IIFI IPTI
International Property Tax Institute

PRESIDENT'S MESSAGE

December 2017

As this will be my last monthly newsletter before the festive season which starts later this month, may I wish all of you a happy and enjoyable time with family and friends over the holiday period.

Many readers will have been interested in the recently released "Paradise Papers" which, published during November, provoked widespread media attention. For those who may not be so familiar with them, the Paradise Papers are a set of 13.4 million confidential electronic documents relating to offshore investments that were leaked to a German newspaper. The newspaper shared them with the International Consortium of Investigative Journalists and a network of more than 380 journalists which is how they became so well known.

The documents originate from an offshore law firm, corporate services providers, and business registries in 19 tax jurisdictions. They contain the names of more than 120,000 people and companies including heads of state and other prominent people. At 1.4 terabytes in size, this is second only to the Panama Papers - which came to light in 2016 - as the biggest data leak in history.

According to some who published them, the name Paradise Papers reflects "the idyllic profiles of many of the offshore jurisdictions whose workings are unveiled", so-called tax havens, or "tax paradises". The papers are a huge leak of financial documents that throw light on the top end of the world of offshore finance. They show how politicians, multinationals, celebrities and high-net-worth individuals use complex structures to protect their cash from higher taxes. They also throw light on the legal firms, financial institutions and accountants working in the sector, and on the jurisdictions that adopt offshore tax rules to attract money.

So, what does this high-profile leak have to do with property tax? The short answer is that it emphasises, yet again, one of the main strengths of property tax which is that it is very difficult to avoid. In these days of increased "fluidity" of wealth, there are sound reasons for increasing the use of property tax as a major source of revenue for the provision of public services.

The latest OECD data on property tax shows that, for most countries, only a relatively small part of their revenues come from property tax; the average is less than 2% as a percentage of GDP, and less than 6% as a percentage of total taxation. Many international organisations (OCED, IMF, World Bank, EU, etc.) have urged countries to increase the proportion of revenues derived from property tax but, so far, there seems little sign of movement. Perhaps the Paradise Papers may refocus attention on property taxes.

Anyway, I will now have a quick look back at November to let you know what has been happening in connection with IPTI activities. We started the month in Trinidad where we held our annual Caribbean conference in partnership with the Royal Institution of Chartered Surveyors (RICS) and in cooperation with the Institute of Surveyors of Trinidad & Tobago (ISTT). This was a very well-attended event with a wide range of topics and local, regional and international speakers. I was very pleased that we were able to pack so much professional content into the two days of the conference and have a very enjoyable networking reception in between the two days. My thanks to colleagues from both the RICS and the ISTT for helping to make this such an informative and interesting conference.

From Trinidad I flew to Toronto where we held a one-day workshop in partnership with the Institute of Municipal Assessors (IMA) on the topic of "Written Advocacy - Preparation of Briefs and Reports following the ARB's New Rules of Practice and Procedure". As indicated in the title, the Assessment Review Board (ARB) in Ontario has issued new rules and it is important that property taxpayers and their professional advisors understand the rules and follow them carefully. My contribution was on the issue of writing effective expert reports, a subject which assumes greater importance in view of the increased reliance on written evidence in dispute resolution.

Whilst I was in Toronto, I attended the inauguration of the new RICS President, John Hughes. John has spoken at many IPTI events over the years and he kindly invited me to be the Master of Ceremonies at his inauguration reception and dinner which was held at the impressive Ontario Art Gallery. This was a very enjoyable event and I would like to wish John well during his time as President of the RICS.

During November we held another in our series of IMA-IPTI webinars, this time on the "Valuation of Land: Theory and Application". The valuation of land for property tax assessment purposes is a challenging and difficult process and requires careful consideration of the highest and best use of the land. The webinar, which was well-received, involved two very experienced presenters who shared practical examples of the valuation of typical parcels of land with the audience.

When I was back in the UK in mid-November, I was involved in another in our series of RICS-IPTI webinars, this time on "Giving Expert Evidence in Valuation Disputes". My co-presenter was Peter Smith who recently became Chair of RICS Americas; I wish him well in his new role. In this webinar we looked at what appraisers and assessors need to know about giving evidence in litigation concerning valuation disputes. We had good audience participation with plenty of questions being raised by attendees. As with the IMA-IPTI webinars, this event was recorded and can be made available to anyone who was unable to attend the webinar; please see our website for details of how to access this material: www.ipti.org.

Also in November, and in partnership with the RICS, we held our annual professional briefing meeting in Toronto. The main topic was "Assessment and Property Tax - Changing the Culture of the Industry". This event involved a number of speakers who considered, among other issues, the arrangements for access to information and how to improve fairness for all stakeholders involved in the property tax system.

The final event I attended in November was a meeting in London organised by the Rating Diploma Holders Section of the RICS. The main speaker was an eminent QC who reviewed recent case law concerning business rates (the property tax in the UK relating to business properties) which was very interesting.

Looking ahead, we will be holding a meeting of IPTI's European Corporate Advisory Committee in London on 5th December. This is a meeting at which we will review a number of issues concerning corporate entities in connection with property tax. The main focus will be on business rates in the UK, but the committee will also be considering wider topics that affect corporate property tax managers dealing with Europe and the rest of the world. IPTI's main Corporate Advisory Committee had a "virtual" meeting in November at which, among other matters, they discussed a forthcoming one-day workshop to be held in Chicago on 24th April 2018 on the subject of "Managing Property Tax Portfolios - Multi-Jurisdictional and Global Challenges" which will be very interesting.

On 13th December, 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. I will be one of the presenters for this webinar and my co-presenter is a very experienced lawyer, so it should be a good session.

On 23rd January 2018 we will be holding a virtual meeting of IPTI's Board of Advisors. I am very pleased to announce that Neill Sullivan, the Valuer-General for New Zealand, has joined our Board. Other Members of the Board include Roman Adler (Japan), Michael Blaschuk (Canada), Jan Brzeski (Poland), Claudia de Cesare (Brazil), Riel Franzsen (Africa), Pierre Galardo (Canada), Alena Holmes (Czech Republic), Larry Hummel (Canada), Zhang Jian'gang (China), David Magor (United Kingdom), Enid Slack (Canada), PK Tang (Hong Kong), Jack Walker (Canada), Phil Western (Australia), and David Wilkes (USA). We are very fortunate to have such distinguished individuals on our Board of Advisors.

On 24th January 2018 I will be speaking at the annual RICS Rating Conference which is being held at the St James' Court hotel in London. Although the main focus of the conference will be on business rates in the UK, I will be bringing an international "flavour" to the event by comparing and contrasting property tax in the UK with other jurisdictions around the world.

And finally, for this brief look ahead, a reminder about our 2018 Mass Appraisal Valuation Symposium (MAVS) which will be held in Halifax, Nova Scotia, Canada on 5th and 6th June 2018 in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia. We will also be holding a pre-symposium one-day workshop on 4th June 2018 entitled "Addressing Challenges in Property Taxation". This workshop will be looking at why so many countries and jurisdictions around the world experience difficulties in administering property tax systems effectively and efficiently and how to address the issues.

As usual, therefore, we have lots to look forward to over the coming months. More information about all our forthcoming events, along with registration and other details, can be found on our website: www.ipti.org. I should add that we also have a photo gallery on our website containing selected pictures from our recent events.

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

A recently published report found that Canadian cities shifted more of the property tax burden to home owners from business owners in six of ten major centres in 2017, but Vancouver went the other way by moving the ratio in the direction of residential owners. The study found that Vancouver's commercial tax rate of $12.44 per $1,000 of assessed property value was the highest in Canada in 2017 when compared with the city's tax rate for residential homes at $2.55 per $1,000 of value. Vancouver's commercial tax rate ($12.44 per $1,000 of property value in 2017) appears low compared with Halifax's commercial rate of $33.18 per $1,000 of value, but Vancouver's rate is applied to properties worth more on average. Regina lowered its tax ratio between commercial and residential properties the most in 2017, the report shows, with businesses paying a tax rate 1.75 times higher than the residential rate, a drop of almost 22 per cent from a ratio of 2.23 in 2016. Saskatoon had the lowest ratio in Canada at 1.72 in 2017. Both Saskatchewan cities do reassessments of property values every four years, and 2017 was the first year in a new reassessment cycle. With higher overall assessed values, city governments rebalanced tax rates with a continuing pro-business stance. Toronto's ratio of business tax rates compared with residential rates fell to 3.81 in 2017 from 3.84 in 2016. Toronto had a policy goal of bringing the ratio down to 2.5 by 2020, but this year extended the deadline to 2023. Calgary raised its commercial and residential tax rates in 2017 following a slump in assessed property values, but raised commercial tax rates by more. The ratio between the two rates climbed to 2.73 in 2017 from 2.58 last year.

In Albania, the ministry of finance and economy announced that citizens will start paying a new property tax from January 2018. The new tax is part of the 2018 state budget that the government submitted to Parliament for approval, the ministry said. According to the ministry, the new property tax system will be based on the market value, different from the current fixed based tax. Based on estimations, the tax is intended to increase at around 0.5 percent for citizens and to 0.15 percent of the property value to properties utilized for business purposes. The ministry also stated that government properties, non-profit utilized property, social houses belonging to municipalities and religious-used property will be exempt from the new tax system. The revenues from real estate property tax will be deposited into the budget of the local authority where the property is located. The immovable property tax in Albania consists of three types of tax: tax on the building; agricultural land tax and land tax. Referring to the draft law on the new property tax, it is indicated that the effect on the state budget revenues would be an increase of approximately 2.4 billion leks or 21.1 million U.S. dollars.

China’s finance minister recently outlined the principles and roadmap in relation to the rollout of a property tax. The message was included in a book that was published to help the public understand the lengthy work report that the Chinese President recently delivered to the Party Congress. The minister revealed three basic principles of property tax introduction. First, the tax will be based on market price of the property; second, the authorities would prepare the legal framework first before implementation; and lastly, local authorities would be granted more flexibility, implying it will be a gradual process and that the practices of different cities would vary. The property tax will be launched in big cities first, where home prices have been spiking in recent years. It is believed most local governments would prefer a lower property tax rate in order to keep their cities competitive. Shanghai and Chongqing have already adopted a property tax pilot scheme since 2011. But both cities have seen their home prices skyrocket over the years which may, in part, be due to the fact that the pilot schemes involve very low tax rates.

A helpful article was recently published on property taxes in India. It stated that there are three main systems for calculating property tax. Different municipal corporations adopt different systems and assess the tax due accordingly. They include an "Annual Rental Value System" which bases the amount of tax payable on the annual 'rentability' of a property as fixed by the municipal body. It does not refer to actual rent collected on the property, but rather uses the capacity of gross annual rent that it can be expected to bring from being let out. This system is being followed by the municipal corporations of Chennai and Hyderabad. Various factors such as size of the property, location, amenities available, etc., are looked into while determining the annual rental value. The second type is a "Capital Value-based System" where the market value of the property is used as the basis on which property tax is levied. The market value of different properties is determined by the government and revised annually, based on the ward in which it is located. For example, the Brihanmumbai Municipal Corporation switched to this system and provides a 'Ready Reckoner' of the compilation of fair value prices of property across the city. The third type is the "Unit Area Value System" which fixes a price per unit value of the built-up area or carpet area of the property. Based on this price, the expected returns from the property are calculated. This system is in practice in many Indian municipalities such as New Delhi, Bangalore, Kolkata, Hyderabad, Patna, and Ahmedabad.

Another recent article set out what property taxes are payable in Pakistan. They include annual Property Tax, Capital Value Tax, Stamp Duty, Withholding Tax (or Advance Tax) and Capital Gains Tax. In relation to annual property tax, the article states that this is a provincial tax levied on the annual rental value of the property, based on Urban Immovable Property Tax Acts of the different provinces. The tax rates differ between provinces. However, it is either a flat rate, or a percentage of the annual rental value. The rental value does not imply that the property has to be rented out. It simply means an estimation by the government of how much rent the building could have yielded had it been rented out. The rate of taxation can differ depending on whether the property is rented or self-occupied. According to the property tax valuation tables on the official Excise, Taxation & Narcotics Control Department website, in Punjab, for example, the annual rental value is higher if the property is rented out. In any case, 5% of the annual rental value is levied as tax. Conversely, according to the Excise, Taxation & Narcotics Department Sindh, it doesn't matter whether the property is rented out or not. The tax is levied at a rate of 25% of the annual rental value of the property.

In Australia, Queensland's property sector has raised concerns about a decision not to issue new statutory valuations for a number of the state's most significant local government areas, arguing that the refusal to issue new valuations might adversely impact landowners who are suffering the effects of a slowing or changing market. Unveiling his latest analysis of the state's property market recently, the Queensland Valuer-General has issued new statutory land valuations for only 22 of the state's 62 rateable local government areas. The valuations will form the basis upon which government ratings and state land tax are calculated throughout the 2018/19 financial year. In the case of the 40 local government areas for which new valuations were not issued, valuations will be considered to have been unchanged from those applicable in 2017/18. In a statement, the Property Council Queensland said many landowners might find themselves being impacted by slowing conditions, but stuck paying land tax and rates based upon values which had been issued at the peak of the market. Under the Land Valuation Act 2010, valuations are to be issued annually across the state except under the exceptional circumstance where the Valuer-General, after consultation with local government and industry groups, determines there has been insufficient market movement in a local government area to warrant an annual valuation. The Valuer-General defended the decision not to undertake a revaluation of the non-revalued areas. “The decision not to undertake a revaluation for LGAs such as Brisbane, Townsville, Logan and Ipswich was made following consultation with those councils, stakeholders and industry representatives, and consideration of the property market survey report,” he said in a statement. He added, “Valuers research the property market, examine trends and sales information for each land use category and inspect vacant or lightly improved properties that have recently been sold. The property market survey reports for those LGAs not being revalued showed minimal movement across most market segments. In Brisbane, for example, there were some small pockets that showed some change; however, overall the changes did not justify inclusion in the annual valuation program.”

In its latest report for the country, the International Monetary Fund (IMF) has recommended that Croatia modernize its property tax system to enable the country to lower the burden of taxes that weigh more heavily on economic growth. It said a "modern, well-designed real estate tax that is based on objective criteria would be more equitable and would yield more revenue than the existing communal fees." Revenue from the change could enable Croatia to further reduce income taxes or value-added tax. However, to maintain fiscal discipline, revenue lost to tax cuts should be offset by increases in the property tax burden. The IMF praised Croatia for bringing its fiscal house in order, having exited the EU's Excessive Deficit Procedure in June 2017. It said that revenue receipts had consistently outperformed budget targets, partly due to tax administration reforms. The 2018 Budget, it said, will have a negligible impact on the country's fiscal deficit this year, with it expected to hover around 0.8 percent of GDP. The IMF has said that Croatia should target a reduction in the fiscal deficit over the period to 2022, to achieve a small surplus and begin to bring public debt down to below 60 percent of gross domestic product.

The Greek government is asking creditors to grant another extension to the deadline for updating objective values - the property rates used for tax purposes - while the replacement of the Single Property Tax (ENFIA) by a Large Property Tax (FMAP) is put off for at least a year. Sources say that in the last round of talks with creditors’ mission chiefs in Athens, the government asked for the adjusted objective values to apply from March 2018 instead of January 1 as foreseen in the bailout agreement.

And finally, I am pleased to announce that Kirit Budhbhatti, a colleague based in Gujurat, India who has supported many IPTI projects and events, has recently published a book on the “Valuation of Plant & Machinery”. As many readers will be aware, the valuation of plant and machinery, whether for property tax or other purposes, can be very challenging, and Kirit’s book is therefore a welcome contribution to the understanding and practice of this specialist area. Details of how to obtain copies of the book can be found by using the usual internet search engines.

Paul Sanderson

President

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