



## President's Message – September 2016

I hope readers won't mind if I start this month's newsletter by congratulating all who took part in the Olympic Games in Rio. What a great festival of sport and with so many personal achievements and dramatic moments which we were pleased to share with the various participants. I must, of course, mention how well "Team GB" did coming second in the overall medal table and exceeding the number of medals they won at their "home" Olympic Games in London 2012. Congratulations to the USA who came top of the medals table but, as I pointed out to my American friends, if the results are weighted by reference to the population of the countries concerned, Team GB won by a mile!

Anyway, back to property taxes. Although the number of property tax events are generally reduced over the summer months, there has been quite a lot happening and a great deal to look forward to over the coming months.

One of the most interesting events we held during August was a workshop held at the Munk School of Global Affairs, which is part of the University of Toronto. The title of the workshop was "The Tiff About TIFs" and provided an opportunity for three eminent speakers to talk about some of the issues in connection with Tax Increment Financing. Among the many matters covered, the main issues were whether TIFs were the best method of funding urban redevelopment and/or infrastructure projects and how to overcome some of the practical implementation challenges, particularly the valuation issues.

Also during August we were invited to chair a consultation session organised by the Municipal Property Assessment Corporation (MPAC) in Ontario, Canada. This session was concerned with the 2016 reassessment (revaluation) of casinos and, in addition to representatives from MPAC, included casino operators, their professional advisors, and municipalities which have casinos in their jurisdictions. The objective of the meeting was to allow MPAC to inform property taxpayers and municipalities about the way in which they have valued casinos for the reassessment and invite them to ask any questions about the process and its outcome. As with the other similar consultation sessions that MPAC have organised, this is a really useful way to improve transparency and understanding on behalf of stakeholders and I hope many more assessing agencies will adopt a similar approach.

Along with other IPTI colleagues, I attended the annual conference of the International Association of Assessing Officers (IAAO) held in Tampa, Florida at the end of August. As usual, this was an interesting event with a wide range of topics included in the education sessions. I was speaking with a colleague who is a lawyer on the issue of preparing and presenting expert evidence. My IPTI colleague was speaking on the issue of problems that arise in carrying out a revaluation after a long "gap" since the previous revaluation was undertaken. Both sessions appeared to be well-received by the audiences.



On 25 August we held an interesting meeting of IPTI's Corporate Advisory Committee which was considering some of the issues that arise in large global corporate entities appointing and managing agents to deal with property tax appeals and related activities, particularly across many jurisdictions.

During August we had meetings with various stakeholders and progressed a number of ongoing projects. We also took the opportunity to take a look at IPTI and how we currently operate. We plan to make some changes to recognise the way in which the organisation is developing and I will let you have more information about that in due course.

Looking ahead, we are about to travel to Scotland to participate in the 2016 Commonwealth Heads of Valuation Agencies (CHOVA) conference which is being held in Crieff in early September. This promises to be a very interesting and informative event with participants coming from all over the world to share their knowledge and experience of property tax and related matters.

Also in September we are participating in a two-day workshop at the University of Reading in the UK where a group of experts will be considering a technical guide on valuing land tenure rights in line with the United Nations Food & Agriculture Organisation (UNFAO) publication "*Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security*".

We have a two-day Property Tax Workshop in Minneapolis on 19-20 September which is being delivered in partnership with the Council on State Taxation (COST). All being well, we plan to finalise the next COST-IPTI International Property Tax Scorecard at this event. More on that in due course.

We have two more in our series of webinars during September. One is on the topic of using IPTIpedia, our online property tax database. The other is a joint webinar with the Institute of Municipal Assessors (IMA) which will be looking at the valuation of office buildings.

On 29 September we will be participating in a "Commercial Real Estate Market Update" in New York being held in partnership with the European American Chamber of Commerce (EACC). We also provide a monthly update on property tax issues for the EACC which is available to their members via the EACC website.

In October, I will be participating in the Australasian Valuers-General Conference which is being held in Perth, Western Australia. Unfortunately, very few of the Valuers-General will be going to CHOVA in Scotland, so the Perth conference will provide a good opportunity to catch up with them in Australia.



Also during October I will be chairing the annual "Rating Question Time" in London, England. This should be a particularly "lively" event as the results of the latest revaluation of non-residential properties for property tax (business rates) in the UK will be published at the end of September and the audience will no doubt have plenty of questions to ask the experts on the panel.

Towards the end of October we will be holding a workshop in Toronto on the subject of the "Role of Mediation in Valuation Disputes". In particular, this workshop will be looking at "Is Mediation an Effective Form of Dispute Resolution?" We have both valuation and legal experts speaking on the topic and this will be a very informative event.

In November we are holding our annual Caribbean conference which, this year, is being held in St Lucia. Run in partnership with the RICS, this is traditionally a popular event covering the latest developments in valuation, property tax and construction.

In November and December we have more IPTI/IMA webinars covering property tax policy, functional and external depreciation, and preparing for litigation.

On 1 December we will be holding a meeting of our European Corporate Advisory Committee in London, England. This promises to be an interesting and informative meeting with both public and private sector participants discussing the latest developments in business rates.

Looking ahead to 2017, we have more webinars. These include our own webinars and ones that we are delivering jointly with other organisations including the IMA and RICS. We have our annual Oil & Gas Workshop for the corporate sector in Houston, Texas on 2 February 2017 and our annual Mass Appraisal Valuation Symposium which will be held in Sydney, Australia on 9-10 May 2017.

Details of all these and other events can be found on our website: [www.ipti.org](http://www.ipti.org)  
Now for my usual look at selected countries around the world to see what is happening in connection with their property tax systems.

It is reported that the tax authorities in Portugal have decided to increase property tax on residences that offer a good view. The tax on an apartment with decent views and facing south may go up 20 percent it is said. At the same time, the levy on dwellings overlooking a cemetery, or located on the ground floor, or facing north may be reduced by 10 percent. The measure will affect newly built properties as well as the property currently being reappraised. The move does not aim to gain additional revenue, but rather to tax people according to the homes and luxuries they enjoy, according to State Secretary for Finance Rocha Andrade. "*Our objective is firstly to introduce greater fiscal equity,*" he said, stressing that the measure would more precisely reflect the variations in current house prices.



In New Zealand, Property Council research into rating policies in the main cities paints what is described as a bleak picture for Wellington commercial property owners. The Wellington Property Council Branch President is astounded by the differences brought to light in the report. "It is unbelievable that Wellington City's commercial ratepayers are paying rates nearly 50% higher than their Auckland equivalents, and nearly 100% more than owners in Hamilton. For a commercial property that's valued at \$2 million dollars, in Auckland that property would pay rates on average of \$19,000, in Hamilton approximately \$16,500 and \$32,000 in Wellington. This cost differential is extravagant and absurd; it puts Wellington's economic growth at a disadvantage compared to other New Zealand cities. Despite commercial properties making up only 20% of the rateable property value, they pay over 46% of the total rates bill. Again this is much higher than in other New Zealand cities, putting Wellington at further disadvantage."

In Australia, New South Wales apartment owners should pay higher council rates, pensioners should pay back rates concessions, and there should be fewer exemptions, the Independent Pricing and Regulatory Tribunal (IPART) has said. IPART has said that the review aims to make rates collection fairer and more efficient, keep services consistent and to make councils more sustainable long term; it has insisted that it is not an attempt to increase the overall amount collected through local government rates. Another objective is to reduce council's reliance on special rates variations, where they must apply to the Tribunal if they wish to set rates above the agreed rates cap. The review examines how rates are calculated, what exemptions are allowed and the rating categories used. The main points of the draft review's recommendations are:

- Give councils the choice to set the variable component of rates based on the capital improved value (CIV) of land, not its unimproved value (UV). This means apartment owners are likely to pay higher rates where there is usually a high capital value relative to land value
- Change rate exemptions so they are based on land use, not ownership
- Dump some rate exemptions where land is used for commercial or residential purposes
- Replace current pensioner concession scheme with a NSW government-funded rate deferral scheme
- New rating categories if councils want them, including environmental and vacant land, business and farmland
- Let councils set different rates for different parts of a local government area, to reflect access and demand for services and the cost of providing them
- New councils (under mergers) to continue existing rates or set different rates for pre-merger areas once the four-year rate path freeze is over

Also in Australia, the Prime Minister kicked off public discussion in Australia about value capture earlier this year. From now on value capture will have to happen if state



governments want federal help with big transport projects. In February, the Minister for Urban Infrastructure announced the Federal Government's "Principles for Innovative Financing" for transport. The goals include: "Share the cost of transport projects fairly between those who benefit the most from the projects and the broader Australian community." One of the principles says: "The funding shares from the Commonwealth and the state and territory governments should be determined after taking into account contributions made by the beneficiaries." It seems the Queensland Government is taking the new policy on board. "Value capture is a relatively new concept and has not been used extensively to fund infrastructure in Queensland," concedes Queensland's Infrastructure Minister. "Value Capture is a tool that governments everywhere are investigating. The Australian Government now requires value capture to be considered in the assessment of publicly funded transport projects. Value Capture, if used appropriately, could help Queensland deliver more essential infrastructure sooner, improving the lives of Queenslanders and driving economic growth."

In the USA, it is reported that tax increment financing agreements have helped spur the development of more than a dozen projects across Louisville. The incentive program rebates a portion of increased taxes back to the developer upon completion of the project to help subsidize the project's cost. Such incentives are considered instrumental in fuelling development said the head of the city's economic development department. "We believe it is the best tool available to us today," she said. Tax increment financing has been around for a long time and it's the favourite tool of a lot of urban economic developers. They've always been very popular for developments that had a large retail component or tourism component. Now we are seeing them used more often in residential areas that have a lot of potential to become a part of the city's overall urban plan. However, she cautioned, a TIF is only as good as the likelihood that that particular property is going to increase in value as a result of the investment.

In Jamaica, the Government has been forced to give up approximately \$3.3 billion in property taxes that were not paid and exceeded the statutory period for collection. The amount was disclosed in a report from the auditor general that was tabled in the House of Representatives. The report said over the financial years 2011-12 to 2015-16, Tax Administration Jamaica (TAJ) legally wrote off property tax totaling \$3.26 billion representing amounts owing from the financial years (FY) 2004-05 to 2008-09. "What the law (Property Tax Act) says is that if amounts are not collected and no action has been taken to collect same, then it is written off automatically," the chief corporate communications officer said. "If it's a fraud matter or a matter had been started in the courts, those will stay." The value of property tax collected increased by almost three times to \$6.5 billion the last financial year from \$2.5 billion in 2011-12, but this was mainly the result of an increase in the property tax rate in April 2013 and not an increase in the compliance rate. Among the recommendations is to "expedite strategies to improve the accuracy of its property tax register, thereby enabling greater efficiency in the use of resources for property tax collection and enforcement".



In China, the Finance Minister indicated that the Government's next tax reform priority will be to introduce the long-awaited regional and local property tax. China's State Council announced the introduction of a new real estate tax structure in its fiscal policy plans announced in March this year. The framework is expected to be different in various cities and towns, as appropriate to their local conditions. That announcement followed a prolonged delay in the Government's plans to extend the pilot property tax schemes operating in Shanghai and Chongqing, which were first set up in 2011. Originally established to bring Chinese property price increases under control, the schemes were hindered, in large part, by the lack of an accurate real estate registration system. While the country's real estate market has since weakened, the Government still appears to believe that property tax changes could bolster local government revenues. Present property taxes in China vary, as they can be levied at different rates at the discretion of regional governments. They currently include an urban and township land use tax, a city maintenance and construction tax, a land appreciation tax, and a house property tax.

Canada's largest heavy oil and natural gas producer is seeking a 30 per cent property tax break from municipal governments across Alberta, arguing the levies have "risen to an unsustainable level" at a time of low commodity prices. The Calgary-based company argues that its property taxes ballooned five times more than its revenues per barrel of oil equivalent from 2004 to 2014. "Despite our success in reducing overall costs, there remain too many properties where property taxes are a concern," said a senior vice-president. "Increasing property taxes are likely to result in early abandonment of wells and facilities, which will reduce the assessment base, local employment and royalties." Another Calgary-based junior oil and gas company asked for a reduction in its tax bill to \$1 due to the diminished value of its assets.

In Greece, 7.3 million property owners will be called upon to pay a total of 600 million euros for each month from September through to January 2017, with average per owner estimated at 458 Euros. Tax authorities are expected to issue the special property tax (ENFIA) clearance slip shortly. At least 5 million property owners will pay the same amount as last year, while citizens with farm land will be burdened with a further 250 million euros. According to the Finance Ministry's initial assessment, the aggregate of the payable amount from the property tax will amount to 3,344 billion, slightly over the 3,342 billion for 2015.

In the UK there is uproar about an issue that has appeared in a recent government consultation paper on the issue of valuations for business rates (the property tax relating to non-residential properties). The consultation paper states: *"The majority of properties for rating purposes are valued using the rentals approach which generally involves the VOA analysing rental evidence for similar properties to arrive at a unit rate for the property being valued. As a result, assessing rateable values is inevitably a matter of professional judgement. The Government has been considering how best to ensure that decisions of the VTE [Valuation Tribunal for (England)] recognise this and that their*



*resources are focused on cases where there is a real issue at stake. In turn this should help appellants form a view as to the likely success of appeals. The Government therefore proposes that the VTE, in considering an appeal, should order a change in the rateable value only where their view is that the valuation is outside the bounds of reasonable professional judgement. In cases where the VTE consider the extant valuation is within the bounds of reasonable professional judgement, no change will be made to the valuation.* Many professional commentators are taking the view that this means no reduction will be made in a property tax valuation unless the VOA's valuation is more than X% wrong. Of course, the X in X% is likely to vary depending on the type of property concerned, but could be quite high in cases of unusual or specialised properties and the fear is that ratepayers may be required to pay rates on a valuation which is shown to be significantly wrong, but they will be unable to get it put right. It will be interesting to see if this controversial proposal survives the consultation process.

Staying in the UK, and in the category of "you couldn't make it up" property tax stories, a 68-year-old man in the South of England has been sent a bill requiring him to pay an extra penny in council tax (the local property tax payable in respect of residential properties). To add to the ridiculous nature of the bill, the accompanying letter he received from the local authority said he could spread the cost over several monthly instalments! When challenged about this, a council spokesman said: "This correspondence was automatically generated when his account was updated. We will cancel the bill."

And finally, in Pakistan defaulting on property tax can get you into a "big stink". A large company that was in arrears in respect of property tax found itself targeted as part of a special drive to collect property tax due from big commercial complexes who default on paying taxes. When the employees of the company reached their offices one morning, they were reportedly shocked to see a line of garbage trucks filled with waste standing at their doorstep. It was said that the company concerned had not responded to repeated notices and finally the municipality had decided to take direct action. It appears that the smell from the trucks forced the company to pay up quickly in order to have them removed. Very effective enforcement!

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