrier to justice" for many businesses seeking to appeal. Commentators say that the Government is seeking to discourage business rates appeals from being made by introducing an upfront fee. The bill also proposes a "civil financial penalty" on any firm that "knowingly, recklessly or carelessly provides information, which is false in a material particular". Experts say this could catch out innocent business owners who are confused by the opaque property tax system. One senior commentator said "Their primary aim seems to be reducing the number of appeals by making the process more difficult, rather than by addressing the underlying issues, in particular, making the appeals system and the Valuation Office Agency more transparent. If increased transparency is not delivered, then confidence in the business rates system will continue to be undermined." However, a spokesman for the Department for Communities and Local Government said: "The Enterprise Bill will benefit businesses by speeding up the appeals system and making it easier to navigate. This will ensure businesses receive reductions in their rates more rapidly. We will be consulting shortly on our proposals."

In the USA, concerns continue over the impact of the so-called "dark stores" issue which has resulted in substantial reductions in the property tax valuation of large "big box" retail units in various states. This issue was discussed at length during the IAAO conference I attended, particularly as it is a live issue in Indiana where the conference was held. Put simply, the issue is whether a large retail unit should be assessed by reference to the cost of its provision or having regard to the sales evidence derived from transactions concerning empty (i.e. dark) retail units which tend to be at much lower figures. In some cases, the assessor's valuations have been substantially reduced on appeal which, in turn, has resulted in large property tax refunds and concerns over the revenue which funds schools and other local facilities.

In Australia, debate continues on ways to make state taxes fair and more efficient. One idea that is being widely discussed is to replace conveyance duty on property sales and current state land tax with a reformed comprehensive land tax. Stamp duties are levied at a progressive rate on transfers of property, including land value and buildings, and can be up to 7 per cent. There are many problems with these duties; they are said to be the most inefficient tax according to the government's tax discussion paper released in March. They act as a barrier to the transfer of commercial and residential property from less valuable to more valuable uses and they are an additional indirect tax on buildings. The current exemption of land tax for the home distorts the mix of housing supply. Much of the tax on rental housing is passed on to tenants as higher rents, making housing less affordable. A broad-based land tax with a flat rate is considered to be the least distorting of all general taxes, and it can raise stable and substantial revenues to fund state services. Local government rates provide a good foundation for a reformed broad-based land tax. To make life simpler, state governments could put land tax and rates on the same return. As the Grattan Institute recently argued in its property tax paper, a doubling of current local government rates would replace the revenue of stamp duty and current state land taxes.



In France, there is reported to have been an average increase in the property tax rates applied by councils of about 1.8% this year. However, there are some big differences in different parts of the country. In Lille, the rate of *taxe foncière* is up 23.3% compared to last year, while it is also up in Toulouse, at 15%, where the council is increasing both main taxes by the same amount. Lyon sees a rise of 6.2% and there are rises of 4.9% in Marseille and of 5% in Bordeaux where the council says lower grants from central government are to blame. However, in many other towns, such as Paris, Perpignan, Rennes, Nantes, Rouen, Nice and Montpellier, there is no change from last year. *Taxe foncière* is usually paid by whoever owns a building or land on January 1 of the year the bill arrives. It is split into *tax sur les propriétés bâties* (buildings) and *sur les propriétés non-bâties* (land – other than gardens attached to houses – such as building plots). This year the tax on building land has been increased by 25% plus €5/m² in a number of larger cities considered to have housing pressures, in a bid to encourage people to sell the land or build on it. Bills for the other main French property tax, *taxe d'habitation*, will be going out shortly.

In Indonesia, following residents' complaints over the increase of property tax (PBB), the Jakarta administration is set to scrap the tax for property valued below Rp 1 billion (US\$70,295). The Governor said that such a policy would be introduced next year to "relieve the burden on lower-middle income residents." Early last year, the city administration significantly increased the taxable value of property (NJOP) by between 120 and 240 percent. The property tax increase sparked an outcry among homeowners. The authority to collect PBB was transferred to the city administration by the central government in November 2012, allowing the city to collect land and building taxes for its sole use, instead of sharing them with the central government as it had done in the past. Currently, Jakartans who own land and buildings worth less than Rp 200 million must pay 0.01 percent of the value in property tax, while owners of property worth between Rp 200 million and Rp 2 billion must pay 0.1 percent in property tax. Those who own assets worth between Rp 2 billion and Rp 10 billion must pay 0.2 percent, while the capital's richest inhabitants, with property worth Rp 10 billion or more, must pay 0.3 percent.

In Azerbaijan, revenue from taxes on real estate has risen by 6.5 percent in the first half of 2015 compared with January-June 2014. A spokesman said, "The growth in revenues can be traced to many regions and cities of Azerbaijan. For example, revenues from property tax in Ganja grew by 88.9 percent and in Jalilabad by 99.3 percent." He added that, until the end of the year, Azerbaijan expects even more growth in property income tax revenues. "Municipalities need to mobilize all resources to collect taxes. The experience of those municipalities that have achieved success in this matter should be used. We need to instill a culture of payment of local taxes in the population," he said. Since January 2015, individual property tax in Azerbaijan has been paid depending on the area of the privately owned building; previously, the tax was levied at the rate of inventory value of the building. In accordance with the amendments to the Tax Code, approved last year, property tax is calculated for each square meter area exceeding 30 square meters.



The Ukrainian Ministry of Finance proposes changes to the taxation of property within reform of the country's tax system by introducing a tax on all houses and apartments, as well as industrial and warehouse facilities. According to a report, apartments having area over 300 square meters and residential houses over 500 square meters in area will be taxed at a flat rate of UAH 25,000 per year. A new Tax Code came into force in Ukraine on 1 January 2015, according to which the property tax is levied on apartments over 60 square meters in area and houses over 120 square meters in area, while the tax does not exceed 2% of the minimum wage for one square meter per year.

Moving on to China, property tax was not contained in China's legislation work plan for 2015. Despite being absent from this year's legislation agenda, China has apparently put property tax on the legislature's future work agenda. An expert from the China Academy of New Supply-side Economics estimated that the earliest the property tax law could be considered by Chinese legislators would be in 2017.

And finally, an update on an unusual case that was mentioned in a previous President's Message. This involved a house in Nova Scotia which had its assessment reduced from \$253,000 to \$1 by a provincial tribunal on the grounds that the discovery of a Mi'kmaq burial site and artifacts within the site severely limited the owner's ability to sell the property. The owners of the home and Property Valuation Services Corporation, the organization responsible for assessing property in Nova Scotia, reached a settlement before the disputed valuation went to a hearing of the Nova Scotia Utility and Review Board. At a pre-hearing settlement conference, market data was reviewed showing that the presence of historical artifacts, including graves, in similar situations had not affected sales. "The parties have therefore concluded, and the board agrees, that the presence of artifacts in the present circumstances results in no perceptible stigma with respect to market value," said a board member approving the settlement. The house and property are now assessed at \$292,700.

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