International Property Tax Institute

PRESIDENT'S MESSAGE

June 2017

I am pleased to report that IPTI's 12th Annual Mass Appraisal Valuation Symposium (MAVS) held in Sydney, Australia on 9th and 10th May was a great success. I would like to thank Simon Gilkes, the Valuer-General for New South Wales and Phil Western, IPTI's Director, Strategic Initiatives, Australasia for their help in preparing for the MAVS and in ensuring that it ran smoothly. I would also like to thank our sponsors, Tyler Technologies and AxiLogic for their support which contributed to the success of the event.

A few highlights of the MAVS - for the benefit of those who were unable to attend - included a lively opening presentation and welcome from the Minister for Innovation and Better Regulation who kindly attended even though he was due to attend a sitting in Parliament. He was followed by the senior official in charge of the Department of Finance Services and Innovation who spoke about the importance of innovation which was both topical and relevant as the theme of the MAVS was "Innovation, Adaptation and Best Practices".

There were far too many great presentations and experienced speakers from around the world to mention them all, but I was very pleased with the quality of the plenary and breakout sessions, the variety of subject-matter covered, and the amount of audience interaction. If anyone would like to review the programme and see some photographs from the MAVS, please visit our website: www.ipti.org

I should add that we had a very enjoyable networking reception at the end of the first day of the MAVS which provided an opportunity for all participants to get to know each other and share some experiences. We also had some wonderful weather which helped to enhance the overall experience, particularly for those international visitors who were able to include a bit of touring within their travel itineraries.

We held a meeting of IPTI's Board of Advisors for those Members of the Board who were with us in Sydney. That provided an opportunity to not only review and comment on the MAVS, but also consider IPTI's role, its strategy, and future direction of travel.

At the time of writing this note, we are in the middle of a "snap" election in the UK. It is interesting to note that, along with all the usual "entertainment" that goes with a general election, UK property tax gets a mention in all the main party election manifestos.

For example, the Conservative Party - the present governing party - states *"We know that the business rates system presents considerable challenges to some smaller companies. That is why we have supported* *those businesses most affected by the recent revaluation of business rates. That is not all we will do. We will make longer term reforms to the system to address concerns about the way it currently works. We will make sure that revaluations are conducted more frequently to avoid large changes to the bills that businesses face, and explore the introduction of self-assessments in the valuation process. To ensure the system is sustainable for the future we will also conduct a full review of the business rates system to make sure it is up to date for a world in which people increasingly shop online."*

The Labour Party - the present "opposition" party - states *"A Labour government will give local government extra funding next year. We will initiate a review into reforming council tax and business rates and consider new options such as a land value tax, to ensure local government has sustainable funding for the long term."*

The Liberal Democrats - the third largest party - state they would *"Introduce a package of reforms to business rates - including switching from RPI to CPI indexation, exempting new investment in plant and machinery from valuations, and ensuring that businesses have access to a proper appeals process - while reviewing the entire business rates system in the longer run."*

So, some interesting points covered in these documents including the overall fairness, or otherwise, of the existing UK property tax systems, the need for more frequent revaluations, the possibility of self-assessment, the need to improve the appeal system, the possible introduction of land value taxation, and the need to deal with the issue of online businesses, particularly their impact on retail properties.

I mention these issues not just because they feature in the general election campaign, but also because all of them also featured in presentations and discussion at our MAVS. That is hardly surprising as they are the main points on concern about most property tax systems around the world.

Indeed, the international research that IPTI is currently undertaking for a private sector corporate client covers all these factors and highlights the differences that exist between property tax systems in different parts of the world. Perhaps the overriding issue, which encompasses all these key points, is fairness. In simple terms, most people and companies don't like paying any form of tax, but they are more likely to accept the need to pay a tax which they understand - both in terms of what it is based on and what it is intended to provide - and consider to be fair in terms of what they are being asked to pay, what they are receiving in return, and how their payment compares to other taxpayers.

Most of you will be aware that IPTI's mission statement is *"to provide impartial, objective expert advice in the area of property tax systems and promote the concept that these systems should be fair and equitable and meet the needs of all stakeholders, i.e. governments, taxpayers, practitioners and academics. IPTI seeks to ensure that property tax systems contribute to the provision of high quality services for the benefit of communities."* You will see that "fairness" is key in our view.

Just looking back over May, in addition to the MAVS, we have been involved in a number of webinars. The first of these covered the topic of "Mediation as a Form of Alternative Dispute Resolution" and was delivered in partnership with the Royal Institution of Chartered Surveyors (RICS). We are running a series of webinars with the RICS over the coming months.

I was one of the presenters for this webinar and my co-presenter was a very experienced mediator based in Vancouver. I am sure most of you will be aware that mediation is increasingly being used as a more cost-effective and efficient alternative to traditional litigation. In addition to time and cost savings, one of the attractions of mediation is that the process remains within the control of the parties throughout. From the feedback, it seems that the webinar was well-received by all those who participated. I should add that IPTI offers an expert, impartial mediation service for those involved in property tax or related disputes.

The next webinar we delivered was on the topic of "Preparation for Litigation: Interaction between Expert Witness and Legal Counsel". This was one in a series of webinars we are delivering in partnership with the Institute of Municipal Assessors (IMA). I was one of the presenters for this webinar speaking primarily from the perspective of an expert witness. My co-presenter was a very experienced lawyer based in Toronto who focussed on the perspective of the lawyer involved in property tax appeals. It was a timely and useful topic to cover as the law and practice in this area is changing and both experts and lawyers need to work closely together in order to deliver the service that is required.

Looking ahead, we have a large number of people registered to attend our property tax workshop on 1st June on the issue of "What Does Equity Mean". This workshop is being held in Mississauga, Canada and will be exploring the issue that, having prepared a valuation, the principle of equity must be considered, i.e. the assessment of a property has to be equitable with that of similar properties in the vicinity. Whilst this is a particular requirement of the legislation in Ontario, it is a principle that applies in many jurisdictions; is accuracy in valuation more important than consistency/uniformity?

On 29th - 30th June we are holding an invitation-only meeting on the subject of "Strengthening the Property Tax in CEE Countries: Improving Administration and Tax Policy". The event is being held in Vilnius, Lithuania in partnership with the State Enterprise Centre of Registers (SECR), Lithuania. It promises to be a very interesting discussion of issues concerning countries in Central and Eastern Europe (CEE).

Looking further ahead, we have the CHOVA conference in Fiji during July, another Osgoode Hall-IPTI training session on expert reports in Toronto during August, a Property Tax Workshop in the USA during September and what promises to be a very topical conference in Trinidad in November. As usual, more information about these and other events can be found on our website.

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

In Japan, the government is moving to cut taxes on operators of high-tech indoor farms to encourage more businesses to enter the sector and turn "smart agriculture" into a growth industry. Under current law, when a company paves over farmland to build an indoor farm, the land is no longer treated as agricultural. That makes it subject to much higher property taxes. The government will seek to reduce the tax burden by proposing that such land continue to be treated as farmland. Under the proposal, the agriculture ministry will revise the agricultural land act and the definition of farmland so that operators of indoor farms do not face a high tax burden. According to the internal affairs ministry, the property tax levied on land used for indoor farming averaged 12,000 yen ($107) per 10 acres for the year through March 2016. That is more than 10 times the 1,000 yen rate for farmland. Industry backers, including the Japan Chamber of Commerce and Industry and Osaka Prefecture, have been calling for deregulation.

In North Korea, the government has raised the land tax rate that it imposes on residents by 75 percent and angered residents, many of whom regard these plots as a valued part of their livelihood system. North Korea does not officially have a system of property taxation; however, it began to collect land taxes in the early 2000s. Since then, the regime has raised the rate slightly, but it remained around 40 KPW (approximately 0.005 USD) per pyeong (1 pyeong = approximately 1.8 square meters). Last year, however, the price rose considerably to 70 KPW/pyeong. “The land tax rate suddenly rose by 30 KPW at the end of last year,” said an inside source from North Hamgyong Province, “The authorities have initiated an additional collection this spring targeted at residents who were unable to pay last year’s land usage fee. The price difference might not seem very significant at first glance, but for residents who have a lot of land, this is a significant amount,” he added. “Let’s say I own 1,000 pyeong of land. That means that I’ve suddenly found out that I have to pay 30,000 KPW (~3.75 USD).” At today’s rates, 30,000 KPW is enough to purchase about 6 kg of rice in the marketplace. For most residents, this is a significant sum.

In Greece, the divergence between so-called “objective values,” or property rates used for tax purposes and actual market prices, is as high as 70 percent in some cases, according to recent transaction data. It is a difference that continues to burden owners, buyers and sellers alike, even though objective values were adjusted downward a year ago. Commercial values remain significantly lower, whether this concerns houses or commercial properties, and the difference is even greater in areas with high objective values, which are completely obsolete. In the northern Athenian suburb of Palaio Psychico, for instance, a 350-square-meter detached house was recently sold for 1 million euros, while its objective value (on which the Single Property Tax, or ENFIA, is calculated) is set at 3.2 million euros. Similarly, in nearby Halandri, a 40-year-old flat was sold at 20 percent below its objective value, and a 1982 apartment in Argyroupoli, eastern Athens, was sold 31.25 percent below its taxable price. According to a local expert, the larger a property’s surface and the more exclusive its location, the bigger will be the difference between its market rate and objective value. “This is due to the fact that objective values are calculated according to parameters such as the properties’ size and the qualitative features of each area. Therefore, while in the eyes of the taxman a property may appear expensive, in practical terms this is not reflected in the going rate, as the market remains at very low levels,” he said. The gap between taxable and market rates remains wide despite a ruling last year by the Council of State that forced an adjustment. This is because the implementation of an automatic adjustment system that would match objective values to market prices has not started yet, even though it had been a prior action demanded in the government’s previous midterm fiscal plan. The latest deadline set for the system to start operating is January 1, 2018, but no one is certain it will be ready by then either.

Moving to Ireland, the Vacant Sites Register is coming into force under the Urban Regeneration and Housing Act 2015. Dublin City Council is in the process of compiling its Register and will be issuing notifications to property owners shortly. Property may be included in the scheme if (a) the site is in excess of 0.05 hectares and (b) it is zoned for residential or regeneration purposes. Commercial, recreational, agricultural or industrial use will not be affected. The Act’s aim is to reduce the number of properties lying dormant in areas in need of housing and the Local Authorities have been given wide powers to determine whether or not a property is to be included. A 3% levy of the market value is payable in arrears and the charge for 2018 will be payable in January 2019. The market value is to be determined and reviewed at least every 3 years. The Planning Authority is entitled to inspect the property and report on its value at such reasonable times as the Planning Authority considers necessary. If access is denied, a valuation will be estimated by a suitably qualified person authorised by the Planning Authority. An unpaid vacant site levy will remain as a charge on the land concerned. This will have implications on the sale of a property which has been subject to the levy. The levy will have to be discharged prior to sale and a certificate of discharge will be required to be provided to the purchaser.

A recent study in the USA listed properties that pay the top 100 property taxes in the country. The study found that 83 of the 100 highest property taxes in the country are in New York City, topped off by the General Motors Building, which paid a total of $71,681,674 in taxes in 2016. Manhattan buildings as a whole paid a combined $2 billion in property taxes that year. The most expensive street in America seems to be The Avenue of the Americas in New York, as it holds 15 of the properties on the list. While New York held the largest share by far of highest property taxes, the next highest state, Illinois, holds only 7 spots on the list, a small sum compared to New York's 83. Other states represented are California, Minnesota, Maine, New Jersey, and Texas. What may surprise some is the buildings that did not appear on the list. Iconic buildings like the One World Trade Center, the Chrysler Building, and the Woolworth Building were all missing from the list due to their tax-exempt status. Trump Tower is also excluded, as its 486 privately-owned condominiums make calculating exact property taxes difficult. On the West Coast, Disneyland Resort is the only property to make the list. The resort paid $16 million in property taxes in 2016. Other notable properties outside of New York include Texas's only contribution to the list, the North Park Center in Dallas, with over $17 million in property taxes.

In Australia, there has been criticism of the plan to tax vacant property in the state of Victoria. It is likely to be "tricky'' to police and well-meaning landholders could be swept up in the new tax. "A vacancy tax is a good idea, and a number of cities around the world are doing it,'' one commentator said, "But the issue here is how 'vacant' is defined and what kinds of proof the State Revenue Office will accept.'' Under the government proposal, owners will pay 1 per cent of the property's capital improved value if they do not live in their house, in 16 inner-city suburbs, for more than six months a year. Holiday homeowners will also be affected and must prove they spend at least four weeks in the property. Short-term rentals, including Airbnb properties, must also be occupied more than half the year. The Bill is being considered in the Legislative Council as the federal government unveiled plans to implement a $5,000 tax if investors left residential properties empty or failed to rent it out for six months per year.

The government in Denmark has secured what is described as a new property tax deal which means that property owners can avoid tax increases, unless they move from their current homes. The agreement ensures that no property owners will pay more in property tax annually than they currently pay today, as long as they continue to reside in their current properties. More specifically, the move means that all increases in property tax after 2017 can be frozen. A temporary freezing initiative for property owners' land value tax (grundskyld) will be initiated for the years 2018-2020, after which it will be replaced by a permanent freezing initiative that encompasses all nominal increases in overall property taxes for owners. That means that despite any increases in land value tax or property valuation, as property prices rise, the annual fee will not increase in terms of kroner and øre. However, part of the difference that is frozen will have to be paid should the property be sold. The agreement also entails the common rate of property tax being reduced to 0.55 percent, while the limit for the progressive property valuation tax rate will be taxed 1.4 percent on properties valued at 7.5 million kroner or more for the value that exceeds that limit. The new tax rates will come into effect in 2021.

Ontario has become the second province in Canada to impose an extra tax on overseas property buyers in a bid to cool its residential real estate market. Last year the British Columbia Government introduced an additional 15% tax on international buyers purchasing in parts of Vancouver but it was watered down after sales fell to allow foreign citizens with work permits living in the city to pay the normal rate of property tax. Now Ontario has introduced a 15% Non-Residential Speculation Tax (NRST) covering purchases in the Greater Golden Horseshoe, an area encompassing the Greater Toronto Area and its surrounding municipalities. It is payable by both individuals and corporations and is part of a wider set of real estate regulations, including controls which limit rent increases to 1.5% above inflation. There will also be an extra tax on owners of empty homes and plans to use surplus land for affordable housing. Both Toronto and Vancouver have seen property prices rise substantially compared to the rest of the country. In the Greater Vancouver area, the price of a home increases by 12.3% year on year to $1,179,482 while in the Greater Toronto Area the average price of houses rose to $1.21 million last month, up 33.4% year on year.

Moving on to Africa, in Uganda Jinja Municipality Council has closed most buildings on the Main Street over failure by landlords to pay property tax. Business people found their shops closed with a seal and a document saying legal action would be taken if the seal is removed. “These premises have been closed due to failure to pay property tax; please make sure you clear all your dues to zero balance. Failure to clear all dues shall warrant the council to take legal action against you, and any attempt to interfere with the seal shall result into prosecution of the culprit in courts of law,” the document reads. More than 200 business owners of retail shops, restaurants and pharmacies are now counting losses after the operation to crack down on defaulters of property tax. A Jinja Municipality public relations officer said “The property tax arrears for the last two years are Shs500m so we have to close these buildings to enable us recover the money so that we can deliver the services to residents of Jinja.”

And finally, we return to the UK for an embarrassing situation. A grieving son has branded a local council as "extremely insensitive" after receiving a letter about his mother's council tax bill. The letter to the 95-year-old woman, which followed her son contacting the council to let them know that she had died, said she would no longer get a reduction from her bill. Her son said: "The letter from the council says, Dear Mrs Davies, the reason for the calculation is that you've passed away." The council said it was extremely sorry for causing upset. It reminds me of that old phrase about death and taxes!

Paul Sanderson

President

International Property Tax Institute