International Property Tax Institute

PRESIDENT'S MESSAGE

July 2017

I am pleased to announce that, all being well, by the time you read this message our new website will be up and running: www.ipti.org. I hope you like the look and feel of the new website and find the improved navigation helpful. All the favourite parts of the old website - News, Photos, IPTI Xtracts, IPTIpedia, etc. - are there, along with some new features including "Papers on Property Tax". The Papers on Property Tax section is intended to provide a place for IPTI Members or others to send us papers either that they have written themselves, or which they found helpful, so that we can share them through this facility. If you have such a paper in mind, please send it to us at info@ipti.org.

Looking back over June, we held a very interesting workshop in Vilnius, Lithuania on "Strengthening the Property Tax in CEE Countries: Improving Administration and Tax Policy". The workshop, facilitated by Dr. Enid Slack, involved representatives from Central and Eastern European (CCE) countries coming together for a two-day event at which the current issues facing them in terms of improving property tax systems were discussed in some detail. With the help of international experts, potential solutions to some of the problems were considered and it is hoped that this approach to sharing best practice will prove to be of benefit to all who attended. IPTI is grateful to the Lithuanian Ministry of Finance and the State Enterprise Centre of Registers for their support and active participation in the workshop.

The Canadian Institute of Municipal Assessors (IMA) invited me to attend their latest annual conference which was held in Ottawa in June. In addition to "bringing greetings" from IPTI during the opening ceremony, the IMA invited me to participate in two panel sessions. One of these involved a trip to the Canadian Museum of History which is based across the river from Ottawa in Gatineau, Quebec. There we were taken on a private tour of the new exhibition which is not yet open to the public. Following the tour, we had discussions on how such properties should be valued. I was asked to talk about the UK experience which turned out to be very topical as the Upper Tribunal of the Lands Chamber in the UK had just issued its decision on the valuation of museum properties in York, England. Their decision, in simple terms, was that such properties should be valued on the receipts and expenditure basis (income approach) rather than the contractor's basis (cost approach) which resulted in substantial reductions in property tax payable. In Canada, such properties are exempt from property tax, but pay PILT (Payment in Lieu of Taxes) instead. However, the valuations on which such payments are based are controversial in some cases and many are disputed. The IMA President's Reception and Banquet was held at the Canada Aviation and Space Museum in Ottawa which was not only a very enjoyable venue for such a function, but also provided yet another interesting valuation "challenge" for those involved in property tax.

The second panel session in which I participated at the IMA conference was focussed on various aspects of property tax including everything from valuation to taxation. I was speaking about property tax policy which, in my view, is the most important part of any property tax system. If the underlying policy is defective, the likelihood is that the property tax system will not be fully effective and may, in extreme cases, become so discredited that it is abolished. The issue of property tax policy links to both the workshop in Vilnius and to a major international project which IPTI has just completed.

The international project involved IPTI looking at twenty jurisdictions around the world and comparing them with the UK non-residential property tax system (known as business rates). It was clear from our research that various aspects of current UK property tax policy, particularly the tax rate for non-residential properties, are the reasons why the burden of property tax in the UK is the highest in the world. Whilst the UK government, prior to the recent general election, had promised review and reform of the system, following the outcome of the election there is concern that the pre-election promises may no longer be implemented; only time will tell.

During June, we also held another in the series of webinars we deliver in partnership with the Royal Institution of Chartered Surveyors (RICS). This webinar looked at the valuation of property assets provided through the mechanism of a public-private partnership (P3). Two very experienced presenters looked at various aspects of the challenges presented by understanding and valuing what are often unique properties and infrastructure provided under a P3 arrangement.

Looking ahead, we are holding a workshop in conjunction with the IMA on the “Impact on Stakeholders of the new Assessment Review Board (ARB) Rules of Practice and Procedures”. This workshop will be held on 20th July in Mississauga, Ontario and will be looking in detail at what the new ARB Rules mean for taxpayers, their professional advisers, assessors and municipalities.

I am looking forward to my first visit to Fiji to speak at the 2017 Conference of Heads of Valuation Agencies (CHOVA) which is being held on 19th to 21st July. The conference will focus on “Shaping the Valuation Profession” and should be an interesting opportunity to meet up with colleagues from many valuation agencies around the world.

On 15th to 17th August we will be running another in our series of courses on “Expert Report Writing”. This topic is of increasing importance and is not limited to reports being written in the context of litigation. With the latest edition of the International Valuation Standards having recently been published, along with the latest version of the RICS “Red Book” on Valuation Standards, the need for good quality report writing is particularly important. This three-day workshop is being held in partnership with the prestigious Osgoode Hall Law School in Toronto and will be a very “hands on” training event.

In September, we will be providing two more webinars. The first, being run in partnership with the RICS on 7th September, will look at the valuation of contaminated properties. The second, being run in partnership with the IMA on 13th September, will focus on the quantification of physical, functional and external depreciation.

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.

In October, we will be running two more webinars. The first, being run in partnership with the RICS on 10th October, deals with preparing expert reports for valuation disputes. The second, being run in partnership with the IMA on 18th October, will be looking at the derivation of fair market rents for valuations of multi-residential properties, office buildings, and shopping centres.

The brochure is now available for the 6th Annual Caribbean Valuation and Construction conference that we will be holding with the RICS in 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 both local and international experts to share their experiences and best practice on a wide range of topical issues.

I am pleased to announce that the venue for our 2018 mass appraisal valuation symposium has now been finalised. It was held in Sydney, Australia in May this year, it will be held in Halifax, Nova Scotia, Canada next year in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia. We are looking forward to what I know will be another interesting and informative event in a great location.

More information about all our forthcoming events, along with registration and other information, can be found on our website.

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

Starting with the UK, as already indicated, businesses and local authorities are facing yet more concerns about business rates following the post-election dropping of the Local Government Finance Bill from the government's legislative programme. The Bill, which was introduced to the House of Commons in January and had reached the committee stage of scrutiny, was designed to implement a number of measures, including the framework for local authorities to retain 100% of business rates revenue; rate-setting and relief powers devolved to local authorities; additional levies to fund specified infrastructure projects; and modernised business rates billing. Commentators said with the Department for Communities and Local Government confirming the Bill has been dropped, the Government's flagship business rates policy has been abandoned, and there will be no reform of the business rates system until at least 2019. One said "The demise of this Bill highlights the Government's disarray over business rates policy, and is a hammer blow to UK plc's hopes of genuine reform in the near future. With the Government's flagship rates policy now up in smoke, it is clear that any hope of fairness for ratepayers has been kicked further into the long grass, despite a Conservative manifesto commitment to more frequent revaluations. Firms will be furious that, despite their protestations earlier in the year and Government promises of action, there will be no reform of a rating system desperately in need of modernisation. The abandonment of any pretence of change shows just how low a priority this is for the Government. Warm words by the Chancellor in March, and in the election manifesto, have failed to be followed up with actions.

A particular impact of the omission is that local authorities will no longer be given the powers to reduce business rates locally, a key element of the Bill. Firms had hoped this would lead, eventually, to a lessening of the grossly excessive burden, but such hopes have been dashed. Companies are once again being taken for granted, and the Government should be careful lest the unfair rates burden reaches breaking point."

In Israel, the Minister of Internal Affairs has decided to extend an administrative order imposing double municipal property tax on unoccupied housing units. The order authorizes municipalities to charge double property tax on housing that is unoccupied for a large part of the year. The order was originally issued in 2014, and the Minister wants to extend it. The matter will now be sent to the Knesset Finance Committee for approval. The Ministry said that the decision to extend the administrative order was designed to continue the incentive for owners of unoccupied housing to let their housing units. "This measure will increase the supply of housing units for rent, and significantly lower high rents. Many unoccupied housing units are owned by foreign residents who use them as vacation homes, and are little used during the rest of the year. The majority of them are located in large cities. Subject to approval by the Knesset Finance Committee, local authorities will be able to charge double municipal tax rates on residential properties not being used." One of the most prominent cities in which a large number of unoccupied housing units was found is Jerusalem. The Deputy Mayor of Jerusalem welcomed the decision to extend the administration order, saying, "The decision will enable the local authorities to continue to combat this unacceptable practice, which harms the economically disadvantaged and middle-class people who are not homeowners. Continued activity and stepping up measures will put an end to the phenomenon and put many more housing units on the rental market. Over the past two years, we are seeing a significant slowdown in activity on the housing market by foreign residents as a result of these measures, and we must continue acting in full force and escalating the sanctions."

In New South Wales, Australia, a new funding model for fire and emergency services is being introduced. Taxpayers across the state are receiving a notice from the state government explaining the new levy, which from 1st July will hit most property owners with an annual payment that will vary based on the unimproved value of their land and property type. It replaces the present system of a tax on insurance companies that is passed onto policyholders. The notice is titled: "A fairer levy for all of us", reflecting the government's pitch that the new system removes the unfair burden of funding fire and emergency from only those who have insurance, while the uninsured don't pay and still get the services. The problem is that, for many, learning how much they will pay per year, the new system seems anything but fair, even for those already paying the levy via insurance. A couple of the government's key assertions are being strongly challenged: that the system will mean an average saving of $47 for existing fully insured property owners; and that the average annual payment will be $185. The reality is - based on known land values and the government's online calculator - many property owners are about to be hit with a substantially higher sum, despite having been fully insured for years. Many furious owners say their bill will more than double - or even triple - in some cases. Further complicating matters is that the levy is moving from one paid in arrears to cover the previous year's fire and emergency services budget to one paid in advance to cover the coming financial year's funding. That means those whose insurance premium was due in the first half of this year will pay the levy twice in a calendar year - an imposition that is giving the impression they are being double taxed.

In the USA, the Tax Foundation has just published a paper with the following findings: property taxes remain the primary source of tax collections at the local level, responsible for 72.5 percent of local tax revenue in fiscal year 2014. Once a significant driver of state budgets as well, their share of state collections has dropped to a mere 1.6 percent. While they feature prominently in public debate, corporate income taxes only generated 3.7 percent of state and local tax revenue in fiscal year 2014. They are also among the more volatile sources of revenue for states. Individual income taxes are the second largest source of state tax revenue, though nine states forego the taxation of wage income (of these, two tax interest and dividend income). Income taxes are less pro-growth than consumption taxes because they discourage savings and labor force participation. Sales taxes generated 31.4 percent of state tax revenue in fiscal year 2014, and are a significant source of revenue for all 45 states which impose them. They also constitute a major local government revenue stream in some states, with local governments in three states deriving more than 40 percent of their tax revenue from sales taxes.

Iran has just announced a property tax overhaul. The new measures also emphasise the necessity of taxing vacant houses since Iran witnessed a frenzy in residential unit construction during the years leading to 2011-12. Previous laws obligated builders to pay 10% of the total value of the property in taxes, but values were hard to pinpoint. According to the new measures, private builders (both small and large-scale) need to pay 15-25% of their profit from the sale of a new house in taxes. Construction companies, which are licensed by the Planning and Budget Organization and housing cooperative companies, will have to pay 25% and 18.75% of their profit as tax, respectively. In addition to that, 5% of the value of residential real-estate deals still need to be paid in tax. The new measures, approved by the Cabinet to prevent tax evasion, only apply to buildings for which construction permits were issued after 20th May 2016, with the rest following the previous regulations. The Cabinet also agreed to exempt cities with a population of under 100,000 from property taxes. “About 13 trillion rials ($342.1 million) were collected from 300,000 new taxpayers in the last Iranian year,” a spokesman was quoted as saying by ILNA in May. Tax revenues constitute 36% of the government’s total revenues and close to 50% of the current budget come from tax collections.

Moving on to Pakistan, the government is set to further increase property valuation rates by about 30% for major cities of the country from July, a move that is expected to cause concern to real estate agents and traders much like it did last year. The move comes as the real estate sector, once labelled ‘dead for revenue purpose’, has started generating cash for tax authorities. As a result of the increase in property valuation rates for federal tax purposes under the first phase, the government’s revenues from the sector increased 100% to roughly Rs15 billion while property transactions also grew by one-tenth during the July-April period of the outgoing fiscal year. “Under the second phase, the government would notify fresh property valuation rates for major cities by 30th June,” said the Federal Board of Revenue (FBR) Chairman. He said that the rates would go up by another 30% on average, but these would still be lower than the actual prevailing market rates. The government also plans to increase the number of cities included in the plan from 21 to approximately 30. The new rates will be notified after the approval of the Finance Bill 2017. FBR officials said that there was a plan to bring Larkana, Khairpur and Shaheed Benazirabad under the ambit of the new property valuation regime. At least two more cities will be included in the list and Okara could be one of them.

In Greece, the government has practically admitted its inability to calculate the taxable value of farmland by extending its exemption from the supplementary property tax for another two years, according to a new tax bill tabled in Parliament. The draft law also provides for the lifting of professional data protection for the professional categories it applies to, upon the request of the head of the Independent Authority of Public Revenue. The supplementary tax is the property tax on top of ENFIA paid by owners whose properties add up to more than 200,000 euros in objective value terms. In 2015 the government and the country's creditors extended the supplementary tax to include farmland. However, this was not implemented in practice last year so farmland had to be exempted, and it will apparently be the same for 2017 and 2018 too, as the state has yet to find a reliable method of assessing its taxable value. According to the relevant report by the State General Accounting Office, the exemption of farmland is set to lead to a total loss of state revenues amounting to some 460 million euros – a burden lifted off taxpayers' shoulders.

The next phase of Saudi Arabia's white land tax will not be rolled out before 2020, a local newspaper has reported. In March, the Saudi government began levying a 2.5 percent land tax on undeveloped urban land (white land) planned for residential use, in a bid to address the housing crunch in urban areas. The tax on undeveloped land may also include commercial areas in the near future. The official said that the ministry is not aiming to control property prices or influence market dynamics. "Landowners will still have to pay the fees for the tax bills that were already issued even if they sell the land," he added. Saudi capital Riyadh is set to earn near 4.7 billion Riyals ($1.25 billion) annually in revenue from the first phase of the white land tax. A total of 2,278 undeveloped plots with an aggregate area of 635 million square metres have been registered under the scheme, according to the housing ministry's website.

And finally, it seems that it is not all smiles in Disneyworld despite its reputation for being the happiest place on Earth. Disney is taking the Orange County, Florida, property appraiser to court and has filed nearly a dozen tax-related lawsuits in Orange Circuit Court. The legal actions contend that Orange County Appraiser's analysis exceeded the Disney properties' fair market value and incorrectly "included the value of certain intangible property in the assessments." The tax assessments in question, according to court documents, include Disney's Epcot at $446 million, Magic Kingdom at $437 million, Hollywood Studios at $339 million, Caribbean Beach Resort at $209 million and Animal Kingdom Lodge at $153 million. Disney is seeking "proper" fair market and assessed values to be determined so it can receive a new tax bill. The company also wants to be reimbursed for courts costs. Last year, Disney, as well as other Orlando-based theme parks operated by SeaWorld and Universal, took the property appraiser to court over allegedly incorrect property values upon which their 2015 real estate taxes were based. Those suits are still pending. Let's hope these actions do not take the smile off Mickey Mouse's face!

Paul Sanderson

President

International Property Tax Institute