International Property Tax Institute

PRESIDENT’S MESSAGE

August 2017

I have just returned from a most interesting and enjoyable trip to Fiji where the latest Commonwealth Heads of Valuation Agencies (CHOVA) conference was held. The host for CHOVA 2017 was the Fijian Ministry of Lands and Mineral Resources whose Chief Valuer, Mr Teke Kaa’ke, had been instrumental in arranging the event. The conference started with a traditional “Sevusevu” to the guests and a “Kava Ceremony” of welcome which involves the preparation and presentation of a bowl containing kava which is offered to the guests. Following the formality of this traditional Fijian welcome, the President of Fiji, His Excellency Major-General (Ret’d) Jioji Konusi Konrote officially opened the conference. I was pleased to see that his entire speech was reported in local newspapers the following day.

The conference then got down to business with a series of presentations over two days from both local and international speakers. We were informed about various aspects of land management and statutory valuation work in Fiji and it will come as no surprise to hear that many of the challenges faced in Fiji are the same as those encountered in other parts of the world. Statutory valuations in Fiji include rating valuations (for property tax), land acquisition valuations, and rental valuations for ground leases granted by government. The property tax system in Fiji is interesting and involves revaluations every 6 years. The valuations carried out relate to the unimproved value of the land only (i.e. ignoring any improvements) and only properties in the urban areas are subject to rating. The challenges include the cost of data collection, the reluctance of taxpayers to provide information, issues with the IT that supports the system, and the availability of resources to undertake the work. Fiji is in the process of preparing a new Land Valuation Act which, it is hoped, will lead to improvements in various aspects of the work carried out by the Ministry. The Chief Valuer made it clear that he would appreciate help from CHOVA representatives and IPTI and we are exploring ways in which we may be able to provide support.

My presentation at CHOVA 2017 involved a review of property tax reform and looked at a range of issues, many of which were directly referable to the situation in Fiji. I referred to the encouragement for property tax reform given by various international organisations including the International Monetary Fund, the World Bank, the European Union, etc., as they see property tax as a “good” tax. However, there is often resistance to introducing or enhancing property tax systems. I highlighted some of the common obstacles to property tax reform and how they might be addressed. As regular readers of this newsletter will be aware, the main issues adversely affecting property tax systems include a lack of understanding and awareness by taxpayers, politicians and the media. These issues can be addressed by, among other things, improved transparency and better communication, but such reforms are not easy.

Also in July, we held a very well-attended workshop in Ontario, Canada on the "Impact on Stakeholders of the New Assessment Review Board (ARB) Rules of Practice and Procedures". This workshop looked at the implementation of the new ARB rules and considered their practical application. Our presenters included a Vice-Chair of the ARB, lawyers, valuers and other stakeholders, all of whom shared their views with the audience about how the new rules were going to change the existing appeals processes.

One of the interesting meetings that we were invited to attend during July was the annual conference of the Canadian Directors of Assessment. This involves the heads of each of the valuation agencies in Canada coming together to discuss issues of common interest. They kindly invited IPTI to make a presentation to outline various aspects of our work including benchmarking, certification, training, education and mediation services. Over the years, IPTI has been pleased to provide advice and other assistance to many of the Provinces in Canada and we look forward to continuing to do so in the coming years.

I am pleased to say that we completed work on some important projects during July and started work on some interesting new projects that we have been asked to undertake.

Looking ahead, we have a number of events coming up which cover a wide range of topics. On 7th September, we will be holding another in the series of webinars we offer in partnership with the Royal Institution of Chartered Surveyors (RICS). This one will deal with the "Valuation of Contaminated Land". Valuing property that is subject to some form of contamination is particularly difficult. Much depends on the nature of the contamination or impairment and the type, and cost, of necessary remediation works. The web class will be presented by a lawyer and an appraiser, both having considerable experience in dealing with this type of valuation work.

On 13th September, we will be holding another in the series of webinars we offer in partnership with the Institute of Municipal Assessors (IMA). This webinar will deal with the "Quantification of Physical, Functional and External Depreciation". The identification and quantification of physical, functional and external depreciation is one of the most important and difficult components of determining the value of real property. This webinar will focus on the quantification of all forms of depreciation once it has been determined that such depreciation exists and is inherent in the property. Our two experienced webinar leaders will discuss various methods of quantifying depreciation, share their experiences and provide examples of the application of the quantification methodology.

On 27th to 29th September, the Council on State Taxation (COST), in cooperation with IPTI, will be holding a property tax workshop. This annual event is being held in Chicago, Illinois and will include a mixture of local, national and international topics of particular interest to corporate entities. The workshop will also mark the official launch of the new COST-IPTI property tax scorecard about which I will provide more information in due course.

On 10th October, we will be delivering another RICS/IPTI webinar, this one on the subject of "Preparing Expert Reports for Valuation Disputes". This web class is concerned with how to prepare an expert report for use in valuation disputes. It will focus on what needs to go into such a report and how the report should be structured.

It is important to understand the obligations of an expert called upon to prepare a report for use in valuation disputes. It is also important to understand how an expert report should be constructed, what facts need to be included, how those facts should be analyzed, and how to present the conclusions drawn from the analysis of the factual information collected. The expert needs to understand how best to present the factual evidence and deal with both the strengths and weaknesses of his/her valuation and the valuation put forward by the other side. This web class will involve two very experienced presenters who have been involved in the preparation of expert reports - both as an expert and as a legal adviser - and they will share the benefit of their knowledge in a very practical way.

Looking a little further ahead, the 6th Annual Caribbean Valuation and Construction conference that we will be holding with the RICS takes place in Port-of-Spain, Trinidad on 2nd and 3rd November. This popular event is being held in cooperation with the Institute of Surveyors of Trinidad and Tobago (ISTT) and brings together local, regional and international experts to share their experiences and best practice on a wide range of topical issues.

On 15th November, there will be another IMA/IPTI webinar, this time on the “Valuation of Land: Theory and Application”. The valuation of land for assessment purposes is always a challenging and difficult process. The issue of highest and best use of the land - as if vacant and as if improved - will be discussed. Focus will be given to the methodology of the derivation of value for the land as vacant, with the primary application of the market comparison approach. Our two experienced presenters will provide practical examples of the valuation of a typical parcel of land will be included.

On 16th November, another RICS/IPTI webinar, this time on “Giving Expert Evidence in Valuation Disputes” This web class will cover what appraisers and assessors need to know about giving evidence in litigation concerning valuation disputes. The web class will cover the “ins and outs” of preparing for litigation, including how the expert witness and the advocate should work together as a team; the rules governing the use of experts; the preparation of the expert’s report; what facts to be include and how they can be proved; and, critically, how to link the facts to the opinion of value. It will also cover discussions between the expert witness and the legal team; dealing with the strengths and weaknesses in both side’s valuations; how to present expert evidence; how to deal with cross-examination; and other matters to take into account in connection with litigation. Participants will be provided with up to date information about the law and practice of giving expert evidence and helpful advice on how the task should be approached.

As I mentioned last month, the venue for our 2018 mass appraisal valuation symposium has now been finalised. I can now confirm the dates. The 2018 MAVS will be held in Halifax, Nova Scotia, Canada on 5th and 6th June. It will be held in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia and we are looking forward to what I know will be another interesting and informative event in a great location. More information about the 2018 MAVS will be available in due course.

More information about all our forthcoming events, along with registration and other details, can be found on our website: www.ipti.org

Now, it’s time for a quick look at what is making headlines concerning property taxes around the world.

“Land tax to solve Australia’s housing crunch?” was an interesting headline to an article that stated tackling Australia’s housing crunch shouldn’t just be a matter of boosting supply. “It should also be about making more efficient and equitable use of existing housing and housing-designated land,” according to a housing policy expert at the University of New South Wales. The 2016 Census revealed that 11.2% (1,089,165) of dwellings across the country are vacant, a slight uptick from the previous result of 10.2% (934,471). In Sydney and Melbourne, many properties are left vacant by foreign or local property investors. Separate data from the Australian Bureau of Statistics also showed that vacant homes aren’t the only problem; more than a million homes had three or more spare bedrooms in 2013-2014. According to the expert, the country’s tax system does nothing to discourage this waste. “It’s arguably encouraged by the “tax on mobility” constituted by stamp duty and the exemption of the family home from the pension assets test,” he said. The housing policy expert called on the federal government to phase in a broad-based land tax similar to the one already introduced in ACT. “While land tax is already paid by investor landlords, expanding it to other landowners (including owner occupiers, who comprise about 60 per cent of the tax base) would deter speculative holding generally, and instead bring under-utilised land and housing to the market,” he added.

Another interesting headline, this time from the USA, was “Abolish property tax exemptions for rich non-profits”. The article referred to Illinois where, it was said, retired homeowners living on fixed incomes pay hefty property taxes, despite the so-called "senior exemption." On the other hand, real estate owned by many rich non-profits is completely exempt from property taxes. This includes private university campuses and their sports facilities, the gleaming skyscrapers of qualifying private hospitals and magnificent church cathedrals. And lots of other expensive real estate owned by other qualifying non-profits. All completely exempt and unfair. Wealthy non-profits with expensive real estate use and benefit from the same law enforcement, fire protection and other basic services as other property owners. These non-profits may not principally use their real estate to make money, but neither do most families. It went on to say that Illinois has the highest median property tax rate in the nation, according to a 2016 analysis. Reports indicate that in 2016, Chicago property tax bills increased by an average of almost 13 percent and will increase by about another 10 percent in 2017. Abolishing the exemptions for these non-profits would allow taxing bodies to lower tax bills for poor and struggling homeowners, fund more basic services, or both. This argument is increasingly being put forward in many jurisdictions around the world.

From the UK, yet another eye-catching headline, “Seize the Brexit opportunity to rethink property tax in London”. The article went on to say that if London is to thrive outside the EU, it needs to sharpen its offer for workers and businesses alike. We need to build more houses, but also to look again at the framework of incentives put in place by our current system of property taxation. We have a council tax system based on property valuations from 1991, which charges Mayfair townhouses a mere three times more than the smallest studio flats, and a fraction of what businesses would pay in the same premises. Meanwhile, stamp duty land tax, which raises half of its English revenue in London, taxes transactions, seizing up the property market and providing an unpredictable tax base. A report supports the arguments of the London Finance Commission that these and other property taxes should be devolved to the Mayor and to London boroughs, so they can work together to design a tax system that works for the capital by promoting the efficient use of scarce land in a growing city. Once taxes were devolved, they could be reformed. A revaluation of domestic property would be a starting point, reflecting the wide differences in how house prices have moved since 1991. To make council tax more progressive, more bands could be added - as has happened in Scotland and Wales - or the ratio between the top and bottom tax levels could be expanded from 3:1. A more radical option would be to tax property value or rental value (the same approach used for business rates). We estimate that a rate of seven per cent of rental value would have a minimal impact on mid-range homes, while increasing bills to £3,000 plus for more expensive homes, and reducing them to less than £600 for the cheapest. Going one step further, you could consider taxing land value. Land value taxes are highly controversial, but Brexit both creates the opportunity to rethink how London works for all its citizens, and makes the task urgent.

In Thailand, a government move to introduce a new form of property tax is said to be a step in the right direction, but minor details need to be sorted out to make sure there are no grey areas or loopholes. When it comes to taxation, the article states that real estate is a focus for governments worldwide because of its immovable nature. The universally accepted rule of law is real property is taxed according to the law of the land wherein it is situated. Therefore, it is impossible to transfer, conceal or move it away from the taxing jurisdiction. A wide range of taxes is imposed on various types of property around the world. Some are based on actual sales and rentals, some on derived incomes or capital gains, while others are recurrent, normally quarterly or annually. Most countries have some form of recurrent property tax with different methods of calculation and rates, depending on how a property is used and occupied. In Thailand, the government is seeking to levy taxes on property and land. The new proposed property tax will be a recurrent tax levied on land and built property, irrespective of whether it is owner-occupied, rented out or vacant. With the law, the calculation of the property tax in Thailand will change from a cost-approach assessment to one based on land use. Under the new scheme, the taxable value will be based on the appraised value of the property, calculated from the standard land and building value determined by the Treasury Department. Another shift is the levying tax rate shall now be based on land use; different rates of tax will be charged based on its use and functions. Residential properties will be subjected to a new residential tax rate, with a 50-million-baht exemption for first homes and a starting levy rate of 0.03% on second homes onwards. However, there is a lot of overlapping in the classifications of commercial and residential properties. For example, a commercial property is classified as one that generates an income. But, a residential condo can also generate an income if it is rented. This is something that needs to be addressed before the new law takes effect.

In France, the French finance minister insists that taxes, including property taxes, will be cut. “Timing has not been decided definitively,” he said at the Rencontres Economiques d’Aix. “I believe we can cut public spending very significantly to meet our European requirements and lower taxes for the French households and French companies - all at the same time and now.” He added: “Wait for the final trade-offs of the prime minister and president.” The delayed measures include a 30 per cent flat tax on investment income, a reform of the wealth tax and the scrapping of the property tax for most households. Mounting criticism over the tax plan highlights the president’s challenge in meeting the EU deficit target of 3 per cent of gross domestic product while reinvigorating the eurozone’s second-largest economy.

Back to the USA and to New Jersey, the state with the highest property taxes in the country, which now has an official Property Taxpayer Bill of Rights. Legislation passed by the state Assembly and Senate and signed by the Governor requires the Division of Taxation to develop and publish online a bill of rights that explains, in simple to understand language, the right that every property taxpayer has to understand their tax assessment, and how to appeal the assessment if they believe it's too high. An Assemblywoman, who was one of the prime sponsors of the legislation, said many people don't understand how their taxes are assessed, and they don't know what their rights are. "This information should be available to all taxpayers in understandable terms, not legalese, not the statute language that we read, the kinds of things that people just don't understand." The Property Taxpayer Bill of Rights states property taxpayers in New Jersey have the following rights:

• The right to understand the property assessment process and the requirements of the state Constitution concerning the assessment of real property;

• The right to understand the calculation of the assessment on their property;

• The right to detailed information about how to appeal an assessment of property; and

• The right to view the property assessment of any other parcel of property in the municipality.

The new law stipulates the bill of rights needs to be posted on each county's Board of Taxation website, and all New Jersey municipalities that have their own webpage.

And finally, also in New Jersey, as if proof was needed that property tax can generate extreme feelings, it is reported that an angry taxpayer's rant on social media landed him in handcuffs after he allegedly threatened to "burn the mayor's house down". The 75-year-old Ocean Township man was allegedly angry about the recent property tax increase, according to police. After police received a tip about the man's threat, officers went to the man's home and spoke with him. He was arrested on charges of making terroristic threats. He was released on a summons and is scheduled to return to court at a later date. The mayor said that the threat was among a spate of over-the-top responses from residents miffed over increased property values and taxes stemming from Monmouth County property reassessments. "Some people didn't like the fact that their property values and taxes went up. Some people are reacting to it very emotionally. They're not being rational," he said. Another resident "charged up to his front door," banged on it and threatened him verbally, the mayor said. The township's municipal tax rate was decreased by 10 percent, from 49 cents to 44 cents per $100 of valuation this year, but the township median property value increased from $397,739 to $456,000 after properties were reassessed by Monmouth County. So, property tax is now well and truly embedded in the world of social media, but with potentially serious consequences for anyone who wants to use it to let off steam.

Paul Sanderson

President

International Property Tax Institute