# President's Message – October 2016

As we all know, revaluations are a very important part of property tax systems and this month, by coincidence, is significant as it marks the time when the world's two largest assessing agencies publish the results of their latest revaluations.

In the UK, the Valuation Office Agency (VOA) - which is the world's largest valuation agency with around 3,500 staff - published their draft rating lists containing the new valuations (rateable values) relating to non-domestic properties that are due to come into effect on 1 April 2017. The current rating lists, containing just under 2 million non-domestic properties, came into effect on 1 April 2010 with an antecedent valuation date (AVD) of 1 April 2008. A great deal has happened since 2008 so ratepayers and their professional advisors are keen to see how the value of their properties has changed and what this means for their property tax (business rates) liability. I should add that the VOA deal with property taxation in England and Wales; the revaluation of non-domestic properties in Scotland - which is on the same timetable as England and Wales - is dealt with by the Scottish Assessors.

In Ontario, the second largest valuation agency in the world - the Municipal Property Assessment Corporation (MPAC) which has around 1,500 staff - are putting the finishing touches to their 2016 reassessment (revaluation). MPAC have reassessed some 5 million properties as their reassessment relates to both residential and non-residential properties. The AVD for the 2016 reassessment is 1 January 2016 and the new values come into force on 1 January 2017. MPAC have been sending out notices of their new valuations on a phased basis throughout 2016 so there is not the same "big bang" approach to publication of the new valuations as there is in the UK. However, property taxpayers in Ontario and their professional advisers have obviously been very interested in the outcome of MPAC's reassessment. Ontario carries out reassessments every four years, so the previous reassessment took place in 2012. MPAC deliver (return) their new assessment rolls to Ontario municipalities in December 2016.

Both the VOA and MPAC recognise the importance of effective communication with property taxpayers and other stakeholders, particularly at a time of revaluation/reassessment, and it is interesting to see how the two organisations have gone about keeping taxpayers and others informed about progress with - and the impact of - their new valuations. Improving transparency and awareness through an appropriate communication strategy is key to success in connection with revaluations, so it will be interesting to compare the reaction of taxpayers/ratepayers in the UK and Ontario to the publication of the new valuations.

It was also a fortunate coincidence of timing that the senior leaders of both the VOA and MPAC joined other valuation agency officials at the Commonwealth Heads of Valuation Agencies (CHOVA) conference held in Scotland at the beginning of September. This conference, that was hosted by the Scottish Assessors' Association and run in conjunction with the annual Scottish Conference of the Institute of Revenues, Rating and Valuation (IRRV), enabled speakers from around the world to share their experiences of revaluations, use of technology, data security, valuation issues, and many other topical aspects of operating property tax systems. Leaders of both MPAC and the VOA spoke about their experiences of carrying out their latest reassessment/revaluations and how they had dealt with some of the challenges they faced. I was also pleased to see colleagues from the Property Valuation Services Corporation (PVSC) in Nova Scotia at the conference; one of their speakers talked about the benefits they derived from the recent IPTI certification process.

At CHOVA 2016 I was invited to speak on the topic of self-assessment for property tax which, as many readers will be aware, has been used in some cases for residential properties - for example in Ireland - but is much more challenging in relation to non-residential properties. However, the possibility of using self-assessment for non-residential properties is among the issues on which the UK government is currently consulting, so it will be interesting to see if they propose to take it forward in future.

Having mentioned Ireland, I was also pleased to see colleagues from both Northern Ireland and the Republic of Ireland speaking at CHOVA 2016. It was particularly timely to hear what the head of the Irish Valuation Office (IVO) had to say about managing change as IPTI and the IRRV have recently completed a process review of the important work that the IVO does in connection with revaluation and revision (roll/list maintenance between revaluations). The report we issued to the IVO was distributed throughout the organisation and was followed up by a presentation to all staff made by IPTI and the IRRV at the end of September in Dublin. I was at these meetings to represent IPTI and spoke about international best practice in dealing with the work of valuation agencies relating to property tax. In particular, I was referring to the need to make best use of the available technology to support the valuation functions of valuation agencies, but emphasising that making greater use of automation needs to be combined with other changes to obtain the maximum benefit.

Looking back over September, we have been involved in a number of other events. One of these was a two-day property tax workshop held in the USA at Minneapolis in mid-September. This workshop was held by the Council on State Taxation (COST) in partnership with IPTI. As usual, there was a large number of speakers presenting on a variety of property tax issues. Many jurisdictions and taxpayers continue to deal with the so-called "dark store" issue which relates to the use of appropriate comparables when valuing big box stores. There were discussions about recent legislative changes around the US and Canada, tax credits and incentives. The workshop also included a review of the COST/IPTI property tax scorecard. IPTI's main role was to inform the workshop about property tax updates from outside the USA. There was also a lively "mock trial" and legislative advocacy "skit" which was very topical in view of the number of attorneys in the room! It was acknowledged that many assessing jurisdictions are doing a better job with transparency, but consistency, predictability and fairness are the issues with which taxpayers are primarily concerned.

We also held two webinars during September. One was focussed on the use of IPTIpedia, our international property tax database. The other, run in partnership with the Institute of Municipal Assessors (IMA) was concerned with the valuation of office buildings. I was the moderator for this webinar which was well-attended and dealt with some very practical issues which I hope all participants found useful.

The final event in which we participated last month was a "Real Estate Forum" meeting held in New York in partnership with the European American Chamber of Commerce (EACC). This was another interesting event which involved discussion of both property tax and wider issues concerning property.

Looking ahead, we have a number of interesting and important events coming up. In October we are holding a one-day workshop in Toronto on the role of mediation in property valuation disputes. This workshop will involve a number of experts sharing their views on the effectiveness of mediation as a form of dispute resolution. We will also be holding another IMA/IPTI webinar on property tax policy.

In November we have our annual Caribbean valuation and construction conference. This event, held in partnership with the RICS, is taking place in St Lucia and will be very popular as it covers a wide range of topical subject-matter and has a very impressive list of experts. Also in November we have another IMA/IPTI webinar, this time looking at identifying and quantifying functional and external depreciation.

Another event in November is a breakfast meeting we are holding jointly with the RICS in Toronto. This will be the 6th annual RICS/IPTI property tax seminar and will be looking at the immediate future of property tax in the province.

In December we have another IMA/IPTI webinar on the topic of preparing for litigation. I will be one of the presenters of this webinar and will be joined by an attorney who is a well-known legal expert with a great deal of experience of dealing with property tax litigation.

Looking a little further ahead into 2017, we have a number of webinars already arranged with more to follow. In February we are holding another in our series of oil and gas workshops for the corporate sector in Houston, Texas. We also have our annual mass appraisal valuation symposium in Sydney, Australia which will be taking place on 9-10 May 2017.

As always, more information about these and other events is available on our website: www.ipti.org

I am pleased to announce that Phil Western, IPTI's Director for Australasia, has been appointed to the Board of the International Valuation Standards Council (IVSC). The IVSC is an independent organisation that produces and implements universally accepted standards for the valuation of assets across the world. The IVSC consists of representatives from a wide range of sectors, including professional valuation institutes, global accounting firms, valuation practitioners, standard setters, regulators and academia. I met Phil in the UK at the end of September when he was visiting London for his first meeting of the Board. There are eight international Board members with representatives from China, Japan, Britain, Canada, Singapore, Romania, Netherlands and Australia.

Now for a quick look at what issues are making headlines in relation to property tax in selected countries around the world.

In Thailand, the land and buildings tax is expected to head to the National Legislative Assembly (NLA) for deliberation next month says the finance permanent secretary. The draft land and buildings tax is pending review by the Council of State, which agrees with its major planks, including tax exemptions for both first homes and farms with appraisal prices below 50 million baht, as well as the ceiling rates, he said. The bill sets ceiling rates of 0.2% of appraisal value for land used for agricultural purposes, 0.5% for residences, 2% for commercial use and 5% for vacant or undeveloped land. The tax will be levied on first homes and land used for agricultural purposes with appraisal prices starting from 50 million baht, with the rate applied to the amount exceeding 50 million baht. The tax will also apply to second homes on a progressive basis, with rates of 0.03% to 0.30% for homes appraised at less than 5 million baht to more than 100 million baht. For vacant or undeveloped land, the tax rate will be imposed at 1% for land left vacant or unused for one to three years, 2% for four to six years and 3% for more than seven years.

In Jamaica, a new property tax system to get rid of the transfer tax and stamp duty now charged is to go before the Cabinet for approval in December as one of two new structural benchmarks under Jamaica's four-year loan programme with the International Monetary Fund (IMF). The IMF stated in its latest country report on Jamaica's economic reform programme that "there is scope to strengthen the property tax system and phase out the distortionary stamp duty and asset transfer tax". According to the IMF, the annual property tax yielded on average about 0.4 per cent of gross domestic product over the last three years, well below the average yield of 0.8 per cent in other emerging markets. "The authorities," the IMF said "are examining how to strengthen property taxes, which are shown to be more progressive and efficient. In this regard, new and recalibrated property tax rates and bands will be submitted to Cabinet by end December. The higher yields from property taxes could provide room to replace the more distortionary stamp duty and transfer tax."

A new property tax in Portugal will ward off potential investors, a hotel association in the city of Algarve said. "At a time when residential tourism is one of the few sectors where investment is growing, namely foreign investment, a measure of this nature will cause huge apprehension among economic agents and potential national and international investors" the association said in a statement. The new tax also reflects a lack of understanding regarding the importance of tourism activity for the Portuguese economy, the association pointed out.

Moving on to the USA and nearly four decades after its passage, California's Proposition 13 is still a contentious political landmark. To some, its property tax limit and restrictions on raising other taxes are bulwarks protecting Californians from rapacious demands for more spending. To others, Proposition 13 is the "devil's work", starving education, health and social programs of badly needed support and fostering economic injustice. However, it is reported that many of those debating it really don't understand how it has affected state and local finance. The Legislative Analyst's Office stepped into the void recently with a booklet that delves into the many "common claims about Proposition 13" with facts and analysis about each. The LAO's analysis separates fact from fiction about the split-roll concept, which unions and other liberal groups have promoted for decades by arguing that homeowners are shouldering an ever-larger share of the $50 billion in property taxes that schools and local governments collect each year. Fundamentally, the LAO's analysis rejects that claim, concluding, "Proposition 13 likely did not cause the slight increase in the share of property taxes paid by homeowners."

In Canada, close on the heels of the Vancouver government's decision to impose an additional property transfer tax on overseas property buyers - at 15% of the property's price - Vancouver has decided to start taxing vacant homes by the year's end, in a further attempt to rein in foreign buyers and absentee homeowners who have allegedly contributed to a steep increase in Vancouver home prices. There are reported to be 10,800 homes lying empty in Vancouver. The government believes that absentee homeowners will be forced to rent out their properties to avoid the new tax, thus easing the unaffordability crisis. The tax, which targets properties left empty or underutilized, would be levied through self-declaration, audit, and compliance measures. The government is yet to decide the annual amount of tax, but it could be between 0.5% and 2% of the property's assessed property value, the mayor said. If the tax is collected on just 5% of the nearly 11,000 empty homes, it would raise C$2 million (US$1.51 million) in annual revenue, he said.

In India, the capacity of Mumbai to host guests in major hotels has not increased much in the last five years, a phenomenon hoteliers blame on the exorbitant civic taxes. Hotelier members of Federation of Hotels and Restaurants Association of India (FHRAI), who met in Mumbai to deliberate on the issue, said the extremely high property tax and water charges levied by the BMC have necessitated a corresponding hike in room rents and food charges, making hospitality an unaffordable proposition. They said the capital value system and the rate of taxes adopted in 2012 have practically made it impossible to open new hotels in Mumbai. The BMC has since published revised tax rates and capital value factors but they are effective from 2015, while hoteliers want it to be implemented with retrospective effect, from 2010.

Finland's government decided to hike real estate tax by an extra 41 million euros during its budget negotiations in order to make up for its cancelled day care fee increase. Because the amount will come on top of an increase that was already expected, several cities where the cost of housing is already high - Espoo and Helsinki among them - will be affected more than others. The government budget proposal for 2017 outlines plans to collect 41 million euros in extra property tax revenue, on top of the 30 million euros in added real estate taxes that were expected. In practice, the 2017 increase will mean that both the upper and lower tax limits on permanent residency tax and the general real estate tax will go up.

In Australia, the body for New South Wales (NSW) local councils has welcomed the Independent Pricing and Regulatory Tribunal's (IPART) draft report on council rates but says the Tribunal is "fiddling around the edge" by leaving rate-pegging untouched. IPART released the draft report, Review of the Local Government Rating System, putting forward a number of suggestions on how to rejig the state's council rates. These included letting councils set rates based on the capital improved value (CIV) of land, rather than its unimproved value (UV), reducing the number of rate exemptions and setting rates based on land use, not ownership. Other recommendations including allowing councils to set different rates for different parts of their local government area, scrapping some pensioner concessions and deferring rates and introducing new rates categories, including some for environmental and vacant land, business and farmland. But nowhere in the recommendations is there any mention of scrapping the rate-pegging regime, a system which has placed an annual cap on NSW local council's rates since 1979 and forced councils to apply for a special rates variations when they wish to exceed the cap.

In the UK, critics have described the Government's proposed changes to business rates appeal system "unfair and unworkable" and would potentially cost businesses thousands of pounds. It is said that businesses could be forced to pay up to 20% higher business rates than they should, without any right of appeal, under new government proposals revealed in draft regulations for England put forward by the Department for Communities and Local Government. The new proposals suggest that, from April 2017, Valuation Tribunals should only order a change in the rateable value of a property if the valuation is "outside the bounds of reasonable professional judgement", the margin of error for which can be as high as 20%. As a result, the biggest ratepayers could be tens of millions of pounds out of pocket. One critic said "The new guidelines revolve around the idea of 'professional judgement' regarding valuation. Clearly, such a subjective notion is going to cause problems and inconsistencies throughout the process and across the entire system. There is no indication of how professional judgement is to be assessed, how it will be implemented or what margins of error permitted.

And finally, back to India where, despite the Pune Municipal Corporation's (PMC) tax department claiming to have taken every possible effort at its disposal, it has still not been able to collect tax from more than 44,000 defaulters in the city. Now, the civic body has come on record to admit to the fact that around Rs 366 crore in property tax is yet to be collected from defaulters. And, with their hands tied behind their back, they now plan to bring back the "band-baja" they have wielded in the past to shame such violators into coughing up the cash. The head of the PMC property tax department, said, "Due to the vagaries of property disputes and court cases, we often don't get tax from certain properties. However, we now plan to bring out our band and make them play in front of such properties." That will be "music to the ears" of property tax collectors!

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