PRESIDENT'S MESSAGE

September 2017

It is interesting to see how property taxes are being used in some countries as a means of "persuading" the world's wealthiest people not to leave properties empty. This is a current issue in London and many other major cities around the globe who have been grappling with the problem of "buy-to-leave". Higher rates of tax for owners and buyers seem to be the preferred choice. In Vancouver, where an estimated 20,000 properties were lying empty all or much of last year, a new tax on empty homes was introduced at the start of this year. The city is now charging 1% of the value of any property left empty for at least six months a year. Owners must declare that this is the case, or face fines of up to $10,000 a day if they do not and are found out. On a property worth $500,000, the annual bill is $5,000 and as the property rises in value, so does the penalty for leaving it unused. In the days running up to the first taxes kicking in, six months into the year, local media reported that homeowners were caught in a "scramble to rent", or considering selling up to avoid the tax. The response suggests that the threat of taxation was having the desired effect.

Similar measures are in the pipeline in Australia, where more than 100,000 homes are believed to lie vacant in Melbourne and Sydney, while locals struggle with affordability. From January 2018, anyone who owns a home in Melbourne and leaves it empty for more than six months will face an annual tax equal to 1% of its value. Across Australia, the most recent budget brought in an annual charge for foreign investors who buy-to-leave. Any new purchasers who leave a property unused for six months face an annual charge of at least AU$5,500. In Paris, the city has recently increased its annual surcharge for owners who keep properties empty. Since 2015, second-homeowners in France's most pressurised housing markets have paid a 20% premium on the annual *taxe d'habitation* property tax. However, since the end of January, those in Paris have been charged 160% of the standard rate. The city also offers grants and incentives to encourage owners to rent out properties not in use.

Another measure introduced in cities across the world has been an extra tax for overseas buyers – arguably those most likely to be speculators. Most have been targeted at cooling house price inflation, but may have also dampened people's enthusiasm to buy somewhere they don't intend to live in. Since August 2016, the purchase of properties in and around Vancouver has been more expensive for buyers who are not Canadian or based in the country - they pay an extra 15% in tax when they buy. Figures from a local property firm show that annual house price inflation in the city is now running at just 2%, compared with over 30% in the months before the tax came into effect. Meanwhile, the percentage of homes selling to foreign investors across British Columbia has fallen, from almost 8% in June 2016 to under 4% in May this year. Toronto is also bringing in a 15% surcharge for overseas buyers, while in Australia there is a renewed determination to collect capital gains tax from foreign buyers when they sell. The country, which already forced potential investors to apply to the government before purchasing property and generally refuses to let them buy existing homes, is also limiting overseas purchases of new-build developments. Only 50% will be allowed to be sold to buyers from overseas. In Hong Kong, stamp duty for foreign buyers was set at 15% in 2012.

It will be interesting to see how successful or otherwise these policies prove to be. The latest reports from Toronto indicate that house prices are falling dramatically which seems to suggest that the policy is working, but this creates problems for "ordinary" people looking to move home. Of course, a potential problem with higher taxes on empty homes is policing the rules; reliance on self-reporting may create problems. Another issue is that what may be "forced" back onto the market is likely to be luxury property, which might not be immediately useful to those struggling to get on the housing ladder.

Another perennial concern in connection with property tax systems is the issue of exemptions and reliefs. If one person pays less, it means that others have to pay more, if the same overall amount of revenue from property tax is to be generated. A recent case from the USA highlighted the issue of a property tax exemption afforded to private hospitals. In common with many private hospitals, the two involved in this litigation were exempt from paying property taxes under legislation that allows charitable, benevolent and religious organizations to avoid such taxes. The practice of exempting hospitals has been scrutinized recently by some who feel modern hospitals operate rather differently to their predecessors. A commentator stated, "Early on, hospitals were (operated) from a charitable or benevolent perspective, but the emphasis has changed from that primary perspective to be run like a business - decisions are made based on profit and loss." He went on to say that part of the legal disagreement stems from the fact that there has never been a clear definition for what makes a hospital "charitable" or for profit. "Is it five percent, ten percent or thirty percent that you're giving away? No one knows," he said. "I don't think there's been adequate case law to clarify it." His concerns have been echoed by other county assessors, as well as state legislators looking at ways to raise funds. But local hospital administrators have challenged the idea that hospitals are a font of readily available dollars. "There's a perception that hospitals are flush with cash" said a hospital spokesman, "but that's not true. There is a lot of pressure on large, medium and small hospitals." In addition, he said, "the hospital participates in other charitable endeavours, such as classes hosted by the hospital's education department, and free transportation services to and from the facilities for patients who need it." The outcome of this litigation is not yet known, but we will follow it with interest.

No doubt the arguments will continue over who or what is, or should be, liable for property tax and who or what should be outside the system and, if excluded, what justification there is for such exemption or relief. In IPTI's view, these decisions are ones for politicians to determine on the basis of fairness; however, IPTI always recommends that the true opportunity cost (i.e. the revenue foregone) of such exemptions and reliefs is calculated and published to inform policy-makers and the public alike. This is an area of property tax systems where greater transparency and awareness is required.

Looking back, during August, we were busy with a number of projects, some of which included the issue of exemptions and reliefs, and I am pleased to say that we have been able to provide clients with reports that they have found helpful in clarifying a number of issues we were asked to research. We are also working on a number of other projects at the present time and it seems there is no shortage of demand for the type of specialist expertise that IPTI has and, in particular, for the impartial way in which it provides its knowledge and experience.

Looking forward, we have a busy period with events lined up for the rest of the year. In addition to speaking at a number of conferences run by other organisations over the coming months, we will be delivering a series of webinars, workshops and conferences.

On 7th September, we will be holding another in the series of webinars we deliver in partnership with the Royal Institution of Chartered Surveyors (RICS) on the topic of "The Valuation of Contaminated Property". We will be considering the challenges of valuing properties which suffer from some form of contamination. It will look at environmental impairment and how it impacts on valuation. Valuing property that is subject to some form of contamination is particularly difficult. Much depends on the nature of the contamination/impairment and the type, and cost, of necessary remediation works, so this will be an interesting an informative event.

On 13th September, we will be holding another in the series of webinars we deliver in partnership with the Institute of Municipal Assessors (IMA). This will be on the topic of 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 market 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. 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. In addition to being an interesting and informative event, the annual COST-IPTI property tax workshop is always very enjoyable so I hope as many corporate representatives as possible will be able to join us in Chicago.

On 3rd October, the European American Chamber of Commerce (EACC), in co-operation with IPTI, is holding a meeting in New York on the topic of "Smart Cities & Smart Buildings: The Future of Commercial Real Estate in the US and across Europe". A number of experts in commercial real estate, investment, and sustainability will come together to discuss market updates and interesting new trends in sustainable real estate development, smart cities and smart buildings, and how to create a future with better and more sustainable cities. We will also be considering how property tax systems can contribute to this issue.

On 4th October, we will be holding a joint IMA/IPTI workshop on the "Role of Expert Witness and Advocate in Assessment Valuation Disputes – is there a Conflict?". This one-day workshop is being held in Mississauga, Ontario and will bring together a number of lawyers and expert witnesses to discuss and debate the issues.

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.

Looking 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 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. Property tax is particularly topical in Trinidad & Tobago at present as the government are reintroducing property tax and are keen to ensure that this task is undertaken carefully.

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 typical parcels of land.

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 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.

So, lots to look forward to over the coming months and, if it is not already in your diary, please remember that the date for our 2018 Mass Appraisal Valuation Symposium (MAVS) has now been finalised. The 2018 MAVS will be held in Halifax, Nova Scotia, Canada on 5th and 6th June in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia.

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.

In Japan, there is an estimated 4.1 million hectares of property whose owner is not known according to a recent study by a private-sector group. The presence of such tracts of land not only hinders collection of fixed asset taxes by local authorities, but could hamper public works construction and other government projects like farmland consolidation. According to the study group, the owners of 20.3 percent of the nation's total registered land plots are not known. The ratio differs depending on the type of land - 14 percent for residential property, 18.5 percent for farmland and 25.7 percent for forested areas. The problem is that it is not legally required for private owners to register their land. When Japan's population was on the rise and the utility value of land was increasing, people who inherited land handed down by family members were conscious of the importance of officially registering their plots. But in the last 50 years, the mass exodus of workers from rural to urban areas led to a decline in the price and utility value of farmland and forested areas - a trend now exacerbated by the fall in the nation's population. People's attitude toward inheriting land has been changing. Some tracts are left deserted when their owners pass away, while some people who inherited such plots did not bother to register themselves as the new owners. Some landowners are believed to avoid registration to escape the burden of related taxes. The study group says that the national government needs to quickly work out an effective plan of action. For example, local authorities could urge people to register the land they have inherited when they come to municipal offices to submit obituary notices for their relatives. One option may be lowering the associated land registration tax. Another option may be making land registration mandatory and punishing those who violate the rules.

In South Korea, the government has launched measures to stabilise the country's surging property market, including tighter mortgage rules and a jump in capital gains taxes on owners of multiple homes. The government designated the capital Seoul - home to 20 per cent of the country's 50m population - and two other cities as targets for a crackdown on property speculators. Owners of multiple homes in the selected areas will face capital gains tax increases of 10 to 20 percentage points - on top of the existing levies of between 6 and 40 per cent. Within the designated areas, homebuyers will be prevented from borrowing more than 40 per cent of the property's value, and mortgage payments will be capped at 40 per cent of the buyer's annual income. The property market was a bright spot in South Korea's slowing economy in 2016, with construction investment jumping 10.8 per cent year-on-year - four times faster than the nation's economic growth of 2.6 per cent. The economy is forecast to grow 3 per cent this year. The average apartment price in Seoul has risen more than 20 per cent over the past four years to exceed Won600m ($535,000).

In Croatia, after a petition against a proposed law to introduce property taxes attracted many signatures, the Croatian government decided to postpone its implementation. The decision came after a petition launched by a consumer protection NGO - Lipa - attracted over 130,000 signatures demanding the law be withdrawn and claiming that "Croatians do not want new taxes to be imposed". The new property tax law, which was originally to be implemented from next January, was to replace the current communal fee collected by local authorities. The new law would impose bills on people with more than one home, or who do not use their real estate. Many people in Croatia have holiday homes, mostly on the coast. People also complained about the vagueness of the form they would have to fill in, and about the lack of instructions. As most people do not like paying any form of tax, it will be interesting to see if this example of “democracy in action” has any further impacts.

In Vietnam, the Ministry of Finance believes that it is necessary to tax second and subsequently owned homes to restrict property speculation and oversupply. The revenue from property tax makes up 2 percent of GDP in OECD countries and 0.6 percent in developing economies, according to the ministry. In Vietnam, housing purchases have increased as the average income per capita rose from US$1,400 in 2013 to US$2,200 in 2016. It is expected to rise to US$3,400 by 2020. A local newspaper quoted a source from MOF as saying that it is still unclear when the policy on taxing second homes would be applied. “The property tax law is included in the medium-term law compilation program 2016-2020. MOF is still researching the issue,” the source said. In Vietnam, there is no specific property tax law, but there are taxes related to property such as the tax on agricultural and non-agricultural land use. However, the policies have not resulted in a stable revenue source for the state budget. The taxation of house owners was first proposed in 2010 but the draft was amended and approved as a non-agricultural land use tax law. The government then suggested three taxation solutions. First, imposing a single tax rate of 0.03 percent on houses with taxable value of VND500 million and higher. Second, taxing houses based on their area, and third, zero percent tax on houses valued at up to VND500 million, and 0.03 percent tax on the rest. The government preferred the third solution.

And finally, regular readers of this newsletter will recall that I have mentioned - on more than one occasion - the “unusual” practice carried out in parts of India where a band is engaged to play loud music non-stop outside the property belonging to a person who has not paid property taxes due; the band continues to play until payment is made. It seems that the “Band Bajaa” deployed to shame property tax defaulters may be illegal. A local paper reports that “Four years after it was launched with much pomp, it now transpires that Pune Municipal Corporation’s (PMC) decision of using brass bands to humiliate property tax defaulters in order to make the collections is, in fact, illegal. This has been brought to light by civic activists and a newly-inducted Nationalist Congress Party (NCP) corporator; both have emphasised that it is not part of the Maharashtra Municipal Act. It does not help that this year the corporation has budgeted Rs 25 lakh for the initiative. The NCP corporator said, “The Act provides for a different mode of recovery. There is no mention of playing brass bands to recover pending property tax. This is absolutely an illegal act and the corporation should stop it.” This will no doubt come as “music to the ears” of defaulters!

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