PRESIDENT’S MESSAGE

October 2017

The OECD has recently published its latest report on “Sources of Government Revenue in the OECD, 2017”. Developed countries raise tax revenue through a mix of individual income taxes, corporate income taxes, social insurance taxes, taxes on goods and services, and property taxes. However, the extent to which an individual country relies on any of these taxes can differ substantially. The OECD’s key findings were that (a) OECD countries rely heavily on consumption taxes, such as the value-added tax, and social insurance taxes, such as the payroll tax; (b) the United States relies heavily on the individual income tax, at 39.3 percent of total government tax revenue; and (c) on average, OECD countries collect little from the corporate income tax (8.8 percent of total tax revenue).

Consumption taxes are taxes on goods and services. These are in the form of excise taxes, value-added taxes, or retail sales taxes. Most OECD countries levy consumption taxes through value-added taxes and excise taxes. The United States is the only country in the OECD with no value-added tax. Instead, most US state governments apply a retail sales tax on the final sale of most products and excise taxes on the production of goods such as cigarettes and alcohol. In 2014, Chile relied the most on taxes on goods and services, raising approximately 55.3 percent of its total tax revenue from these taxes. Chile was followed by Turkey (44.1 percent) and Hungary (44.0 percent).

Social insurance taxes are typically levied in order to fund specific programs such as unemployment insurance, health insurance, and old age insurance. In most countries, these taxes are applied to both an individual’s wages and an employer’s payroll. For example, the United States levies social insurance taxes at both the state and federal level in order to fund programs such as Social Security, Medicare, and Unemployment Insurance. The Czech Republic relied the most on social insurance taxes (43.8 percent of total revenue) followed by the Slovak Republic (42.9 percent), and Japan (39.7 percent). Denmark raised the least, at 0.1 percent. Australia and New Zealand are the only countries that do not levy specific social insurance taxes on workers to fund government programs.

Income taxes are levied directly on an individual’s income, beginning with wage income. Many nations, such as the United States, also levy their individual income tax on investment income such as capital gains, dividends, interest, and business income. These taxes are typically levied in a progressive manner, meaning that an individual’s average tax rate increases as income increases. The country with the highest reliance on individual income taxes in 2014 was Denmark (54.0 percent), followed by Australia (41.0 percent). Chile (7.3 percent) and the Slovak Republic (9.6 percent) raised the least amount of revenue from individual income taxes.

Corporate Income Taxes are direct taxes on corporate profits. All OECD countries levy a tax on corporate profits. However, many countries differ substantially in how they define taxable income and the rate at which they apply the tax. Generally, the corporate income tax raises little revenue compared to other sources. Chile relied the most on its corporate income tax, at 21.3 percent of total tax revenue. Norway (17.1 percent), Mexico (16.9 percent), and Australia (16.8 percent) also relied heavily on their corporate income tax compared to the OECD average of 8.8 percent. Hungary (3.8 percent), Slovenia (3.9 percent), and Finland (4.4 percent) relied the least on the corporate income tax.

And, finally, on to property taxes which are a much smaller source of tax revenue for most OECD countries. The property tax is levied on the value of an individual's or business' property. In the United States, property taxes are most typically levied on real estate, cars, and other personal property by state and local governments. Other types of property taxes include estate, gift, and inheritance taxes, and net wealth taxes. The United Kingdom relied the most on property taxes in the OECD (12.7 percent), followed by the Canada (11.7 percent), Korea (11.0 percent), and the United States (10.8 percent). Estonia relied the least on property taxes, raising only 0.9 percent of total revenue. The Czech Republic (1.3 percent), the Slovak Republic (1.4 percent), and Austria (1.4 percent) also relied very little on property taxes.

It is interesting to look at the OECD's figures and get a wider picture of where property taxes "fit" in the overall scheme of things. It is clear that property taxes have, potentially, more to offer as they are a reliable, stable and predictable source of revenue that is very difficult to avoid. However, as we all know, they suffer from being the most "hated" tax, partly due to the fact that they are so salient and partly because many taxpayers and politicians simply don't understand them and how they relate to the services and other facilities they provide.

More work for IPTI to do to improve awareness and understanding of property taxes and ensure property tax systems around the world work in an efficient and effective manner!

Anyway, I am writing most of this month's newsletter from Las Vegas where I have been attending the annual conference of the International Association of Assessing Officers (IAAO). There were a number of very interesting presentations at the conference covering a wide range of subject-matter. I was presenting a paper on property tax appeals and comparing the incidence of such appeals in many different jurisdictions around the world. I am pleased to say that Kathy Gillis, the CEO of the Property Valuation Services Corporation (PVSC) of Nova Scotia, Canada, was my co-presenter for what was a "lively" session with plenty of good audience participation. Lots of other IPTI colleagues were at the conference, so it was a good opportunity to catch up with them. I also had some very productive meetings with IAAO colleagues about IPTI working in partnership with them in a number of areas where we share common interests. I am very pleased to report that Annabell McClung, who will be well-known to many people who have attended IPTI conferences over the years, was also in attendance. Annabell was there, with her daughter Pam and son-in-law Ron, to participate in the first "Ian W McClung International Award" made by the IAAO in the name of her late husband, Ian, who was a former President of the IAAO and one of those who influenced the creation of IPTI twenty-five years ago. The presentation was a very nice, if somewhat emotional, moment for Annabell and her family, and for all those who knew and liked Ian McClung.

From Las Vegas I flew to Chicago where the Council on State Taxation (COST) was holding its annual two-day property tax workshop in cooperation with IPTI. This event, which is primarily for corporate property taxpayers, had a range of interesting presentations covering the most topical subjects, including the so-called "dark stores" issue. I was speaking on "Property Tax Issues from Around the World" which sought to provide an update on global topics and developments in selected countries likely to be of interest to large corporate property taxpayers.

My USA trip is due to conclude in New York where I will be speaking at a breakfast meeting on 3rd October being held by the European American Chamber of Commerce (EACC) which is looking at "Smart Cities & Smart Buildings". This promises to be a very interesting opportunity to consider the impact of so many changes in the real estate market, in particular those designed to meet the changing demands of retailers, office workers, industrialists and others who are reconsidering their property needs and requirements in the light of how people live and work these days. We will also be looking at how the real estate market needs to respond to the impact of the major natural disasters (earthquakes, hurricanes, flooding, etc.) we have unfortunately experienced in recent times.

Looking further ahead, 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. 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 18th October I will be involved in another IMA/IPTI webinar, this time on the topic of the "Derivation of Fair Market Rents for the Valuation of Multi-Residential Properties, Office Buildings and Shopping Centres". This time I will be joined by a very experienced valuer from the Municipal Property Assessment Corporation (MPAC) in Ontario, Canada. We will be looking at the determination of assessed values using the income approach requires determination of fair market rents. We will focus on various methodologies for ascertaining market rents from the perspective of capturing all interests in the property to be valued.

Moving on to 2nd and 3rd November, this will be when the RICS and IPTI will be holding the 6th Annual Caribbean Valuation and Construction conference which is taking place this year in Port-of-Spain, Trinidad. 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 8th November, we are holding a joint IMA/IPTI one-day workshop on "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.

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.

As usual, therefore, we have lots of events 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.

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

In Pakistan, property tax collection has increased sharply by 82 percent during the fiscal year 2016/2017, owing to upward revision of valuation and enhanced efforts against black money, sources in the ministry of finance said. The collection of property tax was at Rs7.03 billion in 2016/17 as compared to Rs3.86 billion during the preceding fiscal year. The sources said the provinces had benefitted from the measures taken by the federal authorities by fixing higher valuation of immovable properties for the purpose of collecting withholding taxes at the time of sales and purchase. Punjab registered growth of 124 percent to Rs4.66 billion during 2016/17 as compared to Rs2.07 billion during the preceding fiscal year. Similarly, Sindh collected Rs2 billion during the period under review as compared to Rs1.39 billion a year ago, depicting an increase of 43 percent.

In Myanmar, it is reported that "property taxes worth less than a cup of tea". This statement is based on a recent report of a study conducted by Yangon-based Renaissance Institute, which is funded by the UK, Australia and Switzerland, with support from The Asia Foundation. The study reviews the existing property tax system of the country, discusses the areas in need of reforms and places the issue of taxation in the wider context of Myanmar's urbanisation process. Notably, if the country is to capture the social and economic benefits of rapid urbanisation, then a strong property tax system, under which more taxes are collected, backed by effective governance, will be necessary. The Renaissance Institute argued that a stronger property tax system in the country is possible through fiscal decentralisation, as it provides the opportunity for municipalities to strengthen their budgetary position and enhance the responsiveness of budgeting decisions to better accommodate the needs of the community.

In Abuja, the federal capital of Nigeria, there has been a dispute over payment of tenement rates (property tax) which led to the policy being suspended due to a controversy on the tier of government to collect the rate. But the discrepancies have now been settled by the National Assembly and the Chief Revenue Officer of the Abuja Municipal Area Council (AMAC), commended the National Assembly for upholding the constitution of the Federal Republic of Nigeria adding that, by the provision of the 4th schedule of the constitution, the collection of tenement rate is the duty of the local government in states and in the case of FCT, area councils are responsible. Asked about the yardstick that is being used to determine tenement rate on any particular property, he said there is an evaluation that has been done on all the rateable properties, displayed for months, adding that residents were also informed to check the values that have been assessed against their properties and raise objections where necessary. When asked about the measures AMAC will take if anyone fails to pay the charges even after being issued a demand notice, he said the council would employ due process in collecting the rates and addressing the cases of defaulters.

In Cambodia, the General Department of Taxation (GDT) issued a notification reminding owners of immovable property to file their annual Property Tax declaration and pay Property Tax before the deadline of 30 September 2017. In the future the GDT plans to send all notifications related to Property Tax together with the water and electricity bill. Officially referred to as a Tax on Immovable Property (TOIP), it imposes a tax of 0.1% on all immovable property which has an assessed value exceeding Khmer Riel 100 Million (or approximately USD 25,000). The reference to “immovable property” is important as TOIP does not just apply to land but also to buildings and construction or infrastructure on land. More specifically this can include apartments, condominiums, factories, warehouses etc. TOIP is payable by the owners, possessors or “final beneficiaries” of immovable property and includes both physical persons and legal persons. There is also a tax on unused land (TUL) which is “imposed on the vacant block of land without any building or the land on which there is only abandoned building, in some cities or in some regions determined by the committee for evaluation of unused land.” Such TUL shall be paid by the proprietors at the rate of 2% calculated on the square-meter price of the land depending on the region. The TUL is also payable the latest on the 30th of September each year. When TOIP was introduced, there was some confusion as to whether an owner of unused land would be responsible to pay both TOIP and TUL. The Financial Law 2015 clarified this point by stipulating that “Tax on Unused Land shall be paid by the owner on land that does not fall under the scope of tax on Immovable Property”.

In the USA, energy efficiency is on the minds of many commercial real estate owners as it provides a way to lower energy costs, increase property values, reduce operating expenses and enhance the comfort of their tenants. However, there are two main obstacles that can prevent owners from making energy improvements to their properties: a lack of capital and the inability to find financing sources. To overcome these barriers, in certain states commercial property owners have been utilizing Property Assessed Clean Energy (PACE) financing, which provides funding for energy efficiency, water conservation and renewable energy projects. PACE is a voluntary energy conservation program that provides up to 100 percent financing for approved energy efficiency projects. While PACE is a national initiative, programs can be established locally and tailored to meet specific regional needs. State legislation must be passed in order to authorize municipalities to create local PACE programs. Commercial PACE programs are active in 18 states, with Illinois being the most recent state to pass PACE legislation. PACE provides low-cost, long-term financing for energy efficiency projects such as, installing solar panels, HVAC improvements, roof repairs, updating insulation and installing LED lighting. This financing is available for a variety of commercial real estate properties including retail, multifamily, industrial, office, hospitality, affordable housing and senior housing.

In Scotland, a report has been published following the Barclay Review which has been looking into the operation of the non-residential property tax system (business rates). The report contains a total of 30 recommendations to improve the system. A few of the highlights are: recommendations to introduce a “business growth accelerator” which would mean a 12 month delay before rates are increased when an existing property is expanded or improved and also before rates apply to a new build property; a move to three yearly revaluations from 2022 with valuations based on market conditions on a date one year prior; a review of plant and machinery valuations with particular focus on renewable energy sector valuations and statutory improvements to property including sprinkler systems; reform of the appeals system to modernise the approach, reduce appeal volume and ensure greater transparency and fairness; charity relief to be reformed/restricted for a small number of recipients; all property should be entered on the valuation roll (except public infrastructure such as roads, bridges, sewers or domestic use) and current exemptions should be replaced by a 100% relief to improve transparency; and large scale commercial processing on agricultural land should pay the same level of rates as similar activity elsewhere so as to ensure fairness. The Scottish government have accepted the recommendations.

And finally, public toilets in the UK are liable for payment of non-domestic rates. This is said to be one of the reasons why there seem to be fewer and fewer of them. A new suggestion has been put forward that anyone offering the public use of their toilets should be given a cut in their rates (property tax) liability. Restaurants, cafes and hotels should be given discounts on their business rates if they allow people “in urgent need” to use their toilets, an MP has said. She said that the cutback in toilets in public spaces meant alternative options were needed for those with continence issues. An estimated 14 million people lived with bladder dysfunction, she said, including many women after childbirth. The British Toilet Association (who knew there was one?) has estimated that 40% of public conveniences have disappeared in the past decade. Many pubs and other leisure outlets openly discourage people from using their toilets unless they are paying customers, arguing it costs money to maintain them and facilities can be abused. A government minister said the MP had a “really good point” but, instead of being “flushed with success”, I suspect that this means that the idea may be “down the pan”.

Paul Sanderson

President

International Property Tax Institute