President's Message – September 2015

I am very pleased to start this month's newsletter by announcing a new appointment for IPTI. Phil Western is our new Director of Strategic Initiatives, Australasia. Phil has been involved with IPTI for many years and will be well known to many IPTI members around the world. He is currently the National Head of Government Services for a private company, the Opteon Property Group, which is a national property advisory and valuation company with 74 offices across Australia. Until September 2014, Phil was the Valuer-General for New South Wales, Australia, a position he held for 11 years. Phil is also a recent past National President of the Australian Property Institute, the lead property professional membership organization in Australia with approximately 8,000 members. In his new role with IPTI, Phil will take the lead in developing new initiatives in Australasia and organizing our activities in that region. I am delighted to welcome Phil to IPTI in his new capacity.

I am writing this month's message from Canada where we are involved in delivering training for different organizations. We are currently providing training for those involved as either expert witnesses or advocates in disputes concerning property tax valuations. Prior to that, we were involved in providing training for those involved in valuing large, special-purpose industrial buildings. These two topics are of general concern throughout the world and I think the training that IPTI provides is very helpful in terms of ensuring a clear understanding of the framework and relevant issues, along with very practical guidance on the way to deal with them.

Just looking back over the last month or so, we have been involved in finalizing reports on a number of projects. I am pleased to say that the draft report for our latest benchmarking study has been sent to those who commissioned it and will be the subject of discussion at a forthcoming conference. We have also completed work on a draft report concerning a certification project about which I hope to be able to say more in a future newsletter.

We are involved in a project in Poland which is entering a third and final phase of developing drafts documents that need to be ready when presenting proposals for legislative changes. Our clients - local government associations - propose differentiation of land tax rate ceilings and floors across the country by linking these to regional differences in income per capita, as well as obliging local governments to vary land tax rates within their jurisdictions.

We are also involved in a project in the Ukraine and IPTI colleagues visited the country during August to discuss issues with the relevant ministries. The meetings involved learning more about the Ukrainian legal-regulatory framework and implementation issues; this was particularly important as Ukraine has recently adopted a new Tax Code.

We organized an interesting event for corporate representatives in Detroit, USA, in early August. Held in conjunction with the Council on State Taxation (COST), this seminar looked at the current challenges in property tax and facilitated helpful experience sharing with those who attended.

Looking ahead, we have a number of events aimed at corporate members, including another joint event with COST to be held in New York, USA, on 10 September. The European American Chamber of Commerce (EACC) will be our other partner for this workshop. The workshop is entitled "Property Taxes: a Curse or a Path to Sustainable Real Estate Growth and Profitability" and will look at issues of concern to corporate entities in both North America and Europe. Beyond that, we have another event for corporate members and others involved in the oil and gas industry. This workshop will be held in Houston, Texas, USA, on 2 November. The other event aimed at corporate members is a meeting in London, UK, on 3 December.

In conjunction with the Institute of Municipal Assessors (IMA), we are involved in delivering two workshops on cost and depreciation analysis during September and October. The first will be held in Kingston, Ontario on 9-10 September; the second will be held in Mississauga, Ontario on 6-7 October. Both workshops will be looking at the underlying concepts and principles and provide opportunities for participants to practice the relevant techniques.

We have an interesting event planned in Slovenia during October. To be held in Ljubljana on 8-9 October, this is a workshop is entitled "Modernizing Property Taxation in Transition (CEE) Countries: Strategizing the Process and Optimizing Legislative Framework". The main objective of the event is to help determine what needs to be done in CEE countries to ensure the successful implementation of modern property tax systems, including consideration of reassessment and revaluation issues that are important elements of ad valorem property tax systems.

I have been invited to attend the conference of the Australasian Valuers-General which is being held in Adelaide at the end of September. This is always a very interesting conference and I am looking forward to it. Our new Director, Phil Western, will also be attending.

From Adelaide I fly straight to Saudi Arabia where I will be delivering more training. This time it is a two-week course on "eminent domain" - also known as "expropriation" or "compulsory purchase" in other countries - which is being held in Riyadh. The training course will be a mix of legal principles and practical valuation exercises, including case studies involving the valuation of some unique properties.

I will be back from Saudi Arabia just in time to chair another "Rating Question Time" in London, UK, on 22 October. This event involves a panel of experts from the various organizations involved in non-residential property tax in the UK (business rates) answering questions from an audience of professional practitioners. It is usually a "lively" affair with lots of debate among the participants.

I will be returning to Ontario in early November where IPTI will be facilitating a series of consultation meetings involving the owners of large, special-purpose industrial properties, their professional advisers, municipalities and the Municipal Property Assessment Corporation (MPAC). This consultation process is an important part of MPAC's preparation for their forthcoming reassessment (revaluation) of over 5 million properties which is due to be completed next year.

We then move on to Montego Bay, Jamaica for our annual Caribbean conference held jointly with the RICS. The brochure for this event is now available on our website and we hope to see as many people as possible at what will be a very interesting and informative event. The dates for the conference are 18-19 November.

We then return to Canada in late November where we will be running another training event in conjunction with Osgoode Hall Law School in Toronto. This event - for expert witnesses in property valuation disputes - has become a regular feature of the IPTI calendar and is always very popular.

Two more dates for your 2016 diary. On 13-15 January 2016 we will again be partnering with COST for our annual joint property tax workshop. This time it will be held in San Antonio, Texas and will cover a wide range of topics of particular interest to large corporations. Later in 2016, we will be holding our annual Mass Appraisal Valuation Symposium (MAVS) in Canada. This time it will be held at Niagara Falls, Ontario on 17-18 May 2016. A request for expressions of interest has recently been sent out and we look forward to another successful event.

Now for a quick look around the world at issues concerning property tax systems in selected countries.

The Organization for Economic Cooperation and Development (OECD) said in a recently released report that Latvia should review inefficient elements of its tax regime. In particular, the report said that Latvia should expand the scope of property and environmental taxes. The contribution of property taxes, at 2.6 percent, is around half the OECD average, with revenues from the taxes on land and buildings amounting to only 0.8 percent of gross domestic product (GDP) in 2013. Doubling the residential and land tax rates could increase revenues by EUR100m (USD115m) or 0.4 percent of GDP, it recommended.

China's long discussed property tax plan has once again come under the public spotlight following its inclusion in recent national legislation. The Standing Committee of the National People's Congress (NPC), China's legislature, included a property tax law in its legislation plan, signalling lawmakers' determination to push ahead with the reform, although progress has been extremely slow. "Conditions to enact these laws are ripe," said the Standing Committee website. "The 12th NPC plans to review them within its tenure which ends in early 2018." Commentators expect the law to be passed by the end of 2017. But the passing of the law does not necessarily mean it will be put into effect right afterwards, analysts said, citing the timing and specific clauses in the law as possible obstacles for its implementation. The coverage, tax rates and possible exemptions for houses under a certain size are among the most debated topics that need a serious balancing of interests insiders involved in the legislation said. As part of efforts to cooling the property market amid growing public complaints over runaway housing prices, China introduced a trial property tax in Chongqing and Shanghai in 2010. The Chongqing tax pilot focused on high-end housing while the Shanghai pilot mainly targeted ownership of multiple houses. Due to limited rates ranging from 0.5 to 1.2 percent, however, the taxes were seen as too low to be effective in keeping local housing prices in check.

In Nepal, the Kathmandu Metropolitan City (KMC) has come up with a discount scheme for defaulters of municipal taxes. A ten percent discount is available for house and land taxes for the period until mid-September. The KMC is also providing a 50 percent waiver on penalties on unsettled taxes from previous years. "We plan to raise Rs300 million rupees in unpaid taxes from this scheme" the Chief of KMC's Revenue Department said. "We have found discounts to be effective incentives to bring people under our tax net." The KMC has three approaches to make people pay their taxes. First, to raise awareness, under which it distributes brochures around the city. The second approach is to launch a campaign where discounts are offered. If people still do not clear their dues, the KMC takes a third approach which is a "force model" where the KMC cuts off services, like waste disposal, to the defaulters.

Moving on to Africa, it is reported that the Liberia Revenue Authority (LRA) has commenced what is described as the "vigorous enforcement" of the collection of real property taxes from delinquent commercial property owners in Monrovia and its environs. The Real Estate Tax Division, in collaboration with the Legal Department of the LRA, initiated the enforcement exercise recently forcing several big businesses to comply while shutting down others.

In New Zealand, about 7,000 Auckland residents have successfully challenged their 2014 property revaluations with the most common outcome being a fall in the home's current value. The three-yearly July 2014 Auckland Council revaluations were released publicly late last year with rateable values increasing by an average of 34% across the city. The council has just completed the task of reviewing more than 10,000 objections from property owners who claimed the value of their house, farm or commercial property had been wrongly calculated. The majority - 8,424 - were from residential homeowners. Overall, the average residential adjustment was down 1.28 per cent - nearly $10,000 off the value of a median-priced Auckland home. A handful of objections remain "under action", and about 90 homeowners are taking their objection to the Land Valuation Tribunal.

In Scotland, UK, debate continues on the issue of "reforming" local taxes, in particular council tax which is the residential property tax in the country. Reforming local taxation "should not be embarked on lightly," warns a recent report prepared for the cross party commission looking at the issue. The commission is grappling with the issues surrounding the introduction of a local income tax. The report states that property taxes are more stable, harder to avoid and potentially progressive if used as a tax on wealth in the form of bricks and mortar. However, the report found, they are unpopular because they are painfully visible to the public and often regarded as less fair than income tax. The report argues that operating a combination of the two - the "property tax and supplementary income tax approach" - could reduce such problems.

Staying in the UK, almost 80 percent of Northern Ireland companies believe that business rates (property tax) should be reformed to make them more reflective of economic conditions, according to a new survey by the Northern Ireland Chamber of Commerce and Industry. 42 percent of companies that participated in the latest Quarterly Economic Survey said that their business rates bill had increased following the revaluation in April 2015 of all non-domestic properties in Northern Ireland. The last revaluation of business properties was in 2003 and was based on April 2001 rental values. The Chief Executive of the Chamber said that the Finance Department's support for a business rates review "provides the perfect opportunity for a root and branch reform of business rates in Northern Ireland which at the very least finds some way to spread the costs more evenly and lessen the burden on existing ratepayers. Companies also need a much clearer understanding of what their business rates actually pay for."

In France, the government have tightened the regulations governing an increase in the property tax payable following building works to an existing property. Owners of property in France are subject to two annual local property taxes - the taxe d'habitation and the taxe foncière. The basis for determining the level of the taxes is the notional rent that the property might be expected to achieve in the open market, having regard to the condition, amenities, size and location of the property. A formula is then applied to this notional rent based on the income the authorities need to raise to give a percentage rate of tax, called the taux d'imposition. When new construction or improvements take place to an existing property it will in general increase the notional rental value, with the consequential knock-on effect on the tax that will be payable. Until this year, alterations and improvements to an existing property that resulted in an increase in the rental valuation of no more than 10% were exempt from revaluation. This de minimus rule has now been abolished; all changes to the property in any year will now be taken into account, for taxes due the following year. The aim of this reform is not only to increase the income stream for local councils, but to also start to bring the notional value of properties more in line with their actual value. No full revaluation of the housing stock for property tax purposes has taken place since 1970.

In the USA, even as Nevada's real estate values climb back from their record plunge during the recession, a decade-old property tax cap has strained municipal budgets to the point where petty thieves are being released from jail early. In Clark County, home to Las Vegas and 72 percent of the state's residents, the tax limitation cost it $119 million in lost revenue since 2009. That, combined with the recession meant it had to fire 1,500 municipal workers. It still can't afford to cover the daily cost of each inmate held in county jail. "At a cost of something like $120 a day, it was just killing us," a county spokesman said. "Through discussions with the local courts and others, we've worked out a system to get those numbers down and the result is we're now having to release more non-violent, misdemeanor offenders earlier."

As a general comment, across the USA, five years after the end of the Great Recession, real estate values nationwide are rising with home sales on track for their best year since 2007. Yet many cities, counties and school districts aren't reaping a commensurate amount in property tax revenue because of a lag in reassessments and limits on real estate taxes in 41 states.

In Washington DC, a new program will allow commercial building owners in the city to avoid upfront costs and obtain relatively low-interest loans to retrofit their properties with energy-efficient amenities. How it works is that an interested property owner contacts the local clean-energy firm concerned who assess the property, determining which energy-efficient technology makes sense, and how much it would cost to upgrade. If the cost of the upgrades - solar roof panels, for instance - and total accrued interest on the loan is less than the energy savings for the lifetime of those panels, the property is eligible for the program. Next, the customer agrees to a financing arrangement with a bank and the customer will repay the loan twice each year through a surcharge on their local property tax bill. Then a vetted local contractor will install the upgrades.

On a similar theme, Pennsylvania's Clean and Green Law has been providing voluntary rural property tax relief for nearly four decades in recognition of their commitment to preserving the land in production agriculture, open space or forested tracts. The regulations were updated recently allowing for more uniform administration of the program. A spokesman said, "Clean and Green recognizes that forests, farmland and other open spaces don't require the same local service costs as developed areas, and offers farmers, homeowners and other landowners the opportunity to receive property tax relief." Clean and Green is a voluntary, preferential tax assessment program that bases property taxes on use values rather than fair market values which usually results in a tax savings for eligible landowners.

Also in the USA, the New Jersey Tax Court recently held that a large, major non-profit hospital is not entitled to a property tax exemption. The decision was based on the Court's conclusion that the entire one-million-square-foot, 700-bed hospital was operated for profit and was thus (with few very minor exceptions) ineligible for any exemption. The decision is significant since it involved the entire hospital rather than just specific functions within the hospital. The Court reviewed the history of non-profit hospitals, finding that they "have changed significantly … from their early origins as charitable alms houses providing free basic medical treatment to the infirm poor," and are now "sophisticated centers of medical care … providing a litany of medical services regardless of a patient's ability to pay." The Court concluded that "nonprofit hospitals today bear little, if any, resemblance to hospitals in the 18th, 19th, and early 20th centuries" and thus do not "operate today as they did as the time New Jersey first adopted a specific tax exemption" for hospitals in 1913.

In Australia, capping local government annual rate increases is being considered by the West Australian Government as part of an inquiry into council rate setting. The inquiry is likely to probe issues including whether to cap annual rate increases to the Consumer Price Index (CPI) or the Local Government Cost Index (LGCI), a measure of inflation that applies to council expenditure. Any move to impose restrictions on annual rate increases is likely to set the Government on a new collision course with councils after the Premier earlier this year abandoned plans to slash the number of metropolitan councils by half following a community backlash. Any council wanting to lift rates by more than the allowable percentage would likely need to seek either ministerial approval or permission from a yet-to-be-decided government agency. CPI is nationally forecast to be 2.5 per cent this year, but several of Perth's 30 councils have approved rises of at least 5 per cent this financial year. Some councils increased rates by between 7 and 8 per cent.

And finally, calling property taxes "unethical, unchristian-like and above all, thievery," a tax protester in the USA finally paid off his 2013 property taxes this week, preventing a sheriff's sale at the last minute. He did not, however, roll over easily. He decided to make a statement by paying off his bill with 83,160 pennies. However, coming up with 83,160 pennies wasn't as easy as he thought. After he visited 15 banks in three days, he only managed to come up with 50,000 pennies. That meant that he had to pay the remainder of his bill using other coins and a few dollars. Some you win, some you lose!

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